

Directors' report

The directors are pleased to submit their report and the audited financial statements for the year ended 31 December 2015.

The Chairman's statement, the Chief Executive's review, the Finance Director's report and all the information contained on pages 36 to 73 together comprise the Directors' report for the year ended 31 December 2015.

Strategic report

The Strategic report is provided on pages 6 to 35 of this Annual Report. This is a review of the development of the Group's businesses, the financial performance during the year ended 31 December 2015, key performance indicators, a description of the principal risks and uncertainties facing the Group and information about the use of financial instruments. The Strategic report has been prepared solely to assist the shareholders in assessing the Group's strategies and the potential of those strategies. It should not be relied on by any other party for any other purpose. Forward-looking statements have been made by the directors in good faith using information available up to the date of this report and such statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks. Since the end of the financial year no important events affecting the business of the Group have occurred.

Dividends

The Board has recommended a final ordinary dividend of 10.3p (2014: 9.8p) bringing the total ordinary dividend to 15.1p per share (2014: 14.4p). The Board has also recommended a supplemental distribution, by way of a special dividend, amounting to 10.0p per share (2014: 20.0p). If approved by shareholders, the final ordinary dividend of 10.3p per share for 2015 and the supplemental distribution of 10.0p per share for 2015 will be paid on 3 June 2016 to all shareholders on the register at the close of business on 22 April 2016.

Share capital

The Company's issued ordinary share capital as at 31 December 2015 was £33.1m. No shares were issued during the year. At the AGM on 23 April 2015 the shareholders authorised the Company to purchase up to 22,046,468 of its own shares. This authority expires at the conclusion of the forthcoming AGM to be held on 27 May 2016, at which time a further authority will be sought from shareholders.

Capital structure

Details of the issued share capital are shown in note 24. The Company has one class of ordinary shares, which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, both of which are governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 28 and shares held by the Bodycote Employee Benefit Trust abstain from voting and waive dividend rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. The appointment and replacement of directors is governed by the Company's Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles of Association may be amended by a special resolution of shareholders. The powers of the directors are described in the Corporate governance statement on page 38. Under the Articles of Association the Company has authority to issue ordinary shares with a nominal value of £11,023,234.

There are also a number of other agreements that take effect, alter, crystallise or terminate upon a change of control of the Company following a takeover bid such as commercial contracts, bank loan agreements, property lease agreements, employment contracts and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole, and the directors are not aware of any agreements between the Company and themselves or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid except where specifically mentioned in this report.

Directors

The current directors and their biographical details are listed on page 36 and 37 and all served throughout the year. Under the Articles of Association of the Company each director must retire from office and stand for re-election by shareholders as a minimum at every third AGM in order to continue to serve as a director. However, in line with the UK Corporate Governance Code and to further increase accountability, all directors retired at the AGM in 2015 and stood for re-election by the shareholders. Going forward all directors will retire at the AGM and will stand for re-election by the shareholders, if they wish to continue to serve as directors of the Company. Accordingly, those directors retiring and offering themselves for re-election at the 2016 AGM are A.M. Thomson, S.C. Harris, D.F. Landless, I.B. Duncan and E. Lindqvist. R Rajagopal will step down as a director at the 2016 AGM and will not stand for re-election. The service agreements for Messrs S.C. Harris and D.F. Landless are terminable by 12 months' notice. The remaining directors do not have a service agreement with the Company and their appointments are terminable by six months' notice.

Directors' interests in contracts and shares

Details of the executive directors' service contracts and details of the directors' interests in the Company's shares and share incentive plans are shown in the Board report on remuneration on pages 54 to 73. No director has had any dealings in any shares or options in the Company since 31 December 2015. Qualifying third party indemnity provision (as defined by section 234 of the Companies Act 2006) has remained in force for the directors for the year ended 31 December 2015 and, as at the date of this report, remains in force for the benefit of the current directors in relation to certain losses and liabilities which they may incur (or have incurred) to third parties in the course of their duties. Apart from these exceptions, none of the directors had a material interest in any contract of significance in relation to the Company and its subsidiaries at any time during the financial year.

Potential conflicts of interest

During 2008 the duties owed by directors to a company were codified and extended by the Companies Act 2006 so that directors not only had to declare actual conflicts of interests in transactions as they arose, but also had a duty to avoid such conflicts whether real or potential. Potential conflicts of interest could arise where a single director owes a fiduciary duty to more than one organisation (a "Situational Conflict") which typically will be the case where a director holds directorships in more than one company. In order to ensure that each director was complying with the new duties, each director provided the Company with a formal declaration to disclose what Situational Conflicts affected him or her. The Board reviewed the declarations and approved the existence of each declared Situational Conflict until September 2016 and permitted each affected director to attend and vote at Bodycote directors' meetings, on the basis that each such

director continued to keep Bodycote's information confidential, and provided overall that such authorisation remained appropriate and in the interests of shareholders. Where such authorisation becomes inappropriate or not in the interests of Bodycote shareholders, the Chairman or the Nomination Committee can revoke an authorisation. No such revocations have been made.

Employment

The Group recognises the value that can be added to its future profitability and strength by the efforts of employees. The commitment of employees to excel is key to the Group's continued success. Through their attendance at, or participation in strategy, production, safety and health meetings at site level, employees are kept up to date with the performance and progress of the Group, the contribution to the Group made by their site and are advised of safety and health issues. Under the Group's Open Door Line employees' concerns can be voiced over the phone on an anonymous basis in the local language. Approximately 3,600 Bodycote employees are connected to the Bodycote intranet, which improves knowledge of Group activities, and assists greatly with technology exchange and co-ordination. It is the Group's policy to give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities, and to encourage the training and career development of all personnel employed by the Group, including disabled persons. Should an employee become disabled, the Group, where practicable, will seek to continue the employment and arrange appropriate training. An equal opportunities policy is in operation in the Group.

Greenhouse gas emissions

Details of greenhouse gas emissions are included within the Corporate responsibility and sustainability section of this report.

Donations

There were no political contributions in 2014 or 2015.

Shareholders

An analysis of the Company's shareholders and the shares in issue at 18 February 2016 together with details of the interests of major shareholders in voting shares notified to the Company pursuant to chapter 5 of the Disclosure and Transparency Rules are given on page 139.

Auditor

In accordance with the provisions of section 489 of the Companies Act 2006, a resolution for the reappointment of Deloitte LLP as auditor is to be proposed at the forthcoming Annual General Meeting. Each person who is a director at the date of approval of this Annual Report confirms that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all the steps that he or she ought to have taken as a director to make him or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This statement is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Annual General Meeting

The 2016 Annual General Meeting will be held on 27 May 2016 in accordance with the notice being sent to shareholders with this report.

By order of the Board:

U.S. Ball

Group Company Secretary
25 February 2016

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Springwood Close
Tytherington Business Park
Macclesfield
Cheshire
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