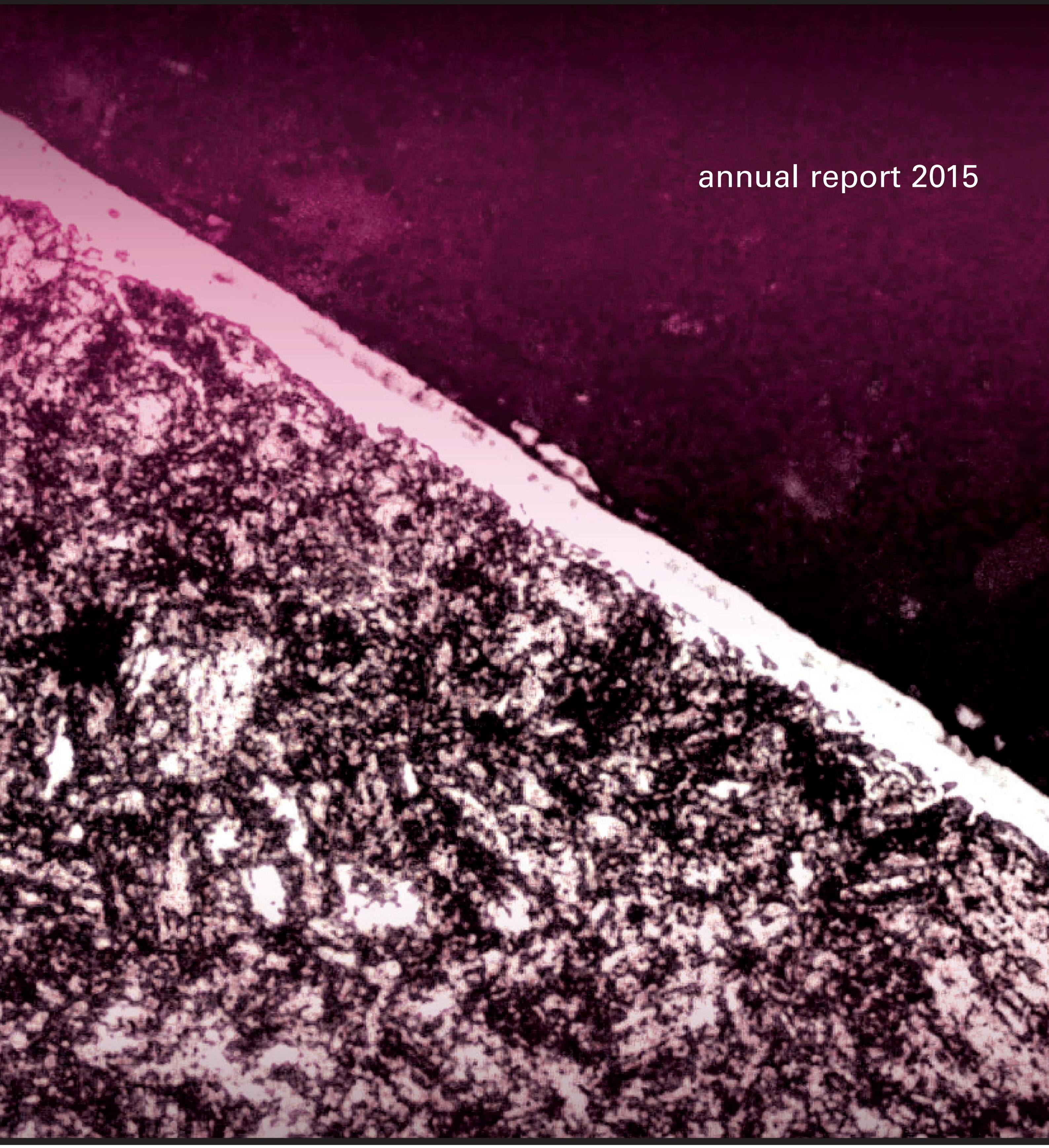

www.bodycote.com | Stock code: BOY

At a glance

Operating an international network of facilities, Bodycote is the world's leading provider of thermal processing services.

Experienced in supporting large multinational customers and their supply chains, as well as local niche specialists, Bodycote provides a vital link in the manufacturing process for virtually every market sector including aerospace and defence, automotive, power generation, oil & gas, construction, medical and transportation.

Our structure

The Group operates in two major areas:

Aerospace, Defence & Energy (ADE)

Read more on page 16

Automotive & General Industrial (AGI)

Read more on page 18

Throughout this report you will see illustrations which link our business and strategy:

Strategy & Core Values

- Aerospace, Defence & Energy markets
- Automotive & General Industrial markets
- Rapid growth countries
- Technology
- Customer service
- Core values

Key Performance Indicators

- Return on capital employed
- Headline earnings per share
- Return on sales
- Headline operating cash flow
- Accident frequency
- Carbon footprint

Strategic report

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For the online version of this report go to **bodycote.annualreport2015.com**

Cover image

This photo-micrograph shows a low alloy high tensile steel microstructure having been treated by Bodycote's proprietary Corr-I-Dur® process. The Corr-I-Dur® process provides a surface hardening solution which produces both improved corrosion and wear properties without adversely affecting the mechanical properties of the base material.

Financial highlights

	2015	2014
Revenue	**£567.2m**	£609.1m
Headline operating profit[1]	**£102.1m**	£111.1m
Return on sales[2]	**18.0%**	18.2%
Operating profit	**£77.9m**	£107.0m
Headline profit before taxation[1]	**£99.2m**	£107.8m
Profit before taxation	**£75.0m**	£103.7m
Headline operating cash flow[3]	**£81.6m**	£100.0m
Operating cash flow[4]	**£73.2m**	£96.8m
Net cash	**£12.3m**	£35.7m
Basic headline earnings per share[5]	**39.5p**	43.8p
Basic earnings per share	**29.6p**	41.7p
Ordinary dividend per share[6]	**15.1p**	14.4p
Special dividend per share[6]	**10.0p**	20.0p
Return on capital employed[7]	**19.0%**	20.7%

1 Headline operating profit and headline profit before taxation exclude amortisation of acquired intangibles of £4.2m (2014: £3.9m), reorganisation costs of £20.0m (2014: £nil) and acquisition costs of £nil (2014: £0.2m).

2 Return on sales is defined as headline operating profit as a percentage of revenue.

3 Headline operating cash flow is defined as operating cash flow stated before cash flow relating to restructuring of £8.4m (2014: £3.0m) and acquisition costs of £nil (2014: £0.2m).

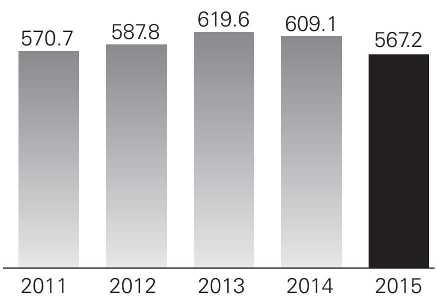
4 Operating cash flow is defined as cash generated by operations of £134.5m (2014: £150.6m) less net capital expenditure of £61.3m (2014: £53.8m).

5 A detailed reconciliation is provided in note 10 on page 102.

6 See note 9 on page 101.

7 Return on capital employed is defined as headline operating profit of £102.1m (2014: £111.1m) divided by the average of opening and closing capital employed of £538.4m (2014: £538.0m) as adjusted for certain items of goodwill written off. Capital employed is defined as net assets adjusted for net cash / (debt).

Revenue
£m

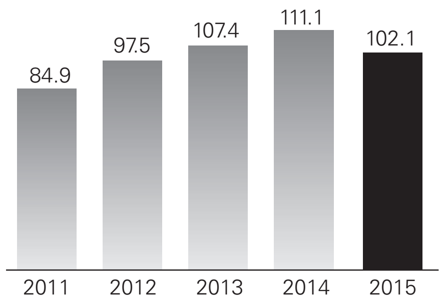


£567.2m

(6.9)%

(2014: £609.1m)

Headline operating profit
£m

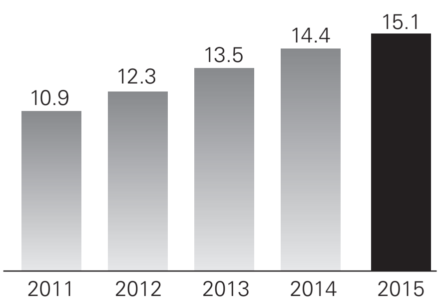


£102.1m

(8.1)%

(2014: £111.1m)

Dividend per share
pence

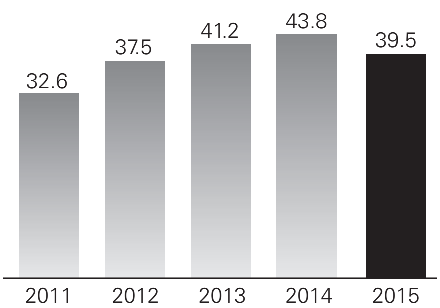


15.1p

+4.9%

(2014: 14.4p)

Headline earnings per share
pence



39.5p

(9.8)%

(2014: 43.8p)

Chairman's statement

"The Group is well positioned and has exciting prospects going forward. We have developed a strong, high performance culture serving a wide range of international customers, with a committed workforce and absolute integrity in our operating procedures."

A.M. Thomson | Chairman

Overview

2015 was a year of considerable challenge for the Group. Mixed macro-economic conditions persisted throughout the year in many of the countries in which we operate. The automotive and aerospace markets remained in growth mode, but this was not enough to offset the revenue dip, particularly in the energy and general industrial sectors.

I am, however, very pleased to report that the Group, under the stewardship of Stephen Harris and his executive team, successfully navigated the business through these tough conditions and we remain in a strong financial position.

Dividend

The Board considers the dividend to be an important component of shareholder returns and is proposing a final ordinary dividend of 10.3p, an increase of 5.1%, which will be paid on 3 June 2016, subject to shareholder approval at the 2016 Annual General Meeting. This brings the total ordinary dividend for 2015 to 15.1p (2014: 14.4p) costing £28.7m which represents a year-on-year increase of 4.9%. Recognising the net cash position of the Group the Board is, for the third successive year, recommending a supplemental distribution by way of a special dividend, also payable on 3 June 2016, amounting to 10.0p per share (2014: 20.0p) costing £19.0m (2014: £38.1m).

Governance and reporting

One of my key responsibilities as Chairman is to promote effective governance across the Group thus ensuring that we remain a successful and sustainable entity with good governance procedures practised across all 24 countries in which the Group operates. To enable shareholders to understand how this goal is achieved we have provided a corporate governance statement on page 38 of this Annual Report. This describes how the governance structure underpins the delivery of the Group's business strategy. On page 24 we have also outlined the principal risks that may prevent the business from achieving its objectives and the actions being taken to overcome these potential obstacles.

During the year we commissioned an external evaluation of the Board's performance. The findings confirmed that the Board is well balanced with a diverse mix of skills and experience and is performing effectively. Nevertheless the report indicates that there is scope for improvement and we shall be working to ensure that the governance is further improved in 2016.

Hand-in-hand with good governance goes transparent reporting, and during 2015 we have made further changes to the Annual Report to ensure that this is achieved. This includes a viability statement, which can be found on page 27 of this Annual Report and also a complete listing of the Group's subsidiary undertakings. In part these are mandated by changes in UK reporting regulation, others arise through changes to the UK Corporate Governance code, and sometimes by proactively adopting best practice as it evolves.

The drive for ongoing improvement in environmental and safety reporting is described in the Corporate responsibility and sustainability section of this Annual Report on pages 28 to 34. It should be noted that these topics now make up a material part of each management committee and Board meeting.

Board matters

It is the responsibility of every Board to ensure that there is an appropriate succession plan in place across the business, including for the Board of Directors. This is integral to the successful delivery of the Group strategy and underpins the effectiveness of the Board. During the year the Nomination Committee performed an in-depth review of its Board succession plan.

Raj Rajagopal, the Senior Independent Director, who joined the Board in September 2008, will retire after the 2016 AGM. His wise counsel has been invaluable throughout the whole period of Group transformation. We thank him for his contribution over the last eight years and wish him well for the future. We have engaged Zygos Partners, a firm of international search consultants, to work with us to identify a new non-executive director. We will report to shareholders on progress as appropriate.

Ian Duncan, who is a qualified Chartered Accountant, joined the Board in November 2014 and assumed the Chair of the Audit Committee after the 2015 AGM. Ian is a highly experienced independent director having served a number of international companies in both executive and non-executive Board positions over the last 15 years. I am pleased to report that Ian will become our Senior Independent Director following the 2016 AGM in May.

David Landless, the Group Finance Director, has informed the Board of his intention to retire as a director of the Board. David has agreed to remain with the Group to ensure a smooth handover to his successor and he will oversee the publication of the Group's 2016 full year results if the handover has not been completed ahead of this date. On behalf of the Board I would like to thank David for his dedication and exceptional service to the Group over many years and we wish him all the best in the next stage of this career as he grows his non-executive director portfolio.

People

Whilst Bodycote has become a large Group operating on a global basis, we have tried to maintain the agility of a smaller company, with a flat organisational structure and clear lines of responsibility, thus enabling us to provide a fast and efficient service to our customers. Bodycote is a first-class service business, our employees are our ambassadors, and with their continued commitment and professionalism we can achieve our ambitious plans. I would like to thank each and every one of them for their enthusiasm, hard work and commitment throughout 2015.

Despite the improvement in the overall performance of safety across the Group it is with great regret that I have to report that one of our employees was seriously injured in an accident at a facility in North America in October 2015 and, as a result of these injuries, the employee died on 17 February 2016.

Shareholders

During the year I met with a number of Bodycote's largest shareholders and received positive feedback from them on their views of the Group. In the coming year I will maintain this valuable dialogue and also look forward to meeting as many shareholders as possible at this year's AGM in May, when there will be an opportunity to discuss the Group's business and future prospects with Board members.

Summary

The performance of the Group was resilient throughout 2015. This reflects the decisive cost actions taken in the face of weak market conditions, together with the delivery of an improved business mix.

The Group is well positioned and has exciting prospects going forward. We have developed a strong, high-performance culture serving a wide range of international customers, with a committed workforce and absolute integrity in our operating procedures. The long-term prospects for the Group are encouraging and I remain confident that these should ensure an attractive return for both our employees and our shareholders over the coming years.

A.M. Thomson
Chairman
25 February 2016

Chief Executive's review

"The Group delivered a resilient performance in 2015. The speed and effectiveness of management's actions, in addition to the continued focus on improved mix, enabled headline operating margins to be sustained."

S.C. Harris | Group Chief Executive

Overview

The Group benefits from serving a broad spread of industrial sectors and geographies. In 2015 the macro-economics were favourable for our aerospace and automotive sectors, but the rapid decline in oil prices weighed heavily on our customers in the energy sector. The weakness in the energy sector bled over into the general industrial markets and was further compounded by the slowing growth in China, weakening global demand for many commodities and the embargo on global trade with Russia.

The net result for Bodycote was a 7% decline in revenue to £567.2m (2014: £609.1m). However, headline operating profit only reduced by 8% to £102.1m (2014: £111.1m), including negative foreign currency translation of £2.3m.

The potential impact the weakening global demand conditions would have on the Group started to become clear early in the year. As a consequence, management decided to undertake a series of actions to mitigate the situation, some giving immediate benefit, while others are aimed at accelerating future growth.

A restructuring programme was announced at the half year, with an associated charge of £20m (of which £9m related to non-cash impairments) and which focused on our facilities serving the oil services and general industrial sectors. By year end we had successfully exited the businesses in Brazil and India. Elsewhere we have closed five facilities and consolidated poorly performing activities within a further six facilities. Closure of an additional five facilities will be completed in the first half of 2016. Equipment is being relocated within the Group, and in many cases business is being transferred to neighbouring facilities.

The speed and effectiveness of management's actions, in conjunction with the ongoing drive for mix and efficiency improvements, have been such that the headline margin[1] has been sustained at 18%.

Improving the flexibility of the Group's cost base has been a high priority for several years. A noteworthy element of this has been greater use of temporary labour which can be flexed at little or no cost to suit the prevailing workload. Temporary employees were reduced by 11% during the year, however at year end, temporary and contract labour still represented 12.7% of total employees.

Basic headline earnings per share was 39.5p, a decline of 9.8% which reflects the absence of the one-off tax credit the Group enjoyed in 2014. Bodycote is reporting another year of strong cash generation, with 80% of headline operating profit turned into cash[2] (2014: 90%). As a result, the Group continues to be in a strong financial position and had net cash of £12.3m at 31 December 2015. Return on capital employed remained excellent at 19.0% for the year (2014: 20.7%).

Strategic progress

To enhance our future growth we have accelerated investment in high growth potential areas, mindful of the Group's 20% hurdle rate for return on capital employed. The increase in capital expenditure was driven by the number of greenfield facilities under construction along with specific capacity expansion in Specialist Technologies and civil aerospace. Nine greenfield sites were under construction in 2015, of which four are for Specialist Technologies and three are in the targeted expanding markets of Eastern Europe, Mexico and China. Additionally, capacity has been expanded at specific existing Specialist Technologies and civil aerospace facilities.

Overall capital investment increased by 14% to £61m, corresponding to 1.2 times depreciation.

The strategy of preferential investment in Specialist Technologies continues to benefit the Group. While two of these technologies, Surface Technology and HIP Product Fabrication, were hard hit by the decline in activity in the oil sector, the remaining four showed good growth. Average margins continue to exceed 30% in Specialist Technologies.

During the year we launched a new specialist technology in the field of ion implantation. We believe it to be the only form of ion implantation that is capable of processing bulk material. Applications include hardening of materials without temperature distortion and the reduction of surface friction in polymers, eliminating the need for lubrication. Sales are currently at the pilot stage.

The pursuit of operational excellence in the Group is a major priority. Part of this effort is a goal to improve the margins in the AGI Classical Heat Treatment business to the level we have been able to achieve in ADE Classical Heat Treatment. This is particularly the case in AGI in Europe where margins have been lower for some years. One of the tools used for this is the Bodycote Margin Model which employs a job costing methodology and strategic pricing process to help facilities drive the mix of work towards higher added value. Lean techniques are also being deployed at an increasing rate, which help to improve production flows and efficiencies. This work, in conjunction with the restructuring actions taken, drove the margins in the AGI business up by 90 bps, notwithstanding the decline in revenues.

During 2015 we continued to pursue potential acquisitions, although none were completed during the year. The acquisition priorities are divided into two broad areas. The first is to acquire bolt-on activities in Classical Heat Treatment that will enhance our network of operations. These will typically be small businesses in Western Europe and North America as there are few, if any, suitable targets outside of these territories and very few of any scale. The second area we look to acquire in is Specialist Technologies. There are few potential targets given the rarity of competitors, but some of the targets are of a larger scale. We also actively pursue ideas in areas adjacent to our existing technologies. The environment in 2016 looks more conducive to making acquisitions and the Group is well placed should sufficiently attractive targets become available.

Summary and outlook

The Group delivered a resilient performance in 2015. Automotive and aerospace revenues moved ahead. However, the decline in oil price combined with downward pressures on our general industrial business led to Group revenues falling by 4% at constant exchange rates. The speed and effectiveness of management's actions, in addition to the continued focus on improved mix, enabled headline operating margins to be sustained. Recognising the Group's net cash position, the Board is recommending a further special dividend.

The Group will continue to follow its strategy of investing in areas of robust revenue opportunity, notably in Specialist Technologies and in higher growth territories, as well as further enriching the mix towards higher added value services. The Board is confident that management's continued focus on business improvements will generate good returns throughout the cycle.

S.C. Harris
Group Chief Executive
25 February 2016

1. Return on sales is defined as headline operating profit as a percentage of revenue.
2. Cash conversion is defined as headline operating cash as a percentage of headline operating profit.

Strategic report

The Group Strategic report provides a review of the business for the financial year and describes how we manage risks.

The report outlines the developments and performance of the Group during the financial year, the position at the end of the year and discusses the main trends and factors that could affect the future.

Key performance indicators are published to show the performance and position of the Group. Pages 7 and 8 outline the Group's strategy and objectives, along with the business model.

The directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006.

This Strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Bodycote plc and its subsidiary undertakings when viewed as a whole.

The Strategic report discusses the following areas:

- Strategy and objectives
- Business model
- Measuring progress (key performance indicators)
- Our technologies
- Global network
- Markets
- Business performance
- Business review – Aerospace, Defence & Energy
- Business review – Automotive & General Industrial
- Finance Director's report
- Principal risks and uncertainties
- Corporate responsibility and sustainability

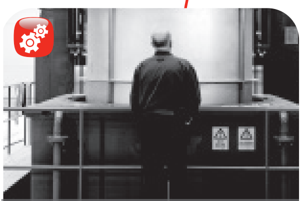
Strategy and objectives

Bodycote's objective is to create superior shareholder returns through the provision of selected thermal processing services that are highly valued by our customers, giving full regard to a safe working environment for our employees and minimal environmental impact.

Our strategy is based on these fundamentals

Serving the aerospace, defence and energy markets, with a focused network of globally coordinated facilities, attuned to these customers' specific needs and requirements.

Serving the automotive and chosen general industrial markets through a regionally organised business, catering to these customers' specific local needs and proximity requirements.



Capitalising on our Specialist Technologies to provide our customers with the ability to create innovative, differentiated products.

Expanding with our customers to rapid growth countries with an emphasis on Eastern Europe, Mexico and China.

Achieving the highest levels of customer service in terms of quality, delivery, reliability and technical problem solving.

The core values underpinning everything we do

Honesty and Transparency

We are honest and act with integrity. This is not something we take for granted. Bodycote lives by a culture of honest and transparent behaviour, which is at the core of all our business relationships.

Respect and Responsibility

We manage our business with respect, applying an ethical approach to our dealings with those with whom we interact. We believe in taking ownership for, and being mindful of the impact of, our actions.

Creating Value

Creating value is the very essence of our business and needs to be the focus of our endeavours. We create value for our customers, our employees and our shareholders.

Our progress measured - KPIs (for further details see page 9)

- Return on capital employed
- Headline earnings per share

- Return on sales
- Headline operating cash flow

- Accident frequency
- Carbon footprint

Business model

Provider of essential services to engineering manufacturers

Classical Heat Treatment

- Working to very exacting quality specifications, heat treatment uses precisely controlled furnaces to process a huge variety of metals and alloys, improving their material properties.
- Bodycote's Classical Heat Treatments describe a group of mature heat treatment processes and includes metal joining technologies which are used to join and assemble parts.

Virtually every type of metal component, whatever its application, has received some form of processing before its introduction to service to enable it to perform to the required standard and last longer.

Specialist Technologies

- Bodycote's Specialist Technologies refer to a group of processes which require very specialist expertise and technology. These technologies offer unique solutions for a variety of applications, and some are proprietary.

The global leader

Customer focus

- Bodycote is focused on continual improvement of our quality of service and takes an active role in finding solutions to technical issues and promoting mutual business development with our customers.
- Bodycote seeks to secure service-specific arrangements with our customers which provide protection from supply disruption by leveraging Bodycote's unique facility network.

Global network

- Bodycote's global network of 178 market-focused facilities[12, 13] in 24 countries brings economies of scale, particularly for logistics and equipment utilisation. This makes Bodycote's processing inherently more efficient than customers' in-house operations[32] and enhances our competitive position in the sub-contract market.
- The capital intensive nature of Bodycote's business also provides significant barriers to entry. The scope of Bodycote's network enables us to specialise more effectively than competitors at individual locations and provides comprehensive back-up for our customers.

Transferable know-how

- The global Bodycote network provides unique opportunities for the transfer of knowledge and skills, and the transfer of technology.
- With some of the best metallurgists, engineers and technicians in the industry, Bodycote is ideally placed to provide solutions for customers, whatever their market or wherever in the world they may be.
- Bodycote's scale enables continuous yet focused investment, both in the latest processes and in the most efficient and environmentally friendly equipment.

The supplier of choice

Service

- Bodycote has become the supplier of choice for many of the world's most respected and innovative engineering companies by providing highly efficient, cost-effective services to the highest quality standards through strategic investment in people and the latest technology, equipment and quality systems.

Quality

- Bodycote's quality management systems, validated by major engineering OEMs, have been developed to meet the requirements of international and national accrediting bodies. All Bodycote facilities hold industry and customer approvals appropriate to the services they offer and the markets they serve.

Expertise

- Bodycote's extensive facilities and expertise mean that projects can extend beyond customers' in-house capabilities, combining identification and provision of technical solutions which address in-service specification and deliver value-adding material properties.
- Our own enhancements and improvement of standard processes has led to Bodycote offering a range of proprietary processes which far outperform their standard counterparts.

Creating value

For customers

- Value-adding services.
- Global supplier which can meet multiple processing needs.
- Access to entire Bodycote knowledge base and expertise.
- Cost and environmental benefits versus in-house operations.

For Bodycote

- Mutually beneficial customer relationships.
- Wide customer base means Bodycote is not reliant on any one customer.
- Ideally positioned to promote growth in emerging markets and selected technologies.
- Clearly focused strategy.

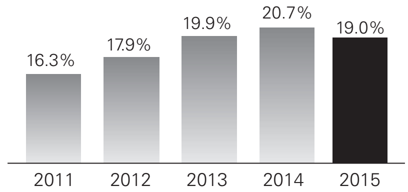
For investors

- Financially stable and sustainable business.
- Good growth drivers.
- Superior return on investment.
- Strong margins and cash flow.

Superscript numbers indicate reference to other pages in the report where further information can be found.

Measuring progress

Return on capital employed
(%)



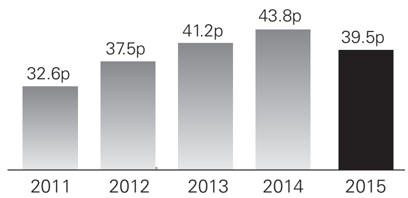
Performance
Return on capital employed decreased by 1.7 percentage points during the year, from 20.7% to 19.0%.

Headline operating profit decreased by 8.1% from £111.1m to £102.1m, while average capital employed increased by 0.1% to £538.4m.

Definition
Headline operating profit as a percentage of the average of opening and closing capital employed as adjusted for certain items of goodwill written off.

Capital employed is defined as net assets adjusted for net cash / (debt).

Headline earnings per share
(pence)

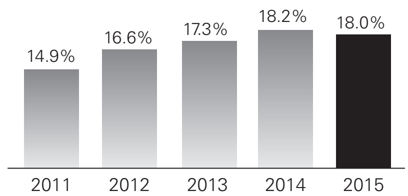


Performance
Headline earnings per share decreased by 4.3 pence during the year, from 43.8 pence to 39.5 pence.

Headline earnings decreased by 10.1% from £83.4m to £75.0m, while the average number of shares in issue remained static.

Definition
Headline earnings per share is defined in note 10 to the Group financial statements.

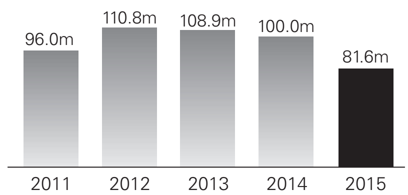
Return on sales
(%)



Performance
Return on sales decreased by 0.2 percentage points during the year, from 18.2% to 18.0%. Headline operating profit decreased by 8.1% from £111.1m to £102.1m, while revenue decreased by 6.9% from £609.1m to £567.2m.

Definition
Headline operating profit as a percentage of revenue.

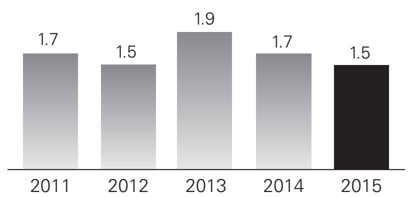
Headline operating cash flow
(£m)



Performance
Headline operating cash flow for the Group was £81.6m (2014: £100.0m). This was 80% of headline operating profit (2014: 90%).

Definition
Operating cash flow stated before cash flow relating to restructuring of £8.4m (2014: £3.0m) and acquisition costs of £nil (2014: £0.2m).

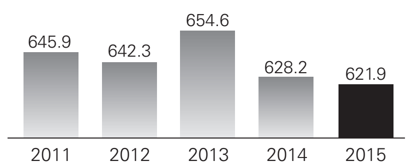
Accident frequency
(number)



Performance
Bodycote works tirelessly to reduce workplace accidents and is committed to providing a safe environment for everyone who works at or visits our locations. The accident frequency rate has decreased to 1.5 in the year (2014: 1.7). Further details are included in the Corporate responsibility and sustainability section on page 32.

Definition
Accident frequency is defined as the number of lost time accidents × 200,000 hours (approximately 100 man years), divided by the total number of employee hours worked.

Carbon footprint
(tonne CO_2e/£m sales))



Performance
On a normalised basis, the carbon footprint decreased by 1.0% from 628.2 tonnes per £m sales to 621.9 tonnes per £m sales. Further details are included in the Corporate responsibility and sustainability section on page 34.

Definition
Carbon footprint is defined as tonnes of CO_2 equivalent emissions divided by £m revenue.

CO_2 equivalent emissions are calculated by taking electricity and gas usage in kilowatt hours and multiplying by country specific conversion factors provided by DEFRA (Department for Environment, Food & Rural Affairs). Normalised emissions statistics restate prior year figures using current year country specific conversion factors and current year average exchange rates.

Our technologies

Classical Heat Treatment

Virtually every type of metal component, whatever its application, has received some form of processing before its introduction to service to enable it to perform to the required standard and last longer. Working to very exacting quality specifications, heat treatment uses precisely controlled furnaces to process a huge variety of metals and alloys, improving their material properties. Bodycote's Classical Heat Treatments describe a group of mature processes such as nitriding, carburising, annealing, tempering (and many more) that are used to achieve the desired properties.

Below are a few examples of material properties obtained by heat treatment:

Hardness

What is it? The ability of a material to resist deformation, scratching and indentation under force.
Why is it important? Improving a material's hardness through heat treatment allows it to resist various types of wear.

Toughness

What is it? The ability of a material to absorb energy and plastically deform without fracture.
Why is it important? Heat treatment can be used to strengthen the material and help improve its resistance to impact.

Fatigue strength

What is it? The stress level at which component failure occurs when subjected to repeated stress cycles.
Why is it important? Part failure due to fatigue can have catastrophic consequences, particularly if the part is safety critical. Through heat treatment, a material's fatigue strength is improved.

Creep resistance

What is it? The measure of a material's ability to resist high temperature deformation.
Why is it important? Some metals and alloys must operate at temperatures close to their melting point. Heat treatment enables them to perform at higher temperatures with little or no movement.

Ductility

What is it? The ability of a material to deform without breaking.
Why is it important? In order to form or shape a complex component, good ductility is required. Heat treatment is used to soften the material which makes it easy to work as part of the manufacturing process.

Specialist Technologies

Bodycote's Specialist Technologies refer to a group of processes which require very specialist expertise and technology. In some cases, they are proprietary technologies which have undergone extensive development and offer unique solutions for a variety of applications.

HIP

Hot Isostatic Pressing Services

Impact resistance and fatigue properties, in particular, are extremely sensitive to small amounts of porosity. Through the simultaneous application of heat and pressure, the HIP process eliminates internal porosity from components, improving fatigue strength, tensile ductility and fracture toughness.

HIP PF

Hot Isostatic Pressing Product Fabrication

This method of manufacture combines the HIP process with design and production expertise to create a component from metal powder. The flexibility of the HIP PF process means that combinations of materials can be used to give desired properties, enabling metallic compositions that are difficult or impossible to forge or cast.

S³P

Speciality Stainless Steel Processes

Steel is often chosen for its inherent corrosion resistance, but often requires hardening. Standard heat treatments will harden the steel, but can negatively impact the corrosion resistance. S³P technology uniquely hardens stainless steel, nickel-based alloys and cobalt-chromium alloys improving mechanical and wear properties without adversely affecting corrosion resistance.

LPC

Low Pressure Carburising

A case hardening process used to obtain a hardened surface and tough core, giving increased wear resistance and fatigue life, with minimal risk of treatment distortion. LPC is a clean process, carried out under vacuum, and is an environmentally-friendly treatment.

CiD

Corr-I-Dur®

A proprietary thermochemical treatment for the simultaneous improvement of corrosion and wear resistance through the generation of a nitride-oxide combination layer. Corr-I-Dur® is an environmentally-friendly alternative to the use of hard chromium, electroless nickel and other galvanic coatings.

ST

Surface Technology

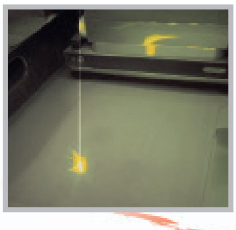
ST incorporates specialised plasma spray, HVOF (High Velocity Oxygen Fuel) and thermo-chemically formed coatings to improve wear resistance, hardness and durability and is able to surface engineer components (including complex shapes and internal bores) designed to operate in the most demanding of industrial applications.

Adding value – a component journey

3D-PRINTED METAL PART

Almost all metal parts built by the additive manufacturing process require secondary treatments to make them suitable for their intended use.

Bodycote provides a complete post-manufacture service solution including hot isostatic pressing to remove micro-porosity and reduce the extent of segregation in the built structure, heat treatment to improve material properties, and associated quality assurance testing.



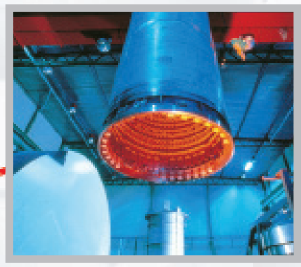
The metal part is 'built' onto a plate in a 3D printing machine by depositing metal powder in layers which are then consolidated, for example by use of lasers.

Photo courtesy of Simon Scott-AM

The part is stress relieved in a vacuum furnace to minimise any distortion.

The component is then removed from its build plate by electrical discharge machining (EDM) to prepare for HIP and heat treatment.

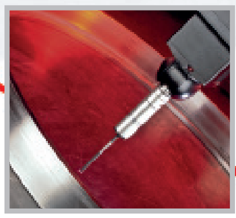
Photo courtesy of Simon Scott-AM



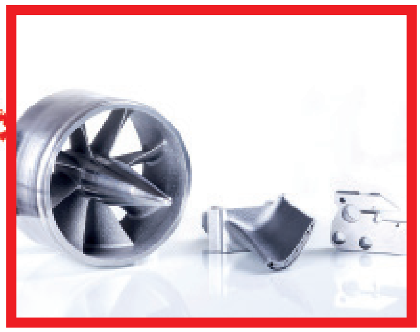
Hot Isostatic Pressing (HIP) ensures that any porosity within the part is removed, thereby reducing the variation in mechanical properties when compared with the as-built part, and improving ductility and fatigue strength.

The part next undergoes heat treatment to achieve full material properties and improve the microstructural characteristics of the component if needed.

Various testing methods are used to check that the part meets specification – these may include radiography, tensile testing, and metallography.



The component will undergo any necessary finish machining and dimensional inspection.



3D printing is creating components in a range of industries including aerospace, medical, and power generation.

Credit: MBFZ Toolcraft GmbH

BODYCOTE COMPONENT JOURNEYS

This is just one example of how Bodycote brings together the huge wealth of knowledge and expertise from across the Group to provide the vital engineering services our customers need...

For more component journeys visit **www.bodycote.com**

Denotes the parts of the component journey undertaken by Bodycote

Global network

Bodycote is experienced in all major market sectors and is able to combine the capability and expertise of a network of 178 worldwide locations to deliver global, or local, services for customers.

Overview

As the only global provider of subcontract thermal processing services, Bodycote is able to offer significant advantages to its customers. Through an international network of plants, Bodycote can effectively utilise a wealth of knowledge, experience and specialist expertise to deliver quality service when and where it is needed.

The network operates from 178 worldwide locations, with customers able to benefit from Bodycote's comprehensive range of services from multiple locations. Customers know that if their business expands, Bodycote will have the capability to meet their needs. They recognise that if they were to broaden their manufacturing footprint, Bodycote would be able to assist them. They are aware that they can obtain the same process to the same quality standards from multiple locations.

Such a large network brings economies of scale, with technology developed at one location being available globally if the market requires it. Similarly, network utilisation is enhanced by using logistics to put customers' work into the most effective facilities to meet their requirements.

The Bodycote network has a wealth of technical accreditations, some industry or customer specific, others more general. Individual operations concentrate on the accreditations suited to their market.

Although Bodycote is headquartered in the UK, 91% of the Group's revenue is derived outside the UK. With facilities in 24 countries, Bodycote is truly global.

North America

Bodycote is the largest provider of thermal processing services in North America by a significant margin, with a comprehensive network coverage. This network offers locations convenient to customers in all areas where manufacturing and technical industries are concentrated.

Our facilities offer the widest and deepest range of processes for aerospace and energy applications and all the leading technologies for automotive applications.

Group revenue by market sector
£m

Aerospace and Defence	135.1
Energy	66.3
Automotive	153.0
General Industrial	212.8
Total	**567.2**

Revenue by market sector — North America
£m

Aerospace and Defence	81.0
Energy	27.6
Automotive	54.6
General Industrial	56.4
Total	**219.6**

Although Bodycote is headquartered in the UK, 91% of the Group's revenue is derived outside the UK. With facilities in 24 countries, Bodycote is truly global.

Western Europe

Bodycote is the number one provider of thermal processing services in Western Europe, with by far the largest network and a comprehensive service offering.

The range of process offerings varies somewhat by country and region, reflecting which types of industry are prominent in those locations, thus enabling the Group to best meet the needs of customers.

Emerging Markets

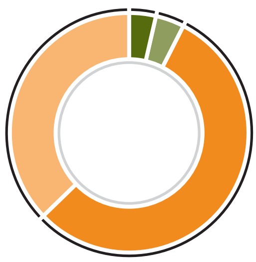
Bodycote has 26 facilities in emerging geographies covering Eastern Europe, China, Mexico, Singapore and Dubai.

Bodycote is the number one thermal processing provider in Eastern Europe and is the leading Western provider in China. These markets have a special emphasis in the Group's growth strategy for the future.

Revenue by market sector — Western Europe
£m

Aerospace and Defence	52.6
Energy	37.1
Automotive	76.0
General Industrial	141.4
Total	**307.1**

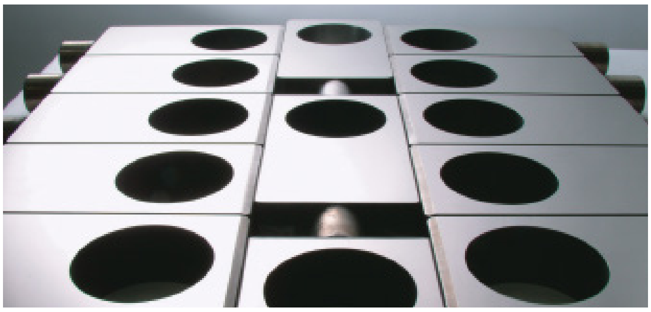
Revenue by market sector — Emerging markets
£m



Aerospace and Defence	1.5
Energy	1.6
Automotive	22.4
General Industrial	15.0
Total	**40.5**

Markets

Aerospace, Defence & Energy markets



Civil aerospace revenues increased in 2015 by 1% at constant exchange rates (1% increase at actual exchange rates), reflecting increased demand for new generation engines, especially in France, and despite continued significant Original Equipment Manufacturer (OEM) weakness in the UK. Available seat kilometres grew by 6% indicating a continued increase in aircraft flying hours which, in turn, resulted in resilient demand for aftermarket parts. Sales into the civil aerospace sector account for 18% of Group revenues.

Sales into the defence sector, which accounted for 6% of Group revenues, were again soft.

Demand for the Group's services in the power generation sector were weak, with revenues below 2014 by 9% at constant exchange rates (9% decrease at actual exchange rates).

Revenues in oil & gas were substantially lower in 2015 as a result of the fall in crude oil prices. Heat treatment and surface technology bore the brunt of the reduction in demand. HIP PF revenues were lower than in 2014 but by notably less than the background market as new orders continue to be won. Overall revenues were down 28% (at constant exchange rates) compared to 2014 and by 29% at actual exchange rates. Sales into the oil & gas sectors accounted for 8% of Group revenue.

Automotive & General Industrial markets

Revenues in car and light truck markets increased year-on-year by 6% at constant exchange rates (2% at actual exchange rates). The increase in revenue was widely spread across the Group, reflecting both new contract wins and strong OEM production rates.

Heavy truck sector revenues in North America grew strongly again in 2015 and were ahead of the prior year by 9% at constant exchange rates (18% at actual exchange rates). In contrast, demand in Western Europe was very weak and revenues declined by 10% at constant exchange rates, in part driven by a notable programme turning end-of-life in Sweden (the decline was 19% at actual exchange rates).

Bodycote provides thermal processing services for a wide range of capital equipment customers. In 2015, many sectors served by Bodycote were badly affected by the heavy declines in most commodity prices. This was particularly noteworthy in agricultural equipment and in many types of industrial machinery. Overall revenues fell by 5% at constant exchange rates (11% decline at actual exchange rates).

Business performance

	2015 £m	2014 £m
Revenue	**567.2**	609.1
Operating profit	**77.9**	107.0
Acquisition costs	**–**	0.2
Reorganisation costs	**20.0**	–
Operating profit prior to exceptional items	**97.9**	107.2
Amortisation of acquired intangible fixed assets	**4.2**	3.9
Headline operating profit	**102.1**	111.1

Group revenue was £567.2m, a decrease of 6.9%, with revenues at constant exchange rates down 4.1% and foreign exchange rate movements having a negative impact of 2.8%.

Headline operating profit for the year decreased by 8.1% from £111.1m to £102.1m, and headline operating margin was 18.0% (2014: 18.2%). Headline operating profit at constant exchange rates decreased by £6.7m, whilst adverse foreign exchange rate movements decreased headline operating profit by a further £2.3m.

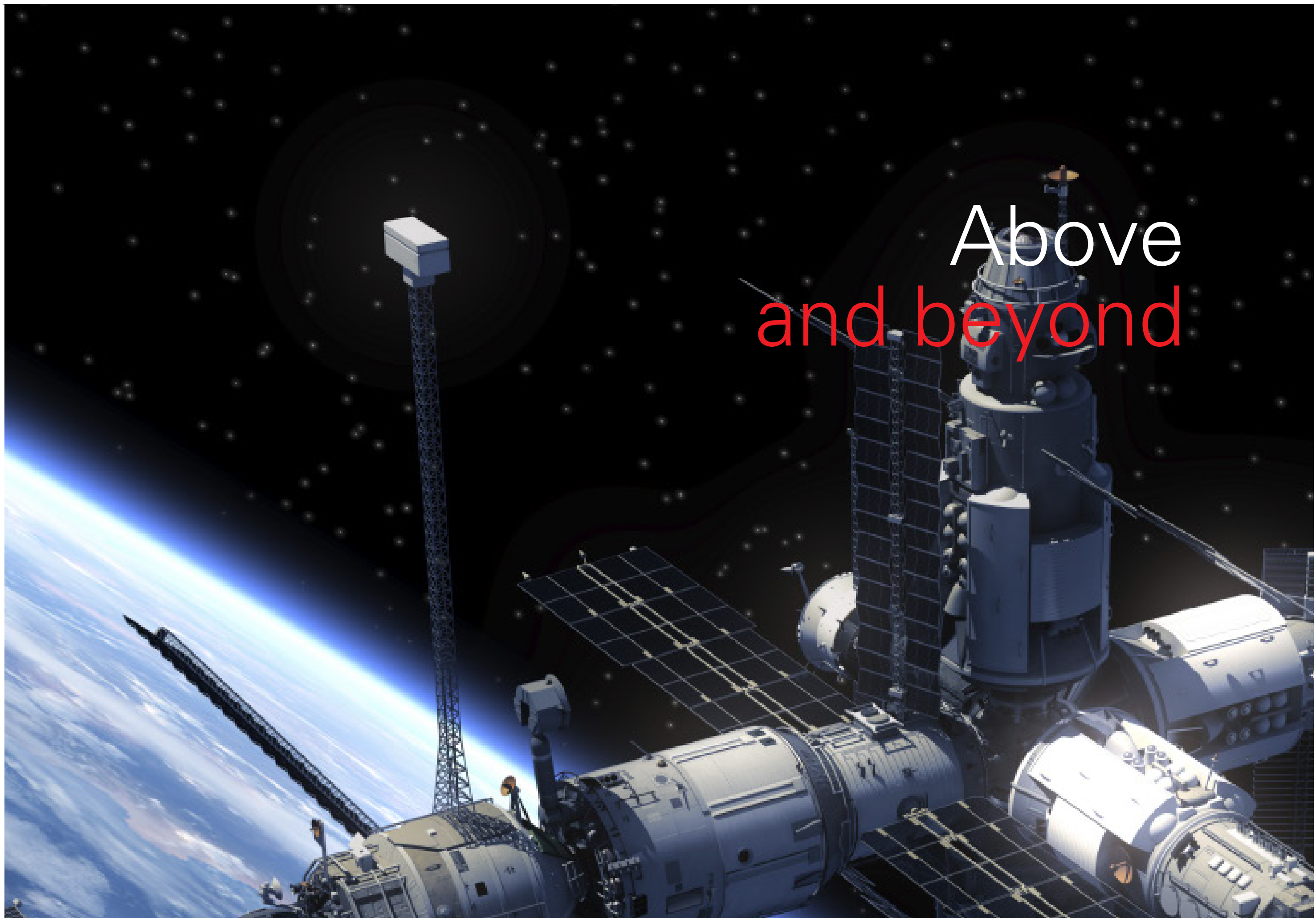
Cash flow is analysed as follows:

	2015 £m	2014 £m
Headline operating profit	**102.1**	111.1
Add back non-cash items:		
Depreciation and amortisation	**49.6**	51.2
Impairment of fixed assets	**–**	2.7
Share-based payments	**(0.4)**	1.9
Profit on disposal of property, plant and equipment	**(2.1)**	(1.4)
Headline EBITDA[1]	**149.2**	165.5
Net capital expenditure	**(61.3)**	(53.8)
Net working capital movement	**(6.3)**	(11.7)
Headline operating cash flow	**81.6**	100.0
Cash cost of restructuring	**(8.4)**	(3.0)
Acquisition costs	**–**	(0.2)
Operating cash flow	**73.2**	96.8
Interest	**(2.6)**	(2.7)
Taxation	**(23.2)**	(19.0)
Free cash flow	**47.4**	75.1

Operating cash flow was £73.2m (2014: £96.8m) with the decrease, compared to prior year, attributable to a reduction in profits, increased capital investment and reorganisation costs. Group net cash at 31 December 2015 was £12.3m (2014: £35.7m).

Capital spend (net of asset sales) in 2015 was £61.3m (2014: £53.8m), being 1.2 times depreciation[2] (2014: 1.0 times). There has been a continued focus on cash collection and receivable days at 31 December 2015 were 62 days (31 December 2014: 60 days). There was a working capital outflow in the year mainly due to an increase in receivable days caused by lower than anticipated cash collection in December and a decrease in payables, arising primarily due to a reduction in accruals for variable staff costs.

1. Earnings before interest, tax, depreciation, amortisation, share-based payments, impairment of fixed assets, profit or loss on disposal of property, plant and equipment and exceptional items.
2. Net capital expenditure to depreciation ratio is defined as capital expenditure less proceeds from asset disposals as a proportion of depreciation and amortisation plus impairment of fixed assets.



Above and beyond

Propulsion components

A rocket relies on its propulsion system for thrust at take-off and again in space to change velocity. High nickel and refractory alloys are used to meet these demands and extend component life under these extreme operating environments. Many of the components require welding, forming, forging and casting. Thermal processing will depend on the material, and is applied to achieve the desired post-fabrication properties. Processes include stress relieving, annealing, brazing, solution and ageing. A comprehensive range of fused coatings is also used to isolate the environment preventing oxidation of the underlying material.

For further information about our services go to **www.bodycote.com/services**

Within the Aerospace, Defence & Energy (ADE) business, our customers think and operate globally and increasingly expect Bodycote to service them in the same way. Consequently, the ADE business is organised globally. This gives Bodycote a notable advantage as the only thermal processing company with a global footprint and an understanding of operating in all of the world's key manufacturing areas. A number of Bodycote's multinational customers fall within the compass of ADE and Bodycote intends to continue to leverage its unique market position to increase revenues in these market sectors. The business incorporates the Group's activities in hot isostatic pressing and surface technology as well as the relevant heat treatment services, encompassing 60 facilities in total.

Results

Revenues for the ADE business were £243.5m in 2015 compared to £263.0m in 2014, a decrease of 7.4% (8.1% decrease at constant exchange rates). Overall, revenues from the commercial aerospace sector remained solid but there have been significantly varying levels of demand in different OEM supply chains. Some have focused on significant destocking, while others have delivered good growth on the back of new engine series and airframes. Defence demand has been subdued, resulting in further modest declines in revenue. Demand in the energy sector and particularly the oil & gas sector, has been very weak. Oil & gas revenues have been most depressed in North American heat treatment and in both the USA and the UK for Surface Technology. Declines in HIP PF have been less severe, despite a number of delays to subsea projects, as customers continue to convert to HIP PF from forgings.

Headline operating profit[1] for ADE was £59.2m (2014: £70.6m) and headline operating profit margin reduced from 26.8% to 24.3%, demonstrating good cost control in the face of reduced demand.

In 2015, the Group added capacity in a number of facilities, including installation of a new high pressure HIP in the USA. In addition initial works have been undertaken to establish a new aerospace focused facility in South East Poland. In the coming year it is expected that capital expenditure will be slightly above depreciation as further capacity and capability are added to support anticipated growth in the Group's Specialist Technologies and other high-value offerings.

Net capital expenditure in 2015 was £17.4m (2014: £18.4m) which represents 0.9 times depreciation (2014: 0.9 times).

Average capital employed in ADE in 2015 was £234.2m (2014: £236.3m). The Group continues to invest in high-return projects in the ADE business. Return on capital employed in 2015 was 23.0% (2014: 26.6%).

Achievements in 2015

The ADE divisions made further progress during the year in gaining new agreements with a range of customers and for a variety of end uses. In ADE Heat Treatment, new agreements were signed with key suppliers to the growing A350 and A320NEO aerospace programmes. In Surface Technology, a new agreement was signed for the provision of thermal spray coating services for helicopter turbine blades.

The HIP division continues to make good progress, with new customers choosing to use the Group's proprietary Product Fabrication (PF) technology for the first time.

Organisation and people

Total full-time equivalent headcount at 31 December 2015 was 1,785 (2014: 1,898), a decrease of 6.0% compared to the revenue decline in ADE of 8.1% (at constant currencies).

Looking ahead

Order books for commercial aerospace OEMs remain strong, and destocking at certain OEMs and their supply chains is expected to be completed at some point in 2016. We anticipate no near term improvement in the oil & gas sector. Defence markets are expected to be stable. Bodycote believes it will continue to capitalise on its world leading position in the aerospace, defence and energy markets.

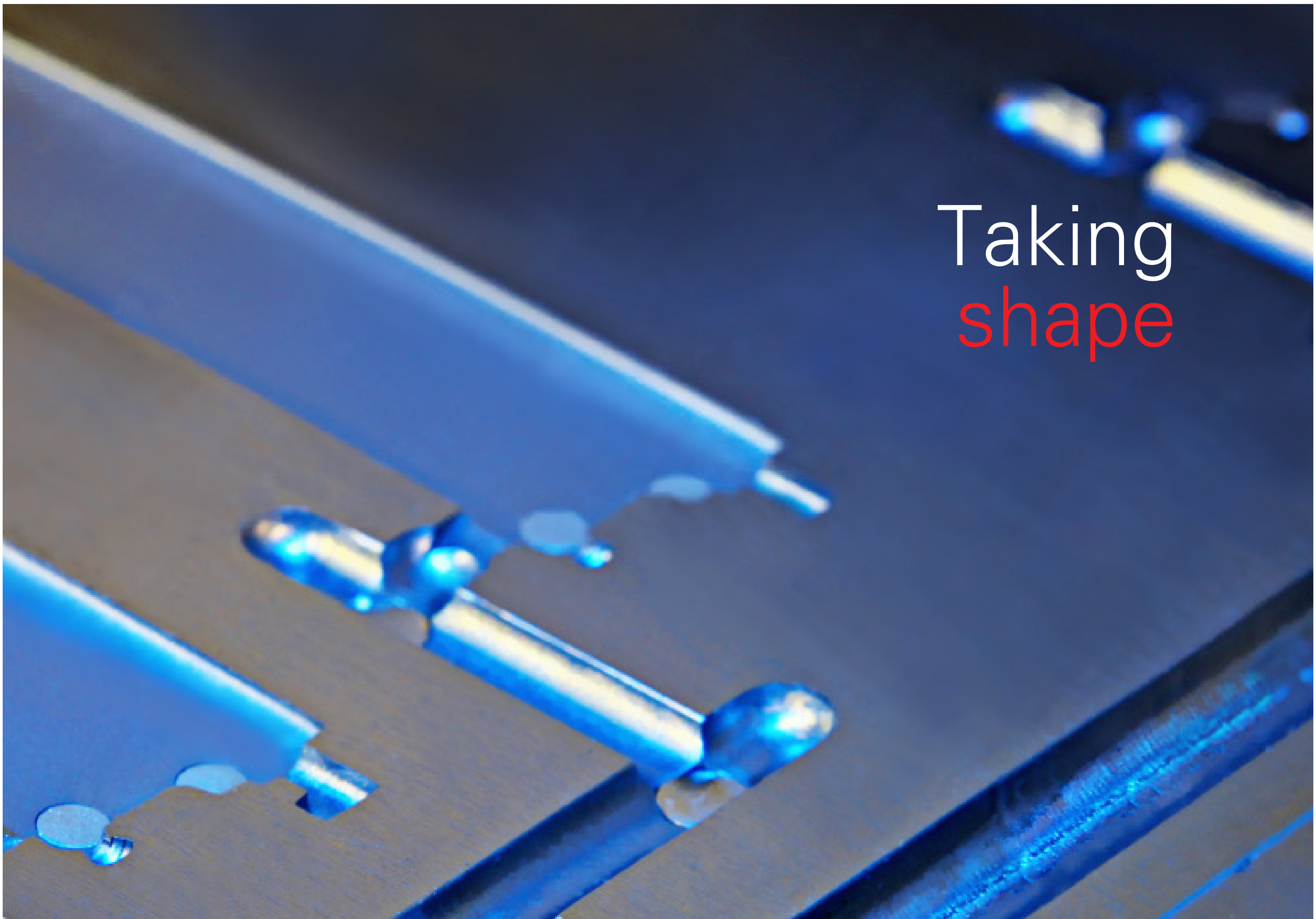
1. Headline operating profit is reconciled to operating profit in note 2 to the financial statements. Bodycote plants do not exclusively supply services to customers of a given market sector (see note 2 to the financial statements).

ADE revenue by geography
£m

Western Europe	111.2
North America	130.3
Emerging markets	2.0
Total	**243.5**

ADE revenue by market sector
£m

Aerospace and Defence	125.9
Energy	57.1
Automotive & General Industrial	60.5
Total	**219.6**

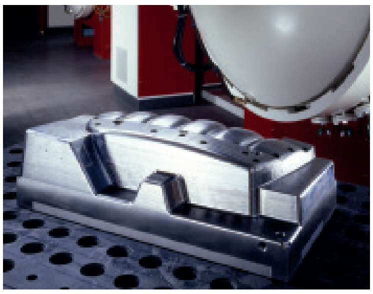


Taking shape

Moulds and dies

During the injection process, the mould must not only form the part, but also dissipate the heat at the surface and allow for easy ejection of the finished component. Moulding tools often employ vacuum brazing techniques with integrated heat treatment. Forming and extrusion dies used in supply chains' mass production lines must resist wear and fracture so as to avoid costly unplanned shutdown of the process line. In addition, maintaining the surface finish is important. Parts may be vacuum hardened and then be given a gas or plasma nitriding treatment.

For further information about our services go to **www.bodycote.com/services**



Whilst the Automotive & General Industrial (AGI) marketplace has many multinational customers which tend to operate on a regionally-focused basis, it also has numerous medium-sized and smaller businesses, all of whom are very important to Bodycote. Generally, there are more competitors to Bodycote in AGI and much of the business is locally oriented, meaning that proximity to the customer is very important. Bodycote's uniquely large network of 118 AGI facilities enables the business to offer the widest range of technical capability and security of supply, while continuing to increase the proportion of technically differentiated services that it offers. Bodycote has a long and successful history of serving this wide-ranging customer base.

Results

AGI business revenues were £323.7m in 2015, compared to £346.1m in 2014, a decrease of 6.5% (1.1% decrease at constant exchange rates).

In 2015, overall sales from the automotive sector increased by 3.6%, at constant exchange rates. Sales into car and light truck have again been good in all geographies, with the increase reflecting both new contract wins and strong OEM production rates. Revenues to heavy truck declined overall, with strong North American growth being more than offset by weak demand in Europe. General industrial markets have been weak in all territories.

Headline operating profit[1] in AGI was £53.4m compared to £54.1m in 2014. Headline operating margin increased to 16.5% (2014: 15.6%) reflecting a further improvement in mix towards higher value work along with strong cost control. Revenues from the Group's Specialist Technologies grew well at high margins.

Net capital expenditure in 2015 was £39.8m (2014: £31.1m), which represents 1.3 times depreciation (2014: 0.9 times). Notable projects included the opening of a new facility for S^{3}P in France, for LPC in Mexico and, in Classical Heat Treatment, new facilities were opened in Poland and China.

In 2016 we expect that capital expenditure will be approximately 1.2 times depreciation as we continue to expand our Specialist Technologies and operations in the rapid growth countries. Return on capital employed in 2015 was maintained at 16.0% (2014: 16.0%). This reflects the continued focus on improving capital returns by continuing to target higher added-value work. On average, capital employed in 2015 was £304.1m (2014: £301.8m).

Achievements in 2015

The Group continued to win business across all geographies. In both North America and Europe our ability to support automotive manufacturers, as they move to newer technologies in pursuit of better fuel efficiency and enhanced corrosion performance, continues to provide Bodycote with market share gains. A number of new contract wins in each of our AGI focused Specialist Technologies of S^{3}P, Low Pressure Carburising and Corr-I-Dur® continues to be a key driver of improved profitability in the AGI business.

The AGI business continued to see the benefits of mix improvement and market focus. Together with an emphasis on improved efficiency these factors have been crucial in the achievement of ongoing margin enhancements in this business.

Organisation and people

At 31 December 2015, the number of full-time equivalent employees in AGI was 3,331 compared to 3,616 at the end of 2014 and 1,913 less than its peak in July 2008.

Looking ahead

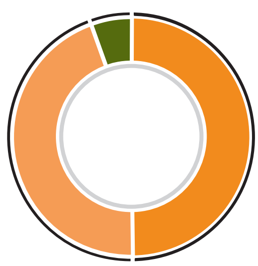
The AGI businesses will continue to build on the success of enhancing margins through capturing high-value work. The focus on improving customer service helps drive this effort while the prioritisation of existing capacity in favour of higher value work and investing in Specialist Technologies provides additional momentum. In addition the Group will continue with its strategy of adding to its existing footprint in the rapid growth countries.

1. Headline operating profit is reconciled to operating profit in note 2 to the financial statements. Bodycote plants do not exclusively supply services to customers of a given market sector (see note 2 to the financial statements).

AGI revenue by geography
£m

Western Europe	195.9
North America	89.3
Emerging markets	38.5
Total	**323.7**

AGI revenue by market sector
£m



General Industrial	160.5
Automotive	144.8
Aerospace, Defence & Energy	18.4
Total	**323.7**

Finance Director's report

Financial overview

	2015 £m	2014 £m
Revenue	**567.2**	609.1
Headline operating profit	**102.1**	111.1
Amortisation of acquired intangible fixed assets	**(4.2)**	(3.9)
Operating profit prior to exceptional items	**97.9**	107.2
Acquisition costs	**–**	(0.2)
Reorganisation costs	**(20.0)**	–
Operating profit	**77.9**	107.0
Net finance charge	**(2.9)**	(3.3)
Profit before taxation	**75.0**	103.7
Taxation	**(18.8)**	(24.4)
Profit for the year	**56.2**	79.3

Group revenue was £567.2m, a decrease of 6.9%, with revenues at constant exchange rates down 4.1% and foreign exchange rate movements having an adverse impact of 2.8%.

Headline operating profit for the year decreased by 8.1% from £111.1m to £102.1m and headline operating margin was 18.0% (2014: 18.2%). Headline operating profit at constant exchange rates decreased by £6.7m, whilst adverse foreign exchange rate movements decreased headline operating profit by a further £2.3m.

The amortisation of acquired intangible assets arises from acquisitions in prior years. The charge has increased to £4.2m (2014: £3.9m).

Operating profit was £77.9m (2014: £107.0m) after charging £4.2m (2014: £3.9m) in respect of the amortisation of acquired intangible assets, £nil (2014: £0.2m) of acquisition costs and reorganisation costs of £20.0m (2014: £nil).

Headline operating cash flow[1] for the Group was £81.6m (2014: £100.0m). This was 80% of headline operating profit (2014: 90%). Net capital expenditure was 1.2 times depreciation (2014: 1.0 times) as the Group continued to follow its strategy of investing in Specialist Technologies and greenfield facilities in higher growth markets. There was a working capital outflow in the year mainly due to an increase in receivable days caused by lower than anticipated cash collection in December and a decrease in payables, arising primarily due to a reduction in accruals for variable staff costs.

After deducting interest and tax, the Group recorded positive free cash flow[2] of £47.4m (2014: £75.1m).

Exceptional costs

Total exceptional costs charged to the income statement amounted to £20.0m (2014: £0.2m). Of this, reorganisation costs amounting to £23.8m (2014: £nil) were incurred, offset by a profit on disposal of the Group's Brazilian and Indian operations of £3.8m (2014: £nil). Cost savings of £4m as a result of the reorganisation were realised in 2015 and a further £6m are anticipated in 2016. In 2015 no acquisition costs were expensed (2014: £0.2m).

Restructuring provisions outstanding at 31 December 2015 totalled £14.7m (2014: £9.4m), £11.0m is expected to be spent in 2016 and £3.7m in 2017 and later. All expenditure after the end of 2016 relates to ongoing environmental remediation, primarily in the USA.

1. Headline operating cash flow is reconciled on page 15.
2. Free cash flow is reconciled on page 15.
3. Headline EBITDA is reconciled on page 15.

Profit before taxation

Headline profit before taxation was £99.2m (2014: £107.8m). Profit before taxation was £75.0m (2014: £103.7m). These amounts are reconciled as follows:

	2015 £m	2014 £m
Headline operating profit	**102.1**	111.1
Net finance charge	**(2.9)**	(3.3)
Headline profit before taxation	**99.2**	107.8
Amortisation of acquired intangible fixed assets	**(4.2)**	(3.9)
Profit before taxation prior to exceptional items	**95.0**	103.9
Acquisition costs	**–**	(0.2)
Reorganisation costs	**(20.0)**	–
Profit before taxation	**75.0**	103.7

Finance charge

The net finance charge was £2.9m compared to £3.3m in 2014. The net interest payable is higher as a result of lower average net cash during the year, offset by lower bank and financing charges and a lower pension finance charge.

	2015 £m	2014 £m
Net interest payable	**0.3**	0.2
Financing costs	**1.5**	1.6
Bank and other charges	**0.8**	0.9
Pension finance charge	**0.3**	0.6
Net finance charge	**2.9**	3.3

Taxation

The taxation charge was £18.8m for the year (2014: £24.4m).

The effective taxation rate of 25.1% (2014: 23.5%) resulted from the blending of differing tax rates in each of the countries in which the Group operates. The increase in the taxation rate is primarily due to more of the Group's profits deriving from countries with a higher rate of tax.

The headline taxation rate for 2015 was 24.4% (2014: 22.7%), being stated before accounting for exceptional items and amortisation of goodwill and acquired intangibles.

In recent years the Group's effective tax rate has benefited from the use of historical tax losses, the majority of the remaining benefits of which are reflected in the 2015 taxation rate. As a result it is expected that the underlying Group effective taxation rate will be approximately 28% going forward, all other things remaining equal.

Earnings per share

Basic headline earnings per share (as defined in note 10) decreased to 39.5p from 43.8p. Basic earnings per share for the year decreased to 29.6p from 41.7p.

Dividend and dividend policy

The Group aims to pay ordinary dividends so that dividend cover will be at or above 2.0 times earnings (see note 10). The Board may also recommend payment of a supplemental distribution to shareholders. The amount of any supplemental distribution will be assessed in light of the cash position of the Group, along with funding requirements for both organic growth and acquisitions.

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.

Capital structure

The Group's balance sheet at 31 December 2015 is summarised below:

	Assets £m	Liabilities £m	Net Assets £m
Property, plant and equipment	429.6	–	429.6
Goodwill and intangible assets	175.2	–	175.2
Current assets and liabilities	152.7	(160.9)	(8.2)
Other non-current assets and liabilities	0.6	(11.3)	(10.7)
Retirement benefit obligations	–	(17.9)	(17.9)
Deferred tax	31.2	(61.9)	(30.7)
Total before net cash	789.3	(252.0)	537.3
Net cash	16.2	(3.9)	12.3
Net assets as at 31 December 2015	**805.5**	**(255.9)**	**549.6**
Net assets as at 31 December 2014	825.1	(254.2)	570.9

Net assets decreased by £21.3m (3.7%) to £549.6m (2014: £570.9m). At constant exchange rates, net assets decreased by £10.9m (1.9%). The major movements compared to 31 December 2014 were a decrease in net cash of £23.4m, an increase in goodwill and intangible assets of £3.1m and a decrease in property, plant and equipment of £5.0m.

The decrease in property, plant and equipment was predominantly due to additions of £61.1m offset by depreciation of £48.8m, asset impairments of £9.0m, foreign exchange movements of £3.8m, disposals of subsidiaries of £1.0m, transfer of assets to assets held for sale of £0.3m and other asset disposals of £3.2m.

The increase in goodwill and intangible assets was due to continuing investment of £5.6m in Group IT systems, amortisation charge of £5.0m and foreign exchange movements of £2.6m.

Net cash

Group net cash at 31 December 2015 was £12.3m (2014: £35.7m). The Group continues to have access to committed facilities at competitive rates and therefore currently deems this to be the most effective means of funding.

Cash flow

The net decrease in cash and cash equivalents was £23.6m (2014: £21.3m increase), made up of net cash from operating activities of £111.3m (2014: £131.6m), less investing activities of £59.9m (2014: £54.8m) and less cash used in financing activities of £75.0m (2014: £55.5m).

The decrease in net cash flow from operating activities from £131.6m to £111.3m was driven primarily by the decrease in headline EBITDA[3] from £165.5m to £149.2m and a £6.3m decrease in payables.

Net cash outflows from investing activities increased from £54.8m to £59.9m, primarily as a result of greater investment in property, plant and equipment in 2015 compared to the prior year. The level of net capital expenditure in 2015 was £61.3m (2014: £53.8m), consistent with plans to increase the Group's capacity in Specialist Technologies and in high growth markets.

Net cash outflows used in financing activities increased from £55.5m to £75.0m, due primarily to the increase in dividend payments, from £45.2m in 2014 to £66.0m in 2015.

There has been a continued focus on cash collection, although receivable days at 31 December 2015 increased by two to 62 days (2014: 60 days).

Net interest payments for the year were £2.6m (2014: £2.7m). Tax payments were £23.2m (2014: £19.0m).

Capital expenditure

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £61.3m (2014: £53.8m). The multiple of net capital expenditure to depreciation was 1.2 times (2014: 1.0 times). Major capital projects which were in progress during 2015 include a new high pressure HIP in the USA, the creation of a new S^{3}P facility in France, a new LPC facility in Mexico, the establishment of an aerospace focused facility in South East Poland, and the creation of Classical Heat Treatment facilities in Poland and China. The Group also continued to invest in the implementation of a new ERP system. As a consequence of the timing of these key projects, the value of assets under construction has increased by £9.6m, from £42.0m in 2014 to £51.6m in 2015.

Borrowing facilities

The Group is financed by a mix of cash flows from operations, short-term borrowings, long-term loans and finance leases. The Group's funding policy aims to ensure continuity of finance at reasonable cost, based on committed and uncommitted facilities and loans from several sources over a spread of maturities. The Group continues to have access to committed facilities at competitive rates and therefore currently deems this to be the most effective means of long-term funding.

The total undrawn committed facility funding available to the Group at 31 December 2015 was £230.0m (2014: £230.0m). The Group also has access to a US$10m committed letter of credit facility maturing in August 2016.

At 31 December 2015, the Group had the following committed facilities:

Facility	Expiry Date	Facility £m	Loan and Letter of Credit Utilisation £m	**Facility Headroom £m**
£230m Revolving Credit	3 July 2019	230.0	–	**230.0**
$10m Letter of Credit	31 August 2016	6.8	1.8	**5.0**
		236.8	1.8	**235.0**

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns, while maximising the return to shareholders. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising capital, reserves and retained earnings.

The capital structure is reviewed regularly by the Board. The Group's policy is to maintain gearing, determined as the proportion of net debt to total capital, within defined parameters, allowing movement in the capital structure appropriate to the business cycle and corporate activity. Due to the net cash position at 31 December 2015 the gearing ratio is 0% (2014: 0%).

Defined benefit pension arrangements

The Group has defined benefit pension obligations in the UK, Germany, Switzerland, Liechtenstein and the USA and cash lump sum obligations in France, Italy and Turkey, the liabilities for which are reflected in the Group balance sheet.

The net deficits in these arrangements are as follows:

	2015 £m	2014 £m
Funded:		
UK	**2.7**	1.0
Other Western Europe	**2.0**	1.6
North America	**0.5**	0.6
	5.2	3.2
Unfunded:		
Western Europe	**12.6**	13.7
Emerging markets	**0.1**	0.1
	12.7	13.8
Total deficit	**17.9**	17.0

The UK plan is closed to new entrants but the 66 active members continue to accrue benefits. The arrangements in France, Italy and Turkey are open to new members. All other arrangements are closed to new entrants.

UK Scheme liabilities have decreased by £3.4m over the year (2014: £103.3m, 2015: £99.9m). This is largely due to a change in the actuarial assumptions used to assess the present value of the liabilities. Most notably, the discount rate assumption has increased from 3.30% in 2014 to 3.50% in 2015 which has resulted in a decrease in the liabilities and was only partially offset by an increase in the inflation assumptions over the year by 0.10%.

Scheme assets decreased in the year by £0.9m to £101.4m (2014: £102.3m).

The assumptions used indicate a surplus of £1.5m. As the Group is not automatically entitled to recover this amount it is required to recognise additional liabilities under IFRIC14 to reflect existing future contractual commitments to the scheme of £4.2m. This results in a reported liability of £2.7m.

The liability for the other European Schemes decreased by £0.7m. The key reason for the decrease in the deficit in the European Schemes is an increase in the discount rate assumptions used in most countries due to rises in corporate bond yields over the year.

Post balance sheet events

There are no post balance sheet events that require disclosure in the financial statements.

Going concern

In determining the basis of preparation for the Annual Report and the Group's viability statement made on page 27, the directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. This includes an overview of the Group's financial position, cash flows, liquidity position and borrowing facilities.

The Group meets its working capital requirements through a combination of cash resources, committed and uncommitted facilities and overdrafts. The overdrafts and uncommitted facilities are repayable on demand but the committed facilities are due for renewal as set out below. There is sufficient headroom in the committed facility covenants to assume that these facilities can be operated as contracted for the foreseeable future.

The committed facilities as at 31 December 2015 were as follows:

- £230m Revolving Credit Facility maturing 3 July 2019
- $10m Letter of Credit Facility maturing 31 August 2016

The December 2015 weighted average life of the committed facilities was 3.4 years.

The Group's forecasts and projections, taking account of reasonable potential changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

The directors have reviewed forecasts and projections for the Group's markets and services, assessing the committed facility and financial covenant headroom, central liquidity and the Group's ability to access further funding. The directors also reviewed downside sensitivity analysis over the forecast period, thereby taking into account the uncertainties arising from the current economic environment. Following this review, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

D.F. Landless
Group Finance Director
25 February 2016

Principal risks and uncertainties

Effective management and a robust assessment of risks is essential to the delivery of the Group's objective of creating superior shareholder returns. The Group's risk framework was reviewed by the Board during 2015 and updated to ensure it continues to meet UK Corporate Governance requirements. The Board is responsible for the Group's risk management and the review of financial risk has been delegated to the Audit Committee. Under the leadership of the Group Head of Risk, Bodycote's risk management framework is used to identify, report and manage its business critical risks. The Risk Committee, established in 2012, continued to meet during the year, attended by senior managers from each of the operating divisions. The role of the Risk Committee is to support the Group Head of Risk in identifying critical risks, to embed risk management and facilitate the implementation of risk management measures throughout the Group.

A variety of approaches is used to identify and report risks, which are aggregated first at a divisional level and then at Group level. For each business critical risk, assurance activities have been documented in risk assurance maps and these are used to direct assurance activity.

The Group Head of Risk provides an update to the Audit Committee on the Group's risk activities at every meeting and a comprehensive review of the Group's business critical risks is presented in December, the Committee concluded that a robust assessment of the Group's principal risks had been undertaken. In addition, the Board examines a specific risk topic at each Board meeting and in 2015 this included a discussion on Group risk appetite.

The table below highlights the major risks that may affect Bodycote's ability to deliver the strategy, as laid out on page 7. These risks have been reviewed throughout the year and they have not materially changed since 2014. In the 2014 Annual Report the Group highlighted the risk that Bodycote's operations could lead to damage to the environment. This is not currently considered to be a material risk to the Group but is subject to regular review. Details of the Group's financial risks (funding, foreign exchange, interest rate and counterparty risks), which are managed by the Group's treasury function, are provided in note 19 to the financial statements. The mitigating activities described below will help to reduce the impact or likelihood of the major risk occurring, although the Board recognises that it will not be possible to eliminate these risks entirely. Furthermore, there could be risks that may be unknown or that may be judged to be insignificant at present, but may later prove to be significant. For this reason business continuity plans have been prepared for all plants to provide for situations where specific risks have the potential to severely impact the business.

Risk description	Impact	Mitigation and control	Relevance to strategy
Market and customer risks			
Markets Bodycote operates in 24 countries and a substantial amount of sales are closely linked to the economic cycle and the general macro-economic environment.	The high proportion of fixed costs in the business means that a drop in sales will have a significant impact on profitability. Sales in the markets served by the AGI businesses (64% of the total Group) tend to develop in line with or ahead of the economic cycle, whereas aerospace and defence sales (24%) tend to track behind the economic cycle. Sales to the energy sectors (12%) are closely linked to energy prices, which in turn can be affected by general economic activity.	■ Bodycote's presence in 24 countries across a wide variety of end-markets acts as a natural hedge to neutralise localised economic volatility. ■ There is some flexibility in the cost base e.g. by ensuring that a proportion of the workforce is employed on temporary contracts. ■ Changes in customer demand on a local or a Group-wide level are responded to quickly.	
Loss of key customers Bodycote benefits from many long-term relationships with key customers and the damage to, or loss of, any of these relationships would be detrimental to the Group.	The loss of a key customer could adversely affect the Group's financial results and the viability of one or more of Bodycote's facilities.	■ There is no significant customer dependency, with the Group's top ten customers accounting for less than 15% of sales and the balance made up by many thousands of customers. ■ There is a continued focus on customer service and quality processes to maintain excellent relationships with major customers. Key account management is in place and customer satisfaction is monitored.	

Risk description	Impact	Mitigation and control	Relevance to strategy
Market and customer risks (continued)			
Competitor action The entry of competitors into one or more of the Group's Specialist Technologies.	The erosion of market share resulting in loss of revenue and profit.	■ The close control of proprietary knowledge. ■ Rapid increase in the scale of the Group's offerings to maintain the position as supplier of choice.	
Corporate and community risks			
Safety and health The nature of Bodycote's activities presents safety and health risks.	Bodycote is committed to providing a safe work environment for its employees but Bodycote's operations, if not properly managed, could have a significant impact on individual employees. Furthermore, poor safety and health practices could lead to disruption of business, financial penalties and loss of reputation.	■ Group-wide health and safety policies set by the Group Chief Executive. ■ OHSAS 18001 and ISO 14001 compliant SHE management systems being used by Group Head of Safety, Health and Environment with support of divisional safety, health and environmental teams. ■ Programme in place to focus on reduction of incidents which could have a high impact. ■ Safety compliance audits at all plants at least every two years. ■ Oversight of safety and health framework provided by the Group SHE Committee.	
Operational risks			
Service quality The Bodycote brand is reliant on the repeatable delivery of parts to agreed specification to an agreed time.	Deterioration in quality or service levels can cause serious long-term damage to Bodycote's reputation with financial consequences such as the loss of a customer and the cost of damages or litigation. Work that is released into use which is not in compliance with specification could arise as a result of system or human failure.	■ Bodycote has stringent quality systems in place managed by qualified staff. ■ Quality systems and processes operated at plant level with oversight by divisional quality teams. ■ Where necessary, plants maintain industry relevant accreditations, such as ISO 9001, Nadcap and TS 16949. ■ All plants subjected to internal and external quality audits and inspections at least once a year.	

Principal risks and uncertainties continued

Risk description	Impact	Mitigation and control	Relevance to strategy
Major disruption at a facility Bodycote's business processes are inherently risky and there is a possibility that a major fire or utility outage could lead to closure of a facility's operation. In addition a number of sites are exposed to natural hazards, such as earthquakes, flooding and storms.	Any significant incident at a site could result in the service to Bodycote's customers from the affected site being disrupted.	■ Bodycote has a global network of 178 facilities that creates a framework to provide back-up capability for any affected facility. ■ Business continuity plans developed and updated and tested annually for all plants. ■ Independent insurer inspections to assess hazard and business interruption risks. ■ Scheduled equipment maintenance and inspections.	
Information technology projects The efficient operation of the Group will rely increasingly on the proper development and operation of its IT systems. Bodycote is currently undergoing a Group-wide implementation of a new ERP system.	Failure to manage the implementation of the ERP programme successfully could result in cost overruns and, potentially, disruption to the business.	■ Project approval and progress subject to regular Board review. ■ Project teams made up of skilled subject matter experts supplemented with third party advisers. ■ Best practice project management processes in place with assurance provided by third parties. ■ Defined disaster recovery planning and data backup procedures.	
Regulatory risks			
Regulatory and legislative compliance The global nature of Bodycote's operations means that the Group has to comply with a wide range of local and international legislative requirements, including anti-bribery and anti-competition legislation, taxation legislation, employment law and import and export controls.	Failure to comply with legislation could lead to substantial financial penalties, disruption to business, diversion of management time, personal and corporate liability and loss of reputation.	■ Business processes are supported by HR policies and the Group Code of Conduct alongside training and awareness programmes. ■ The "Open Door Line" whistleblower facility which is managed by a third party. ■ Engagement of local specialists to support Bodycote at local, divisional and Group level. ■ Regular audit of the effectiveness of implemented procedures.	

Viability statement

In preparing this statement of viability, the directors have considered the prospects of the Group over the three year period immediately following the 2015 financial year. This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern (on page 23). A three year period was determined as the most appropriate as it is the period covered by the Group's annual strategic planning process, which sets the long-term direction of the Group and is reviewed at least annually by the directors. The Board concluded that a period of longer than three years would not be meaningful for the purpose of concluding on longer-term viability, given the limited forward visibility of the Group.

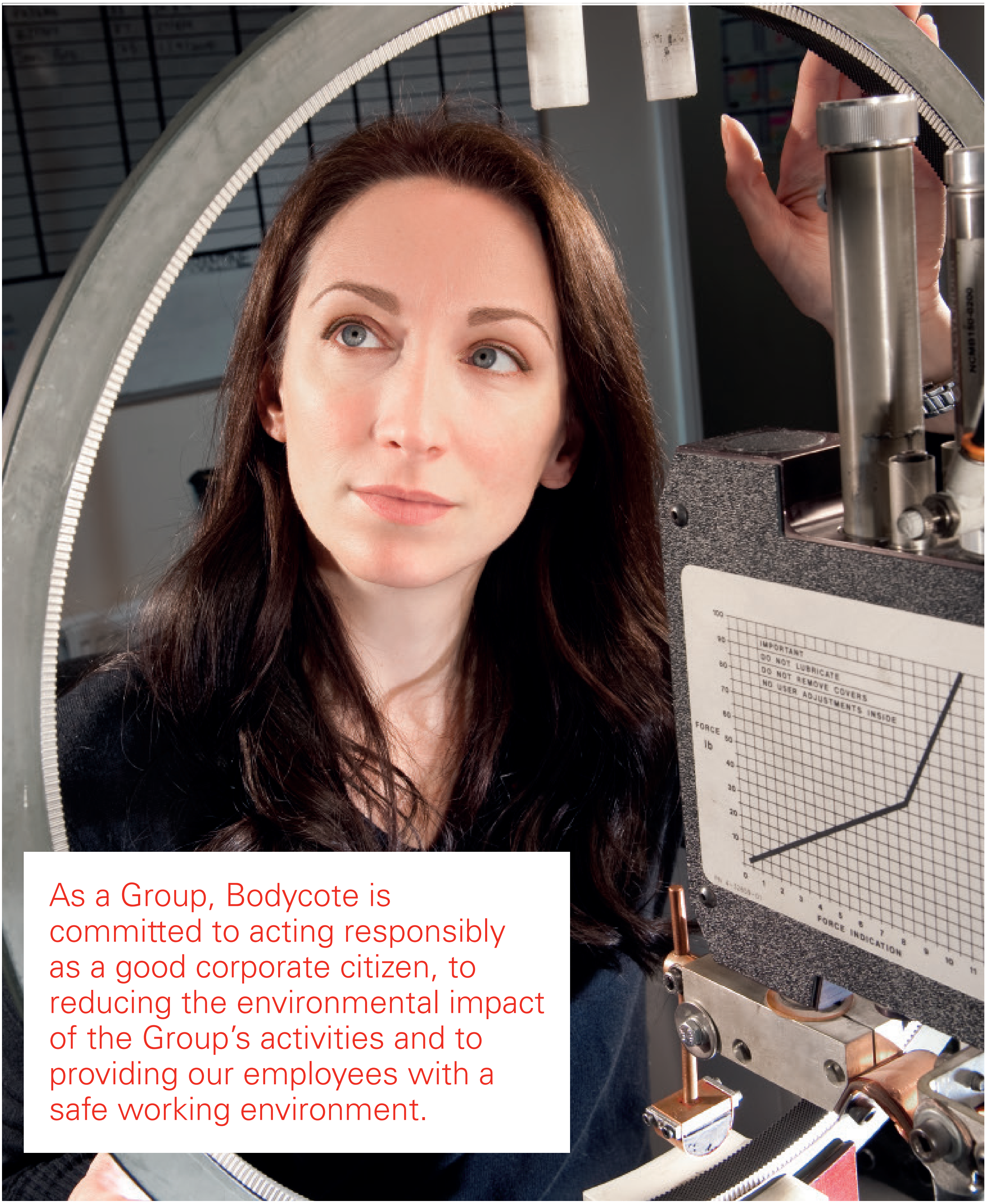
The strategic plan considers metrics which enable assessment of the Group's key performance indicators (including return on capital employed, headline earnings per share and headline operating cash flow) in addition to net debt, liquidity and financing requirements.

In conducting the review of the Group's prospects the directors assessed the three year plan alongside the Group's current position, the Group's strategy and the principal risks facing the Group (all of which are detailed in the Strategic Report on pages 6 to 26). This assessment considered the impact of the principal risks on the business model and on future performance, liquidity and solvency and was mindful of the limited forward visibility that the Group has as it carries a minimal order backlog. The directors' viability assessment included a review of the sensitivity analysis performed on the three year plan, whereby the principal risks, and particularly those related to markets and customers (see page 24), were applied to the plan in a number of diverging scenarios. The developed scenarios were designed to be plausible, yet severe.

In making this viability statement the directors considered the mitigating actions that would be taken by the Group in the event that the principal risks of the Company become realised. The directors also took into consideration the Group's financial position at 31 December 2015, with net cash of £12.3m, available committed facility headroom of £230m and a history of strong cash generation.

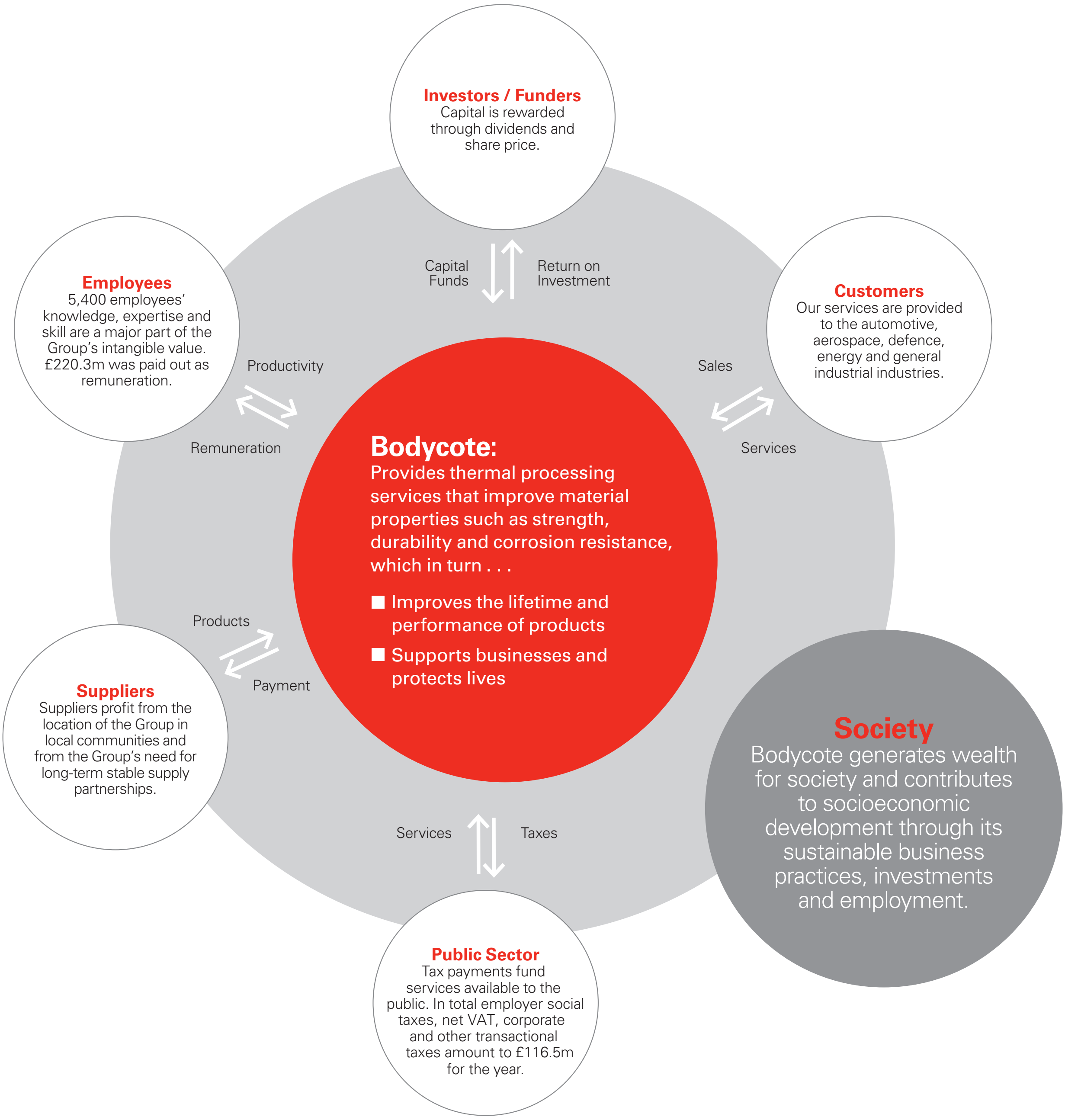
The directors have assessed the viability of the Group and, based on the procedures outlined above in addition to activities undertaken by the Board in its normal course of business, confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2018.

Corporate responsibility and sustainability



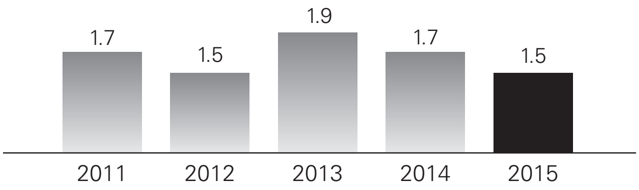
As a Group, Bodycote is committed to acting responsibly as a good corporate citizen, to reducing the environmental impact of the Group's activities and to providing our employees with a safe working environment.

Bodycote's stakeholder model shows how its interactions on various levels contribute towards socioeconomic growth and development. These exchanges, based on mutually beneficial relationships, provide the basis for the Group's growth and sustainability, which in return provides benefits to employees, investors, suppliers, customers, the public sector and wider society.



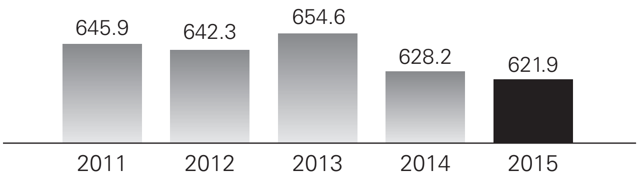
Corporate responsibility and sustainability continued

Accident frequency[1]



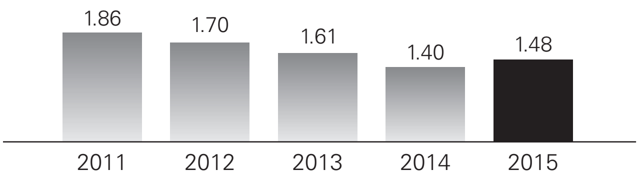
Carbon footprint[2]

(tonne CO_2e/£m sales normalised[3])



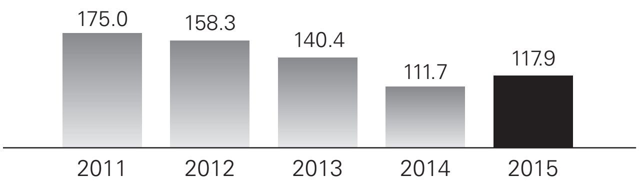
Water consumption

(thousand m^3/£m sales normalised[3])



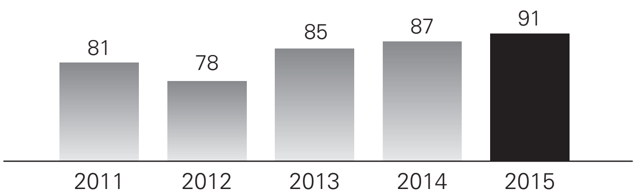
Chlorinated solvents

(kg/£m sales normalised[3])



ISO 14001 accredited facilities

(%)



1. Accident frequency is defined as the number of lost time accidents x 200,000 hours (approximately 100 man years), divided by the total number of employee hours worked.
2. CO_2e is carbon dioxide equivalent, which represents the CO_2 release due to our energy usage.
3. Normalised statistics restate prior year figures using current year national carbon conversion factors and current year average exchange rates.

Our approach

Bodycote's objective is to create superior shareholder returns through the provision of selected thermal processing services that are highly valued by our customers and to achieve this in a safe working environment, while continually seeking to minimise the impact on the environment.

Bodycote is dedicated to improving the management of corporate responsibility issues and is implementing policies and initiatives to achieve this goal. The future success and growth of the Group is intrinsically linked to our ability to ensure the Group's operations are sustainable and that we can nurture and develop our talent.

Our people

The strength of the Group primarily rests in its people and one of the key challenges for management is to ensure availability of appropriately qualified people to support its continued growth. Bodycote is fortunate to have a competent and committed international team that is well-respected in technical and business circles.

Bodycote invests in the training and development of its people both at local and Group level. At a local level the Group is committed to providing the appropriate skills and technical training which will allow its employees to operate effectively and safely in their roles and deliver excellent customer service. At Group level a number of initiatives are currently being rolled out to drive excellence in management.

A tool to develop further understanding and skill in the area of performance management is in place and is being used globally through the management population. Through communication of clear messages coupled with skills development, the organisation aims to raise the capability of its management population in driving performance. This initiative is backed by a performance management system which supports the process.

Bodycote's employment policies are non-discriminatory, complying with all current legislation to engender equal opportunity irrespective of age, race, gender, ethnic origin, nationality, religion, health, disability, marital status, sexual preference, political or philosophical opinions or trade union membership. Harassment is not tolerated.

Female representation on our Board is currently 17% (2014: 14%) and at manager level it is 24% (2014: 27%). Females represent 18% (2014: 17%) of our total workforce. We will increase female representation on the Board if appropriate candidates are available when Board vacancies arise.

	Male	Female	**Total**	Male	Female	**Total**
Directors	5	1	**6**	83%	17%	**100%**
Managers	63	20	**83**	76%	24%	**100%**
Other staff	4,340	941	**5,281**	82%	18%	**100%**
	4,408	**962**	**5,370**	**82%**	**18%**	**100%**

Core values

It is not just important what we do, but how we do it and how we behave in our Company. How we operate as a Group and the behaviours that we expect from all our employees are expressed in our Core Values. Our values represent Bodycote and its people and our commitment to the Company and the business.

Our Core Values are straightforward and are as follows:

Honesty and Transparency
We are honest and act with integrity. Trust stems from honesty and trust is at the heart of everything we engage in: our customers trust us to deliver what we say we will, our colleagues trust us to act in their best interests and our suppliers trust us to conduct business according to agreed terms. This is not something we take for granted. Bodycote lives by a culture of honest and transparent behaviour, which is at the core of all our business relationships.

Respect and Responsibility
We manage our business with respect, applying an ethical approach to our dealings with those with whom we interact. We respect our colleagues, who are all of the employees of Bodycote. Part of our respect for our colleagues is our commitment to safe and responsible behaviour and our fundamental belief that no-one should come to any harm at work. We show respect for our customers, our suppliers and our competitors. We respect the communities around us and behave as responsible corporate citizens by being compliant with the laws and regulations of the countries in which we do business and by ensuring that our effect on the environment is minimal. We believe in taking ownership for, and being mindful of the impact of, our actions.

Creating Value
Creating value is the very essence of our business and needs to be the focus of our endeavours. We create value for our customers, our employees and our shareholders. The realities are harsh. If we do not create value for our customers then we have no reason for existence. If we do not create value for our employees there will be no-one to create value for our customers. Our shareholders rightfully require that we ultimately create value for them as they are the owners of the business.

Human rights

Bodycote's human rights policy is consistent with the Universal Declaration of Human Rights and the UN Global Compact's ten principles.

We prohibit forced, compulsory and underage labour and any form of discrimination based on age, race, gender, ethnic origin, nationality, religion, health, disability, marital status, sexual preference, political or philosophical opinions or trade union membership. Appropriate mechanisms are in place to minimise the potential for any contravention of these rules.

By publicly posting our human rights policy on www.bodycote.com, stakeholders worldwide can alert us to potential breaches of the policy. Our internal systems also support compliance with our policy and we have a robust Open Door Line for employees to report alleged violations of law and/or our policies on a confidential basis and in their own language. In the jurisdictions in which we employ a majority of our employees, there are laws applicable to many of the areas dealt with in our human rights policy.

Customers and suppliers

Bodycote has no significant suppliers who are wholly dependent upon the Group's business and has no significant suppliers on which the Group is dependent upon for a substantial part of its business. Suppliers are paid in line with contractual and legal obligations.

We endeavour to respond quickly to changing customer demand, to identify emerging needs and to improve service availability and quality. We stay close to our current and potential customers, building long-term relationships.

Community

Bodycote seeks to play a positive role in the local communities in which it operates by providing employment opportunities, and building goodwill and a reputation as a good neighbour and employer.

Responsible business ethics

All Bodycote personnel are expected to apply a high ethical standard, consistent with an international UK-listed company. Directors and employees are expected to ensure that their personal interests do not at any time conflict with those of Bodycote. Shareholder employees are advised of and comply with share dealing codes.

Bodycote has systems in place that are designed to ensure compliance with all applicable laws and regulations, and conformity with all relevant codes of business practice. Furthermore, Bodycote does not make political donations.

With regard to competition, Bodycote aims to win business in a differentiated high-value manner. The Group does not employ unfair trading methods and it competes vigorously but fairly within the requirements of the applicable laws. Employees are prohibited from either giving or receiving any inducements.

Our Open Door Policy has been translated into all languages used throughout the Group. The policy allows employees to report their concern verbally or in writing and in confidence to an independent third party provider, ensuring anonymity. Reports are transcribed and sent to the Group Head of Risk, who then passes the matter to the appropriate individual in the business to be addressed.

Online training courses in respect of Anti-Bribery and Competition Law have been designed and translated into the major languages used throughout the Group. All relevant employees have completed the interactive courses.

Operational SHE performance

Bodycote is committed to continual improvement in our safety, health and environmental performance (SHE). We are committed to complying with all local legislative requirements as a minimum; and additionally establishing consistent and robust best practices at all of our sites to deliver consistently high performance across all aspects of SHE management.

Safety and health

The nature of the Group's operations is such that employees are inevitably exposed to hazards in the workplace. Bodycote aims to manage these hazards and thereby minimise risks to employees through the deployment of robust safety control systems and procedures, and seeks to establish these at all sites.

Bodycote's online incident reporting and SHE management tool has been operational since 2013. This has enabled more consistent and thorough reporting of workplace injuries, near misses and unsafe conditions. Following the implementation, there was an increase in the lost time injury rate frequency (LTI rate) in 2013 as sites were better able to record and report incidents. In 2014, the LTI rate fell to 1.7, re-establishing the previous trend of annual improvements in LTI rates in recent years and in 2015 the LTI rate has shown a further decline to 1.5. Although regrettable and not acceptable, accidents represent learning opportunities and so accurate reporting is an essential part of building a robust safety management system.

Despite the improvement in the overall performance of safety across the Group we regret to state that one of our colleagues was seriously injured in an accident at a facility in North America on 22 October 2015 and, as a result of these injuries, he died on 17 February 2016. Our thoughts and condolences are with his family, friends and colleagues. We have investigated the incident thoroughly and are cooperating with the relevant authorities in their ongoing enquiries.

Accident frequency (lost time injury rate)

Accident frequency is defined as the number of lost time accidents x 200,000 hours (approximately 100 man years), divided by the total number of employee hours worked.

In addition to encouraging the reporting of work related injuries, Bodycote has sought to encourage the reporting of near misses and unsafe conditions. This has worked very well since the introduction of the new global incident reporting system and a common near miss/unsafe condition reporting system at every operational site. This much improved reporting of incidents permits us to address hazards before injury occurs. As our database continues to develop we will be able to analyse and prioritise our safety action programmes more effectively.

All reportable incidents and lost time injuries are reviewed during executive management meetings and Board meetings. In addition, the executive management team reviews incidents which did not result in injury but were considered to have been serious or to have had a high potential impact. All serious incidents and high potential incidents are also reviewed by the Group SHE Committee and are cascaded within the business as appropriate to ensure that preventive actions are taken. This system was further strengthened in 2015 with actions being tracked via the online incident management system.

Environment

A proactive approach to improving energy efficiency means that Bodycote has implemented a variety of systems to reduce water and gas consumption, and to re-use heat energy. The ongoing effort to lessen the impact on the environment has resulted in Bodycote seeking ISO 14001 accreditation at all of its facilities. In addition, many of our sites are in the process of obtaining ISO 50001 Energy Management Systems Standard.

At every stage where Bodycote is involved in the manufacturing cycle, our operational aim is to reduce the overall impact on the environment, not just in our own operations, but also those of our customers. Bodycote operates modern, efficient equipment, which is operated around the clock so as to optimise treatment processing cycles. Without Bodycote, many companies would be using older in-house technology and running their equipment at reduced capacity, both of which drain energy resources. Working with Bodycote enables our customers to commit more easily to carbon reduction initiatives.

Bodycote also reduces the carbon footprint of our customers' activities by increasing the lifespan of their products, by improving metallurgical properties and by enhancing corrosion resistance. For example, surface treatment technology is widely used in the reclamation of damaged and worn components, offering a cost-effective and energy-efficient alternative to the need to manufacture new replacement parts, and treated parts often last up to twenty times longer than the original.

Whilst thermal processing is an energy-intensive business, it is a vital part of the manufacturing chain and its use saves the energy it consumes many times over.

Greenhouse gas emissions

	2015		2014		2014 (normalised†)	
	CO_2e emissions ($ktCO_2e$)	**Intensity ratio‡ (tCO_2e/£m)**	CO_2e emissions ($ktCO_2e$)	Intensity ratio‡ (tCO_2e/£m)	CO_2e emissions ($ktCO_2e$)	Intensity ratio‡ (tCO_2e/£m)
Scope 1	**147.8**	**260.9**	158.2	259.7	158.2	267.4
Scope 2	**204.5**	**361.0**	213.4	350.5	213.5	360.8
Statutory total*	**352.3**	**621.9**	371.6	610.2	371.7	628.2

* Statutory carbon reporting disclosures required by Companies Act 2006.
† Normalised statistics restate prior year emissions using current year national carbon conversion factors and current year average exchange rates.
‡ Emissions per £m of turnover.

Stacking up the benefits

Modern thermal processing techniques have allowed designers and manufacturers to use much lighter materials, such as aluminium and titanium, and have significantly prolonged component lifetimes. Through the effective use of thermal processing, parts can now be lighter and overall component weight reduced, leading to improved efficiency and reduced fuel consumption of products in service.

TiAl

Titanium-Aluminide (TiAl) alloy, a lightweight replacement for nickel cobalt super alloys

Vital enabler

Bodycote has developed heat treatment and Hot Isostatic Pressing cycles specifically for TiAl. Without Bodycote's treatments, TiAl alloy would not be suitable for use

140kg

reduction in weight of an engine that uses TiAl fan blades

8 people

the average equivalent weight saving by manufacturing blades from TiAl

Less

oil wasted on the tarmac by development of an oil collector using Bodycote's brazing techniques

30%

the weight reduction of outer guide vanes enabled by electron beam welding and heat treatment by Bodycote

Scope 1 emissions are direct emissions resulting from fuel usage and the operation of facilities. Scope 2 emissions are indirect energy emissions resulting from purchased electricity, heat, steam or cooling for own use.

The financial control consolidation approach has been used to report the above data. This method aligns with the reporting scope in the financial statements. The Group collects electricity and natural gas usage information from each facility on a monthly basis. The Group then applies the UK Government's Department for Environment, Food and Rural Affairs (DEFRA) published national carbon conversion factors to calculate the total tonnage of CO_2e produced. Group operational management actively monitors their monthly CO_2e emissions reported and the Group's Executive Committee reviews the level of CO_2e emissions on a monthly basis.

All entities and facilities under financial control are included within the disclosure. Emissions less than 1% of the Group's total CO_2e relating to fugitive emissions and owned vehicles are not significant and are excluded. As such there are no significant omissions from this disclosure.

ISO 14001 accredited facilities

Reducing the environmental impact of the Group's activities is taken very seriously. Compliance with the requirements of ISO 14001 helps to minimise the risk of adverse environmental effects at Bodycote's locations. At the end of 2015, 91% of our operating facilities had achieved ISO 14001 accreditation (2014: 87%). Operational plants which have not yet received accreditation to the standard are working towards it, including several of the facilities acquired and constructed during 2012–2014. Some older sites, which were accredited, have been closed.

The fall in percentage in 2012 was due to the facilities acquired in that year which had not obtained accreditation.

Carbon footprint and water consumption

The absolute energy usage decreased by 5.2%, though sales at constant exchange rates decreased by 4.1%.

The total CO_2e emissions per £m sales in 2015 were 621.9 Te (2014: as previously reported 610.2 Te; normalised† 628.2 Te).

The Group's total CO_2e emission data is based on Scope 1 and Scope 2 emissions, as defined by the UK Government's DEFRA, and data relating to this has been calculated to include country-specific electricity conversion factors.

Water usage per £m sales increased by 8.8%. On a normalised† basis, water usage per £m sales increased by 5.7%.

In 2015 our EU based operational sites have sought to achieve compliance with the Energy Efficiency Directive 2012/27/EU. This Directive is transposed into local legislation and requires sites to monitor their energy usage and assess energy reduction opportunities which are in addition to the ongoing energy saving activities on sites. One mechanism for ensuring compliance is for sites to become certified to ISO 50001 Energy Management Systems Standard. This enables sites to measure energy usage consistently and target the most effective ways of reducing energy usage. Our sites in France, Germany, Austria, Denmark and Netherlands are largely already certified and working on further energy management programmes.

In the UK all Bodycote plants were audited by TUV Sud with support from npower. As expected this identified that over 97.5% of total energy consumption is at operating sites. Of these, the estimated energy savings would be less than 6% in 59% of the operating plants, demonstrating that a high level of energy efficiency is already well established. The main opportunities identified for energy savings in the remaining sites were primarily incorporating existing good practice throughout the Group, such as energy efficient lighting, increased fitting of variable speed drives on water cooling systems, and additional insulation on some furnaces.

One example was energy efficiency lighting which was installed at our Skelmersdale Surface Technology plant, producing a saving of 69.5Te CO_2e per year with a payback of 1.3 years. Similar lighting has been installed at other sites with the added benefit of improving lighting levels and safety, such as Chard, Coventry and Haag-Winden which have seen projected savings of 35, 80 and 15 Te CO_2e each year. The TUV/ npower report identified similar savings at other sites and will help Bodycote identify cost-effective energy savings.

Another example of best practice identified was the HybridCarb generator recently installed at our Rotherham facility, which replaces the endothermic generator with a more efficient system that not only generates the process gas, but also recycles it for further heat treatment, greatly increasing the carburising efficiency. This gassing method offers the possibility of saving 90% of the process gas during the carburisation cycle, thus reducing the exhausting of carbon dioxide (CO_2) caused during the process-gas burn-off. This new unit is currently being assessed for use at other sites, subject to establishing the full benefit. A further three units have already been ordered for use at our Chard facility.

Chlorinated solvent use

The use of chlorinated solvents in Bodycote's thermal processing activities has been reduced in recent years as aqueous degreasing facilities have been introduced. In 2015, the normalised† solvent use showed a slight increase of 5.6% compared with the previous year.

Cautionary statement

The Strategic report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed.

The Strategic report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Approval

The Group Strategic report of Bodycote plc was approved by the Board of Directors and signed on its behalf by:

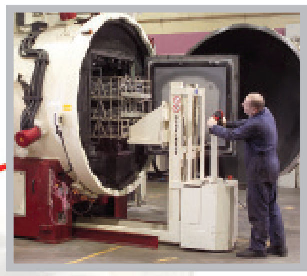
S.C. Harris
Group Chief Executive
25 February 2016

Injecting life into alloy steel – a component journey

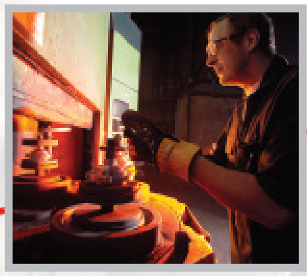
AUTOMOTIVE DIESEL INJECTORS
Injector part failure due to wear is a costly hazard, leading to potential damage to other areas of the engine. The diesel injectors shown in this example are used in trucks, and each truck can have between 6-12 injectors. As part of the manufacturing process, the part must go through various thermal processing stages to enable it to perform to the required standard in service.

The injector begins life either as an alloy steel forging or steel bar.

The injector is rough machined to within tight tolerance of its final size, adding fuel ports and passageways.

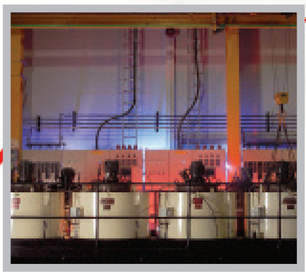


To obtain the correct core structure prior to nitriding, the part is hardened and tempered, to provide the necessary toughness and impact resistant properties.



The part is thermal deburred to remove any burrs in the passageways and to activate the surface by neutralising the chromium, which helps accelerate the diffusion of nitrogen into the surface during the nitriding cycle, ensuring a uniform case depth.

Controlled gas nitriding gives the part very high surface hardness with minimum distortion, providing excellent wear and corrosion resistance.



Due to the nitriding process, minimal finishing operations are needed. The part undergoes finish grinding and lapping to its final size.

End application – truck engine

BODYCOTE COMPONENT JOURNEYS
This is just one example of how Bodycote brings together the huge wealth of knowledge and expertise from across the Group to provide the vital engineering services our customers need...

For more component journeys visit **www.bodycote.com**

Denotes the parts of the component journey undertaken by Bodycote

Board of Directors

David Landless Stephen Harris Alan Thomson

Executive Directors

S.C. Harris, 57 | Group Chief Executive
Appointed: November 2008
Committees: Nomination and Executive (Chairman)
Qualifications: Chartered Engineer, graduated from Cambridge University, masters degree in business administration from the University of Chicago, Booth School of Business
Experience: Spent his early career in engineering with Courtaulds plc and then moved to the USA to join APV Inc from 1984 until 1995, where he held several senior management positions. He was appointed to the Board of Powell Duffryn plc as an Executive Director in 1995 and then went on to join Spectris plc as an Executive Director from 2003 to 2008. He was also a Non-Executive Director of Brixton plc from 2006 to 2009.
External appointments: Non-Executive Director of Mondi plc.

D.F. Landless, 56 | Group Finance Director
Appointed: March 1999
Committees: Executive
Qualifications: Chartered Management Accountant, graduated from the University of Manchester Institute of Science and Technology
Experience: Started his career with Bowater and Carrington Viyella and then at Courtaulds plc from 1984, being appointed a Finance Director in UK and US divisions of Courtaulds plc from 1989 to 1997 and as Finance Director of Courtaulds Coatings (Holdings) Limited from 1997 to 1999.
External appointments: Non-Executive Director of Luxfer Holdings plc and Innospec Inc. (appointed 1 January 2016).

Non-Executive Directors

A.M. Thomson, 69 | Chairman
Appointed: December 2007
Committees: Nomination (Chairman) and Remuneration
Qualifications: Chartered Accountant, graduated from Glasgow University with a masters degree
Experience: Worked on a variety of audits for Arthur Andersen and Price Waterhouse, followed by senior management positions with Rockwell International plc, Raychem Ltd and Courtaulds plc. Joined Rugby Group plc as a Group Finance Director from 1992 to 1995 followed by Smiths Group plc from 1995 to 2006. Chairman of Polypipe Group plc from 2007 to 2015. He was also a Non-Executive Director of Laporte Plc from 1996 to 2002 and of Johnson Matthey Plc from 2002 to 2011. Past President of the Institute of Chartered Accountants of Scotland.
External appointments: Chairman of Hays PLC and Non-Executive Director of Alstom SA.

R. Rajagopal, 62 | Senior Independent Director
Appointed: September 2008
Committees: Audit, Remuneration and Nomination
Qualifications: A Chartered Mechanical Engineer, graduated with a BTech (Mechanical Engineering) from IIT Madras, India, followed by a PhD in Mechanical Engineering from the University of Manchester and was awarded a honorary doctor of science degree by Cranfield University. A Fellow of the Royal Academy of Engineering, the Institute of Engineering and Technology (IET) and the Institute of Mechanical Engineers.
Experience: Joined BOC Edwards after obtaining his PhD and worked in various positions in operations management including Operations Director. Promoted to Managing Director of Edwards in 1993 and Chief Executive of BOC Edwards in 1996. Appointed Executive Director of BOC Group plc in 2000 until 2006. Past member of UK Council for Science and Technology and the Audit Commission. He was Non-Executive Director of Foseco plc from 2005 until 2008 and FSI International (a NASDAQ company) 2000 to 2005.
External appointments: Chairman of UMI3 since 2010 and of HHV Pumps Ltd since 2009. Non-Executive Director of W.S. Atkins plc since 2008, Spirax-Sarco Engineering plc from 2009, E2V Technologies PLC from 2010 and Porvair plc from 2014.

Ian Duncan Eva Lindqvist Raj Rajagopal

E. Lindqvist, 58 | Non-Executive Director
Appointed: June 2012
Committees: Remuneration (Chair, appointed 1 January 2013), Audit and Nomination
Qualifications: Engineer, graduated with a Masters from Linköping Institute of Technology, Diploma in Marketing from IHM Business School and MBA Financial Analysis from University of Melbourne
Experience: Began her career in various positions with Ericsson working in Continental Europe, North America and Asia from 1981 to 1990 followed by director roles with Ericsson from 1993 to 1999. Joined Teliasonera in 2000 as Senior Vice President moving to Xelerated initially as Chairman and later as Chief Executive from 2007 to 2011. Non-Executive Director of Transmode Holdings AB from 2007 to 2013 and of Blekinge Institute of Technology from 2010 to 2013.
External appointments: Appointed as Non-Executive Director of Assa Abloy AB in 2008, Tieto Corporation from 2010 (it is Eva's intention to retire from the Tieto Board in March 2016) as well as Sweco AB, Caverion Oy and Micronic AB since 2013, ComHem Holding AB in 2014 and Alimak Holding since 2015.

I.B. Duncan, 54 | Non-Executive Director
Appointed: November 2014
Committees: Remuneration, Audit and Nomination
Qualifications: Chartered Accountant, qualified with Deloitte & Touche after graduating from St. Catherine's College, University of Oxford.
Experience: Worked on a variety of audits with Deloitte and Touche, followed by four years with Dresdner Kleinwort Wasserstein. From 1990 to 1992 he worked for Lloyds Bank plc and then moved to British Nuclear Fuels plc from 1993 to 2006. In 2006 he took on the role of Group Finance Director with Royal Mail Holdings plc leaving in 2010. Non-Executive Director of Fiberweb plc from 2013 to 2013 and of Mouchel Group from 2013 to 2015.
External appointments: Appointed as Non-Executive Director and Chairman of the Audit Committees of Babcock International Group plc in 2010 and WANdisco plc in 2012.

U.S. Ball | Group Company Secretary
Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield, Cheshire, SK10 2XF.
Tel: +44(0)1625 505300 Fax: +44(0)1625 505313.
Registered Number 519057 England and Wales.

Corporate governance statement

Chairman's message

Dear Shareholders,

I am pleased to introduce the Group's corporate governance report on behalf of our Board of Directors. We are committed to maintaining high standards of corporate governance to enhance performance underpinned by our business model. We have sought to manage the affairs of the Group not by merely following regimented rules, but by promoting a culture of open and transparent discussion, constructive challenge and support in the Board and across the Group. Effective governance starts at the top, with clear roles, responsibilities and lines of reporting. Directors have to operate within applicable laws and regulations, which include corporate governance rules. In addition, directors have to operate within the mandate given to them by shareholders, for example, in the Company's Articles of Association. On a more practical level the directors operate under agreed Board procedures such as the schedule of matters reserved for the Board, the role and descriptions of the Chairman, Group Chief Executive and Senior Independent Director, and service contracts and appointment letters.

The main Group-wide governance documents are our Core Values and the Code of Conduct, which set out the values and standards that we expect of our employees. These documents, together with our policies, govern how we conduct our business and set the standards that drive performance. Compliance training helps to enforce this. Board oversight, reviews and audits form part of the monitoring and supervision process. The important governance developments at Bodycote over the last year are detailed in the governance reporting section below.

It is of great importance to me, as Chairman, to ensure that the Board has the right composition. This means having the right balance of skills and experience to contribute, and where appropriate challenge, decision making and ensuring that all directors have a good knowledge of the Group and the context in which it operates.

I encourage all shareholders to attend the AGM, which will be held at our Macclesfield head office on 27 May 2016. This event provides an excellent opportunity to meet the executive and independent non-executive directors.

A.M. Thomson
Chairman

Board performance

2015 key actions	2015 achievements	Priorities for 2016
■ Implement actions from the 2015 strategy review	■ Accelerated growth from Specialist Technologies and enhanced business processes	■ Undertake 2016 strategy review
■ Undertake 2015 external Board evaluation	■ All recommendations made at the 2012 external evaluation have been addressed	■ Process recommendations from the 2015 external Board evaluation
■ Appointment of a new Audit Committee Chairman and Senior Independent Director	■ I.B. Duncan was appointed Audit Committee Chairman and R. Rajagopal Senior Independent Director	■ Continued focus on management development and succession planning
■ Continued emphasis on external Board training and development	■ The Board visited plants in the UK and Poland during the year and developed the directors' understanding of these businesses and the markets they serve	■ Use Board visits to meet the Czech and Turkish teams to promote understanding of markets and the opportunities they offer
■ Continued review of the risk register, including major programme risks	■ During the year the Board reviewed the different elements of the Group's risk management framework and how it discharged its responsibilities	■ The Board will continue to review cyber security protection, the management of risk in major programmes and crisis management

Governance reporting

Board diversity

Bodycote is a global business with operations in 24 countries and diversity is an integral part of how we do business. The Nomination Committee considers diversity when making appointments to the Board, taking into account relevant skills, experience, knowledge, personality, ethnicity and gender. Our prime responsibility, however, is the strength of the Board and our overriding aim in any new appointment must always be to select the best candidate. We have made progress in addressing the issue of Board gender and diversity by appointing E. Lindqvist to the Board as a Non-Executive Director on 1 June 2012. We also appointed I.B. Duncan as a Non-Executive Director on 17 November 2014 as part of Board refreshment. We will further address this issue when we discuss Board succession planning in the coming year. The Board is kept deliberately small and currently comprises two executive directors, three non-executive directors and a non-executive chairman. We believe it is difficult to set targets or timescales for the percentage of women, or any other group, on our Board and do not propose to do so.

Female representation on our Board is currently 17% (2014: 14%) and at manager level it is 24% (2014: 27%). Females represent 18% (2014: 17%) of our total workforce. We will increase female representation on the Board if appropriate candidates are available when Board vacancies arise.

The Corporate responsibility and sustainability report contains further details regarding the male and female representation within the Group, including Board representation.

Board evaluation

The Board has undertaken its second external Board Evaluation during 2015. Following a review of proposals from external facilitators, the Board appointed ICSA Board Evaluation to facilitate a review of its performance. The facilitator Mr G.A.G. Shepheard (who is independent of the Group), met with each director on an individual basis to obtain their views on seven aspects of the Board's performance and to ascertain whether their needs and expectations were being met. The evaluator ensured that pre-defined constituent elements of each topic were covered in the discussions and a qualitative score was assigned by each director. The seven topics were as follows:

- Board responsibilities
- Oversight
- Board meetings
- Support for the Board
- Board composition
- Working together
- Outcome and achievements

The results of the evaluation were considered by the Board at its meeting in October 2015 which Mr Shepheard attended and the directors discussed the recommendations which are now in the process of being implemented. Additional emphasis will be placed on succession planning and certain operational matters. The approach to Board Evaluation included relevant questions to cover the activities of each Board committee. The Board is considered to be functional and working well. Arising from the exercise, the Board has concluded that its focus should remain on divisional growth strategies, technology development, risk and sustainability as well as continued training. The overall conclusion is that the Board is performing well and high governance standards have been adopted. It is apparent that the Executive is being strongly challenged by the Board when appropriate.

As in previous years, the Chairman has assessed the performance of each Board member by conducting individual interviews and we can confirm that all directors continue to perform effectively and demonstrate commitment to their roles.

The Executive Directors Messrs S.C. Harris and D.F. Landless were also appraised in February 2016.

Led by the Senior Independent Non-Executive Director, the directors carried out an evaluation of the Chairman's performance in September 2015. The Board is satisfied with the Chairman's commitment and performance.

Training

All new directors are subject to a tailored induction programme covering a diverse range of topics including trading, investor relations, organisational and legal matters. The Board receives training via ad hoc presentations and papers from advisers and the Group Company Secretary. External periodic training on important topics takes place through the Deloitte Academy and during the year the directors received training on financial reporting developments and in particular on the viability statement.

Succession planning

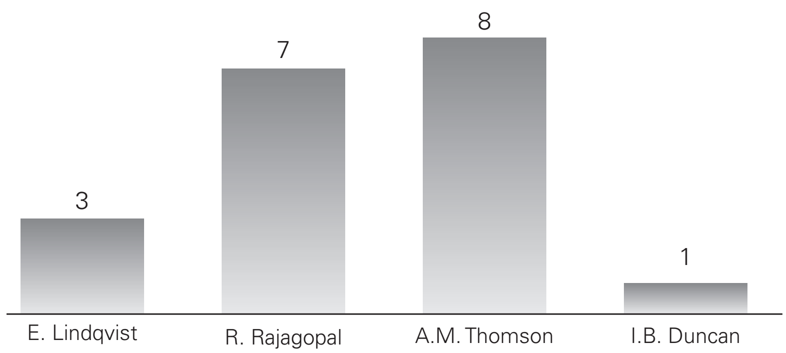
Succession planning ensures that appropriate senior executive leadership resources are in place to achieve Bodycote's strategic objectives. The plans are reviewed annually by the Nomination Committee.

The Board further develops its knowledge and gains greater visibility of executive talent and management succession by visiting the Group's sites and meeting with key talent and senior executives.

Board refreshment will continue over the coming years.

Non-executive tenure

(in years)



Corporate governance statement continued

Individual roles of the Board

Chairman

- operate leadership and governance of the Board and chairs the Nomination Committee
- Board effectiveness
- ensures members receive accurate, timely and clear information on Board issues
- ensures, together with the Group Company Secretary, comprehensive induction of new directors
- sets Board agenda, style and tone of Board discussions
- effective communication with shareholders

Group Chief Executive

- overall responsibility and leadership of the Group performance
- stewardship of Group assets
- plans and executes objectives and strategies
- maintains a close working relationship with the Chairman, ensuring effective dialogue with investors and stakeholders
- ensures the leadership and development frameworks are developed to generate a positive pipeline for future opportunities for the Group
- has overall responsibility for the Group's sustainability performance
- communicates the vision and values of the Group
- manages the senior management team

Group Finance Director

- maintains strong financial management and implements effective financial controls
- provides financial and commercial decision leadership, vision and support
- ensures the appropriateness of risk management systems
- oversees all aspects of accounting/finance operations including accounting policies and integrity of financial data and external financial reporting
- responsible for corporate finance functions, financial planning and budget management
- supports and advises the senior management team
- leads the development of investor relations strategy and communications

Senior Independent Director

- acts as a sounding board for the Chairman
- serves as an intermediary for other directors
- is available to meet shareholders if they have concerns which they have not been able to resolve through the normal channels
- conducts an annual review of the performance of the Chairman and convenes a meeting of the non-executive directors to discuss the same

Non-Executive Directors

- provide constructive challenge
- help develop strategy
- ensure financial controls and systems of risk management are robust and defensible
- determine appropriate levels of remuneration for the executive directors
- monitor reporting of performance
- scrutinise performance of management
- are available to meet with major shareholders

Group Company Secretary

- secretary to the Board and its committees
- ensures efficient information flows within the Board and its committees and between senior management and non-executive directors
- facilitates induction of new directors and assists with training and development needs as required
- regularly updates the Board on corporate governance matters, legislative changes and regulatory regimes affecting the Group
- ensures compliance with Board procedures
- co-ordinates external Board evaluation and conducts internal Board evaluation

Core values
The Board acknowledges its responsibility for determining and maintaining the Group's values and ensures these are reflected in the business practices. This is monitored by the Board at regular intervals. Further details are available on page 31.

Pre-emption rights
In line with best practice provisions in the Pre-emption Group Statement of Principles, the Board confirms that it does not intend to issue more than 7.5% of the issued share capital of the Group on a non pre-emptive basis in any rolling three-year period.

Compliance reporting
In respect of the financial year 2015, Bodycote's obligation under the Disclosure and Transparency Rules is to prepare a corporate governance statement with reference to the UK Corporate Governance Code issued by the FRC in September 2014 ("the Code").

In respect of the year ended 31 December 2015, Bodycote has complied with the provisions of the Code with the exception of provision E1.1. As in previous years, the Board has taken the view that generally it is the responsibility of the Group Chief Executive and the Group Finance Director to manage relationships with institutional investors. The Chairman also meets institutional investors to discuss overall strategy, governance and any concerns that shareholders may have. Only where these more usual channels of communication have failed would the Board expect the Senior Independent Non-Executive Director (SID) or other non-executive directors to become involved, notwithstanding that the Code specifies attendance of the (SID) at meetings with major shareholders. The SID has contacted major shareholders and offered to facilitate meetings with them should they have any concerns they wish to discuss. Regular feedback from the Group's advisers on investor meetings and results presentations is circulated to all directors. During the year the Chairman met with shareholders to discuss governance matters.

Apart from this distinct area, Bodycote was in compliance with the provisions of the Code throughout 2015.

Operation of the Code
Taken together with the Report of the Audit Committee, the Report of the Nomination Committee and the Board report on remuneration presented on pages 48 to 73, this statement explains how Bodycote has applied the principles of good corporate governance as set out in the Code.

Leadership
The Board is responsible to shareholders for good corporate governance, setting the Group's strategic objectives, values and standards, and ensuring the necessary resources are in place to achieve the objectives.

The Board met on eight occasions during 2015, including a specific meeting to review and update the Group's long-term strategy. The Board of Directors comprises six members, of whom four are non-executive directors and two are executive directors, led by the Group's part-time Non-Executive Chairman, A.M. Thomson, who also chairs the Nomination Committee. The Group Chief Executive is S.C. Harris and the Senior Independent Non-Executive Director is R. Rajagopal. I.B. Duncan chairs the Audit Committee and E. Lindqvist is Chairman of the Remuneration Committee. Brief biographical details of all directors are given on pages 36 and 37. During the year the Board visited a number of UK and overseas facilities, including sites in the UK and Poland. Such events involved meetings with local management and the unit workforce to better understand technical and operational performance in countries where Bodycote has a significant presence.

Corporate governance statement continued

Matters reserved for the Board were reviewed during the year and updated where required. Certain defined powers and issues reserved for the Board to decide are, *inter alia*:

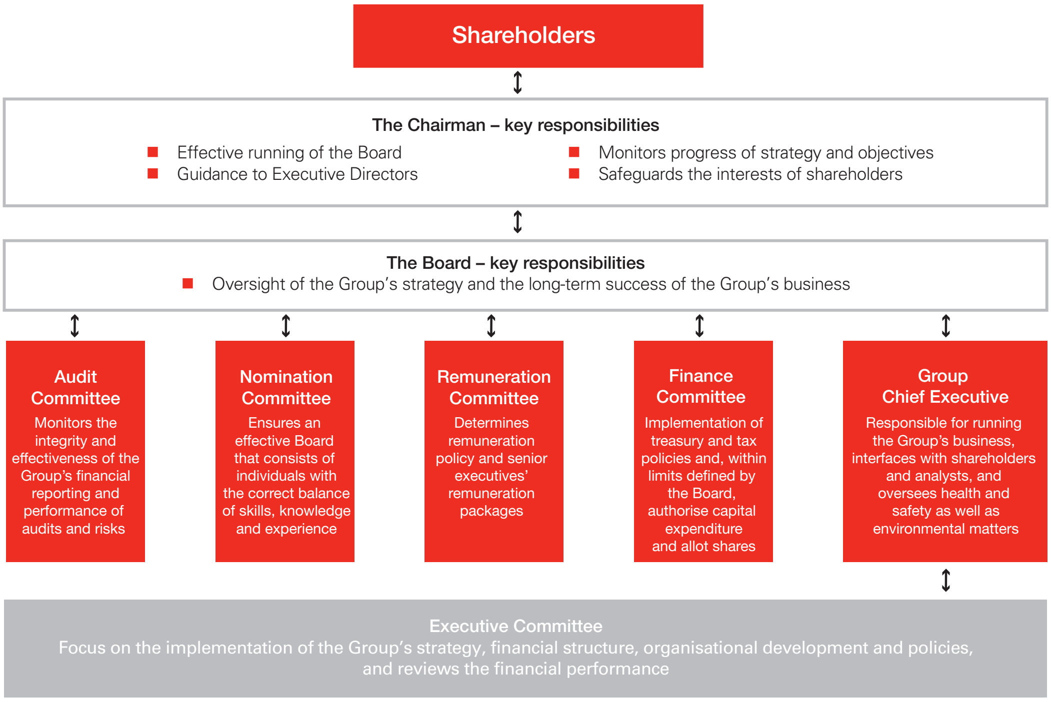
- Strategy;
- Approval of financial statements and circulars;
- Capital projects, acquisitions and disposals;
- Annual budgets;
- Directors' appointments, service agreements, remuneration and succession planning;
- Policies for financial statements, treasury, safety, health and environment, donations;
- Committees' terms of reference;
- Board and committee chairmen and membership;
- Investments;
- Equity and bank financing;
- Internal control and risk management;
- Corporate governance;
- Key external and internal appointments; and
- Employee share incentives and pension arrangements.

In advance of Board meetings, directors are supplied with up-to-date information regarding the trading performance of each operating division and sub-division, in addition to the Group's overall financial position and its achievement against prior year results, budgets and forecasts. They are also supplied with the latest available information on safety, health and environmental and risk management issues and details of the safety and health performance of the Group, and each division, in terms of severity and frequency rates for accidents at work. Senior management from across the Group and advisers attend some of the meetings to provide updates. The exposure to members of senior management from across the Group helps enhance the Board's understanding of the business, the implementation of strategy and the changing dynamics of the markets in which the Group operates.

Where required, a director may seek independent professional advice, the cost of which is reimbursed by the Group. All directors have access to the Group Company Secretary and they may also address specific issues with the SID. In accordance with the Articles of Association, all newly appointed directors must submit themselves for re-election. All directors stand for yearly re-election. Non-executive directors, including the Chairman, are appointed for fixed terms not exceeding three years from the date of first election by shareholders, after which the appointment may be extended by mutual agreement. A statement of the directors' responsibilities is set out on page 74. The Board also operates three committees. These are the Nomination Committee, the Remuneration Committee and the Audit Committee. All non-executive directors serve on each Board Committees.

In accordance with the recommendations of the Code, Board members serve for a period of six years, which will only be extended in certain circumstances. If letters of appointment are extended beyond six years, the fixed term is reduced to one year.

In order that necessary actions can be taken promptly, a Finance Sub-Committee, comprising the Chairman (or failing him, any other non-executive director), the Group Chief Executive and the Group Finance Director operates between the dates of scheduled Board meetings and is authorised to make decisions, within limits defined by the Board, in respect of certain finance, treasury, tax or investment matters.



Independence of non-executive directors

The Board considers that R. Rajagopal, E. Lindqvist and I.B. Duncan are all independent for the purposes of the Code. The Chairman was considered independent upon appointment.

Commitment

Attendance of directors at regular scheduled meetings of the Board and its Committees is shown in the table below:

	Full Board		Audit Committee		Remuneration Committee		Nomination Committee	
Director	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
A.M. Thomson	8	8	–	–	7	7	5	5
S.C. Harris	8	8	–	–	–	–	5	5
R. Rajagopal	8	7	4	4	7	7	5	5
E. Lindqvist	8	8	4	4	7	7	5	5
D.F. Landless	8	8	–	–	–	–	–	–
I.B. Duncan	8	8	4	4	7	7	5	5
J.A. Biles	3	3	2	2	2	2	3	3

All directors attended the maximum number of Audit, Remuneration and Nomination Committee meetings that they were scheduled to attend. In addition, non-members Messrs A.M. Thomson, S.C. Harris and D.F. Landless attended by invitation some parts of the meetings of the Audit, Nomination and Remuneration Committees.

Proposals for re-election

The Board decided, in line with the Code, that all directors will retire annually and, other than in the case of any director who has decided to stand down from the Board, will offer themselves for re-election at the AGM. Accordingly A.M. Thomson, S.C. Harris, D.F. Landless, E. Lindqvist and I.B. Duncan will stand for re-election at the 2016 AGM. R. Rajagopal will retire as a Non-Executive Director at the May 2016 AGM. The Board recommends to shareholders that they re-elect (or elect) all the directors. In accordance with the recommendations of the Code, Board members will serve for a period of six years which may be extended in certain circumstances.

The performance of each director was evaluated as indicated above and the Board confirms in respect of each that their performance continues to be effective and that each continues to demonstrate commitment to his or her respective role.

Internal control and risk management

The Board is responsible for the Group's system of internal controls and risk management policies and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has applied Principle C.2 of the Code by establishing a continuous process for identifying, evaluating and managing the Group's significant risks, including risks arising out of Bodycote's corporate and social engagement.

The Board believes that the Group maintains an effective system of internal controls which is in accordance with the FRC's guidance entitled 'Internal Control: Revised Guidance for Directors' (formerly referred to as the Turnbull Report guidance) and, in the view of the Board, no significant deficiencies have been identified in the system. The system was in operation throughout 2015 and continues to operate up to the date of the approval of this report. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management systems. It is based principally on reviewing reports from management and from internal audit to consider whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging these review responsibilities. In September 2014 the FRC issued guidance on 'Risk Management, Internal Control and Related Financial and Business Reporting' which replaces the 'Internal Control: Revised Guidance for Directors' currently being applied by the Group. The new guidance was applied in the Group's 2015 accounting period.

The Group prepares a comprehensive annual budget which is closely monitored and updated quarterly. The Group's authority matrix clearly sets out authority limits for those with delegated responsibility and specifies what can only be decided with central approval.

The Board with the assistance of the Internal Audit department monitors the Group's internal financial control system. Internal Audit reviews are conducted on the basis of plans approved by the Audit Committee, to which Internal Audit reports are submitted on a regular basis.

Every Bodycote site provides assurance on specified financial and non-financial controls through a control self-assessment process. The results are validated by Internal Audit through spot checks and are reported to the Audit Committee. In addition, the President and the Vice President of Finance of each division sign a letter of representation annually to confirm the adequacy of their systems of internal controls, their compliance with Group policies, relevant laws and regulations, and that they have reported any control weaknesses through the Group's assurance processes.

During 2015, in compliance with provision C.2.1 of the Code, management performed a specific assessment for the purpose of this Annual Report. Management's assessment, which has been reviewed by the Audit Committee and the Board, included a review of the Group's key strategic and operational risks, which is summarised from work performed by the Group Head of Risk and the Group's Risk Committee to identify risks (by means of workshops, interviews, investigations and by reviewing departmental or divisional risk registers). Further information regarding the ways in which the principal business risks and uncertainties affecting the Group are managed is shown on pages 24 to 26. No new significant risks were identified as part of this process, and the necessary actions have been or are being taken to remedy any significant failings or weaknesses identified as part of the reviews.

Investor relations

The Group Chief Executive and Group Finance Director regularly talk with and meet institutional investors, both individually and collectively, and this has enabled institutional investors to increase their understanding of the Group's strategy. In addition, internet users are able to view up-to-date news on the Group and its share price via the Bodycote website at www.bodycote.com. Users of the website can access recent announcements and copies of results presentations and can enrol to hear live presentations. On a regular basis, Bodycote's financial advisers, corporate brokers and financial public relations consultants provide the directors with opinion surveys from analysts and investing institutions following visits and meetings with the Group Chief Executive and Group Finance Director. The Chairman and SID are available to discuss any issues not resolved by the Group Chief Executive and Group Finance Director. On specific issues, such as the review of remuneration packages, the Group has sought and will continue to seek the views of leading investors.

By order of the Board:

U.S. Ball
Group Company Secretary
25 February 2016

Springwood Court
Springwood Close
Tytherington Business Park
Macclesfield
Cheshire
SK10 2XF

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

Springwood Court
Springwood Close
Tytherington Business Park
Macclesfield
Cheshire
SK10 2XF

Report of the Nomination Committee

Committee membership	No. of meetings 2015: 5	Main committee responsibilities
Director	**Attendance**	■ regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes.
A.M. Thomson	5	■ give full consideration to succession planning for directors and other senior executives in the course of its work.
S.C. Harris	5	■ be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.
I.B. Duncan	5	
E. Lindqvist	5	
R. Rajagopal	5	
J.A. Biles	3	

Dear Shareholders,

I am pleased to introduce the Nomination Committee report for 2015. The Committee's key objective is to support the Board in fulfilling its responsibilities to ensure there is a formal, rigorous and transparent process for the appointment of new directors to the Board and to ensure that effective succession planning processes are in place across the Group. John Biles, former Chairman of the Audit Committee and Senior Independent Director (SID), stood down at the 2015 AGM. Ian Duncan has taken over as Chairman of the Audit Committee and Raj Rajagopal was appointed SID. The Committee will continue to focus on ensuring that the present and future composition of the Board is appropriate for the delivery of the Group's strategy and that all relevant UK Corporate Governance Code requirements continue to be met.

A.M. Thomson
Chairman of the Nomination Committee

Role of the Nomination Committee

The Nomination Committee is a sub-committee of the Board, whose principal purpose is to advise on the appointment and, if necessary, dismissal of executive and non-executive directors. The Committee's terms of reference, which are listed on the Group's website, include all matters required by the UK Corporate Governance Code ("the Code"). Further information on the Code can be found on the Financial Reporting Council's website www.frc.org.uk. The terms of reference are reviewed annually by the Group Company Secretary and the Chairman, and any changes are then referred to the Board for approval. No changes were made to the terms of reference during the year.

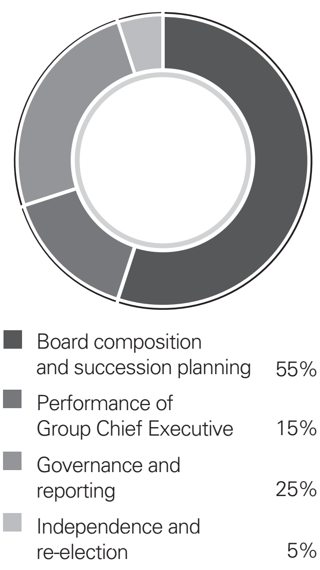
Composition of the Nomination Committee

As recommended by the Code, the Chairman of the Board acts as the Chairman of the Committee whose members also comprise the directors listed above. To ensure executive input on nominations matters, the Chief Executive is also a member of the Committee. The Chairman cannot chair the Committee when it is dealing with either the succession to the Chairmanship of the Group or the review of his own performance. Only members of the Committee have the right to attend the Committee meetings. Other individuals and external advisers may be invited to attend for all, or part of, any meeting when it is appropriate. The quorum necessary for the transaction of business is two, each of whom must be an independent non-executive director.

The Group Company Secretary is secretary to the Committee.

The Committee has the authority to seek any information that is required, from any officer or employee of the Company or its subsidiaries. In connection with its duties, the Committee is authorised by the Board to take such independent advice (including legal or other professional advice, at the Group's expense) as it considers necessary, including requests for information from, or commissioning investigations by, external advisers.

Nomination Committee – allocation of agenda time



Director appointment policy and progress

The Committee has developed a formal rigorous and transparent procedure for the appointment of new directors. Prior to making any appointment, the Committee, having evaluated the skills, experience and diversity of the Board, will determine the qualities and experience they seek and will then prepare a detailed description of the role with a view to appointing the most appropriate candidate. The Committee will use open advertising or the services of independent external advisers to facilitate the search.

A long list of candidates will be drawn up, from which an appropriate number will be selected for interview. Upon completion the Committee will recommend to the Board the appointment of the preferred candidate.

Board succession planning

Upon the retirement of J.A. Biles at the 2015 AGM, he was replaced as Senior Independent Director by R. Rajagopal and as Audit Committee Chair by I.B. Duncan who joined the Board in 2014 in anticipation of this retirement. After eight years as a member of the Board, R. Rajagopal will step down in May 2016. The Committee, advised by an international search consultancy, is currently engaged in the process of identifying a suitably qualified individual to join the Board. A formal announcement will be made once a suitable candidate has been appointed.

Main activities of the Nomination Committee

In 2015 the Committee formally met five times and reviewed the composition and skills of the Board, with a view to considering the current and future skills and experience that the Board might require.

The Committee discussed succession planning and Board diversity, and reviewed the performance of the Group Chief Executive and other senior executives. In particular, the need to broaden the Board membership with respect to gender, ethnicity and age was discussed.

The Committee considered and authorised the potential conflicts of interest which might arise where a director has fiduciary responsibilities in respect of other organisations. The Committee concluded that no inappropriate conflicts of interest exist. The Committee also assigned the Chairman to review and agree with the Group Chief Executive his personal objectives for the forthcoming year.

In line with the UK Corporate Governance Code the Committee carried out its second external Board Evaluation during 2015. The project was undertaken by Geoffrey Shepheard of ICSA Board Evaluation, who presented the report to the October Nomination Committee meeting, with both executive and non-executive directors in attendance. Further details of the review can be found in the Corporate Governance section of the Annual Report. Recommendations arising from the 2015 Board Evaluation are in the process of being addressed.

In December 2015 the Nomination Committee reviewed the Board's size and composition, the frequency of the process for Board and Committee meetings, and best practice for the handling of a number of Board issues including drawing up a training programme for the directors. The terms of reference of the Committee were reviewed in conjunction with the Model Terms of Reference issued by the Institute of Chartered Secretaries and Administrators. The biographical details of the current directors can be found on pages 36 and 37. Having reviewed their independence and contribution to Board matters, the Committee confirms that the performance of each of the directors standing for re-election at the 2016 AGM continues to be effective and demonstrates commitment to their roles, including independence of judgement and time commitment for Board and Committee meetings. Accordingly the Committee has recommended to the Board that, with the exception of R. Rajagopal, all current directors of the Company be proposed for re-election at the forthcoming AGM.

As Chairman of the Committee I will be available at the 2016 AGM to answer questions relating to the work of the Committee.

On behalf of the Nomination Committee:

A.M. Thomson
Chairman of the Nomination Committee
25 February 2016

Report of the Audit Committee

Committee membership	No. of meetings 2015: 4
Director	**Attendance**
I.B. Duncan	4
E. Lindqvist	4
R. Rajagopal	4
J.A. Biles	2

Main committee responsibilities

- the Audit Committee is a sub-committee of the Board whose main role is to encourage and safeguard the highest standards of integrity, financial reporting, financial risk management and internal controls.
- monitor the integrity of the financial statements including annual and half-yearly reports, trading updates and any other formal announcements relating to its financial performance. Reviewing and reporting to the Board on significant financial reporting issues and judgements.
- where requested by the Board, review the content of the Annual Report and advise the Board whether taken as a whole it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- monitor and review the adequacy and effectiveness of the Company's internal financial control and risk management systems including the robust assessment of principal risks.
- oversee the relationship with the external auditor including consideration of fees, audit scope, terms of engagement and recommendation to the Board for approval by shareholders, the appointment, reappointment or removal of the external auditors.
- monitor and review the effectiveness of the Company's internal audit function.
- review the adequacy and security of the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

Introduction

The Committee has continued to focus on the integrity of Bodycote's financial reporting, risk management and internal controls and on the quality of the external and internal audit processes. The Committee will continue to keep our activities under review as the regulatory environment changes.

Membership

The members of the Audit Committee are all independent non-executive directors. Their biographical details are shown on pages 36 and 37 and their remuneration on page 71. The Group Company Secretary is the secretary to the Audit Committee. In April 2015, J.A. Biles stepped down as a Non-Executive Director of the Company.

I.B. Duncan was appointed Chairman of the Audit Committee as of March 2015 and was appointed as a Non-Executive Director of the Company on 17 November 2014. The Board considers that I.B. Duncan has recent and relevant financial experience. He qualified as a Chartered Accountant with Deloitte & Touche, served as a plc Finance Director (Royal Mail Holdings plc 2006-2010) and has chaired the Audit Committee of several other plcs.

Objective

The Committee's objective is to provide effective governance over the Group's financial reporting, including the adequacy of related disclosures, the management and oversight of the Group's systems of internal control, financial risks and the performance of internal audit and the appointment and performance of the external auditor.

Committee meetings

The Audit Committee met four times during 2015 and in February 2016 and all members attended all meetings that they were eligible to attend. The Committee Chairman also invited the Chairman, Group Chief Executive, Group Finance Director, Group Financial Controller and Group Head of Risk (who is responsible for internal audit) to attend all meetings. Other executives from the Group were also invited, as appropriate, to attend certain meetings to provide a deeper level of insight into key issues. The Committee Chairman also invited the external auditor, Deloitte LLP ("Deloitte"), to every meeting.

I.B. Duncan also held preparatory meetings separately with Deloitte, the Group Financial Controller and the Group Head of Risk prior to most Committee meetings to review their reports and discuss issues in detail. The external auditor met with the Audit Committee without the executives present.

Main activities of the Committee during the year

As part of the process of working with the Board to carry out its responsibilities and to maximise effectiveness, meetings of the Committee generally take place just prior to Board meetings.

At its meetings, the Committee focused on the following main areas:

Financial reporting

The primary role of the Committee in relation to financial reporting has been to review with management and the external auditor the appropriateness of the interim and annual financial statements concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the application and impact of significant judgements or matters where there was significant discussion with the external auditor;
- the clarity of disclosures and compliance with Financial Reporting Standards; and
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's strategy, business model and performance.

Reports from management were considered on significant matters, including in respect of litigation, treasury and tax matters and also reports from the external auditor on the outcome of their work. The Committee challenged both management and Deloitte to ensure that the scope of the audit was appropriate and that Deloitte had applied the necessary level of professional scepticism in their work.

Principal areas of judgement

The principal areas of judgement considered by the Committee in relation to the 2015 accounts were as follows:

- Impairment of goodwill, intangible and tangible fixed assets. The Committee challenged the assumptions, particularly the discount rate and growth factors, used in the discounted cash flow calculations for each cash generating unit, the sensitivity analysis applied and the projected future cash flows used to support the carrying values of the goodwill and intangibles and tangible assets. Details of the sensitivity analysis applied to key assumptions used in the impairment review are set out in note 11 to the Financial Statements on pages 102 and 103. The Committee has concluded that no impairment charge is required in the year, other than those included within reorganisation costs.
- Restructuring, reorganisation and environmental provisions. The Committee received reports, including from professional advisers, and challenged the basis and completeness of the assumptions used to calculate the provisions and the appropriateness of disclosures in the Report. The Committee discussed with management the key judgements behind all provisions, taking note of the range of possible outcomes, and agreed with their recommendations. The Committee reviewed and challenged the assumptions used in calculating the 2015 reorganisation charges.
- Taxation. A number of judgements are involved in calculating tax provisions and the level of deferred tax assets to be recognised. The Committee reviewed the associated risks and challenged management's assessment concerning the Group's key tax risks, noting the work of the OECD in respect of Base Erosion and Profit Shifting (BEPS), and management's forecast of the future taxable profits of the relevant businesses.
- Viability Statement. The Committee challenged the validity of the assumptions used in the preparation of the three year strategic plan, used as the basis of the assessment of the longer-term viability of the Group, in particular considering the Group's forecast for profits and cash generation, its liquidity position, available borrowing facilities and covenant compliance. Sensitivity analysis was undertaken to consider the impact of certain risks and to understand the impact of changes to all key variables.
- Going concern. The Committee challenged the validity of the going concern assumption used in the preparation of the Annual Report, in particular considering the Group's forecast for profits and cash generation, its liquidity position, available borrowing facilities and covenant compliance. Sensitivity analysis was undertaken to understand the impact of changes to all key variables.
- Pension liabilities. Management took external professional advice in determining pension liabilities. The Committee challenged the assumptions used, particularly in respect of inflation, the discount rate, life expectancy and the application of IFRIC 14 to the UK pension scheme, by considering current norms and the sensitivity of the reported liability to changes in the assumptions.

Risk management
The Committee reviewed a report at each meeting from the Group Head of Risk who has primary responsibility for developing the Group's risk management framework. The Committee reviewed changes to the principal risks and mitigating actions identified by management. The Committee also received quarterly reports on issues raised via the Open Door Line (an external independent service where employees may report matters of concern) and assessed both how such calls are dealt with and whether there was any indication of material risk.

Internal control
At each meeting the Committee considered and challenged reports from the internal auditors on the effectiveness of internal controls and requested certain changes to those controls. The Committee also performed an annual review of the Group's internal control processes and considers the system to be effective and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting as issued by the FRC (September 2014).

Internal audit
The internal audit plan for 2016 was presented to the Committee in October 2015 and accepted following discussions and challenge as to the scope and areas of focus. At each meeting the Group Head of Risk presented a report to the Committee on the status of internal audit plans for the current year, points arising from audits completed and follow up action plans to address areas of weakness. The status of these actions is monitored closely by the Committee until they are completed. The Committee also received reports on actual or suspected frauds and thefts by third parties and employees. None had any material financial impact on the Group and, where necessary, systems and procedures were altered to minimise the risk of recurrence.

External audit
At the April and October meetings the external auditor presented their audit plans for the interim review and year-end audit respectively. The Committee considered and challenged both the scope and materiality to be applied to the Group audit and its components. In 2015 the Committee considered carefully the scope in respect of smaller and more remote locations and noted that all local audits are undertaken by Deloitte.

Training
Updates were presented to the Committee on new accounting developments and any changes in corporate governance requirements that may affect the Group. Committee members also attended training briefings by accounting firms and other advisers.

Overview
The Committee examined the 2015 Annual Report and was specifically tasked by the Board to advise it on whether the 2015 Annual Report is fair, balanced and understandable. The Committee did this by satisfying itself that there was a robust process of review and challenge to ensure balance and consistency. In doing so the Committee examined these processes, which included the allocation of responsibility for the preparation of certain sections of the Annual Report to individuals in the head office team and a second person taking responsibility for the review process of each section of the Annual Report. Additional reviews were carried out by internal and external personnel including an independent legal review.

The Committee also reviewed the Annual Report. Taken as a whole, in the light of their knowledge of the Group and its performance, the outcome of the activities described above and based on robust discussion with both management and the external auditor, the Committee has concluded that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's strategy, business model, position and performance, and reported to the Board accordingly.

External audit
Appointment
The Committee considers the re-appointment of the external auditor each year and as part of this process considers the independence of the auditor and the effectiveness of the external audit process. Having reviewed the performance of Deloitte in 2015, the Committee has decided to recommend to the Board that Deloitte be reappointed for the 2016 audit and a resolution to this effect will be put to the 2016 AGM. The Committee reviewed and agreed the fee for 2016.

The external auditor is required to change the lead partner every five years and other partners periodically in order to protect independence and objectivity and provide fresh challenge to the Group. Mr M. Mullins replaced Mrs N. Mitchell as current lead partner in 2015.

Deloitte has been the Group's auditor for 14 years.

In accordance with the transition arrangements of the Competition and Markets Authority Audit order, the Group has until 2023 to hold a competitive tender for external audit services; it is the intention of the Group to hold a competitive tender, at a time which coincides with the next change of the lead audit partner.

The Group complies with the provisions of the "Statutory Audit Services for Large Companies Market Investigation Order 2014".

Independence
The independence of the external auditor has been confirmed by Deloitte every half year and was last confirmed in February 2016. The Committee considered Deloitte's presentation and confirmed that it considered the auditor to be independent.

Effectiveness of the external audit process
The Committee has adopted a formal framework for the review of the effectiveness of the external audit process and audit quality which includes the following aspects:

- assessment of the engagement partner, other partners and the audit team;
- audit approach and scope, including identification of risk areas;
- execution of the audit;

- interaction with management;
- communication with and support to the Audit Committee;
- insights, management letter points, added value and reports; and
- independence, objectivity and scepticism.

An assessment questionnaire has been completed by each member of the Committee, by the Group Finance Director and other senior finance executives. The feedback from the process is considered by the Audit Committee and provided to the external auditor and management. The full formal questionnaire is completed every three years with key areas being completed every year.

The Committee assessed the effectiveness of management in the external audit process by considering timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements and other documents provided for review by the external auditor and the Committee.

The Committee considered the FRC Audit Quality Review Team report on Deloitte LLP dated May 2015. If the audit is selected for quality review, the Committee understands that any resulting reports will be sent to the Committee by the FRC.

After considering the above matters the Committee felt that the external audit had been effective.

Non-audit services

The external auditor may be invited to provide services where their position as auditor renders them best placed to undertake the work. However, no contracts in excess of £20,000 can be awarded to the external auditor without prior approval from the Chairman of the Committee or, in his absence, another member of the Committee. Non-audit fees paid to the auditor are shown in note 3 on page 99 and amounted to 23% of the audit fee.

Internal audit

The internal audit programme is managed by the Group Head of Risk and provides independent assurance over the key financial processes and controls in operation across the Group. The Group has engaged Ernst & Young LLP ("Ernst & Young") to provide certain internal audit services. The Committee reviewed and approved the annual internal audit plan before the start of the financial year and considered it appropriate to retain Ernst & Young as an internal audit service provider. The plan takes account of the Group's strategic objectives and risks and provides the degree of coverage deemed appropriate by the Committee.

Additional assurance has been obtained through control self-assessment. Internal auditors have received self-certification from every plant and shared service centre that internal controls have been complied with and noting any non-compliance. A summary of results is presented to the Committee. The accuracy of returns is monitored by Internal Audit by verification visits to a random sample of sites.

The effectiveness of internal audit is reviewed and discussed annually with the Group Head of Risk and the Ernst & Young engagement partner. The review takes into account the views of directors and senior management on matters such as independence, proficiency, resourcing and audit strategy, planning and methodology. The review confirmed that the Internal Audit function was independent and objective and remained an effective element of the Group's corporate governance framework.

Committee evaluation

The Committee's activities formed part of an external review of Board effectiveness which was undertaken in October 2015. Based on this, and as a result of the work done during the year, the Committee has concluded that it has acted in accordance with its terms of reference and carried out its responsibilities effectively. On behalf of the Audit Committee:

I.B. Duncan
Chairman of the Audit Committee

25 February 2016

Board report on remuneration

Committee membership	No. of meetings 2015: 7	Main committee responsibilities
Director	**Attendance**	■ Responsibility for setting the remuneration policy for all executive directors and the Company's Chairman. ■ Recommend and monitor the level and structure of remuneration for senior management. ■ Review the ongoing appropriateness and relevance of the remuneration policy. ■ Appointment of remuneration consultants. ■ Approve the design of and determine targets for executive directors and other senior executives' performance-related pay schemes. ■ Review the design of all share incentive plans for approval by the Board and shareholders. Determine whether awards will be made on an annual basis.
E. Lindqvist	7	
A.M. Thomson	7	
I.B. Duncan	7	
R. Rajagopal	7	
J.A. Biles	2	

Chairman's letter

As Chairman of the Remuneration Committee ("the Committee") and on behalf of the Board of Directors, I am pleased to present our Directors' Remuneration Report for the 2015 financial year, in line with the requirements of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Consistent with last year, this report comprises two sections. The first part (Section A) summarises the policy of the Board with regard to the remuneration of the directors, which will be put to shareholders for approval at the Company's 2016 AGM. The second part (Section B) describes how the existing policy, approved at the 2014 AGM, was implemented in 2015. This section will be subject to an advisory vote.

Context to the Committee's decisions

2015 was another successful year for Bodycote. Although we faced strong challenges from the softening of the energy and industrial machinery markets and significant fluctuations in the exchange rates used to translate the results of our subsidiaries, the Company has made firm progress in the execution of our strategy under the leadership of Stephen Harris and David Landless.

Our profitability remains good despite these difficult trading conditions, and strong cash generation and return on capital employed has been delivered in the year. The external market pressures we face will continue to impact the business over the coming years, in part motivating the review of remuneration undertaken by the Committee in 2015, with a revised policy developed to ensure that we are able to motivate, reward and retain our exceptional executive team as they work to deliver strong performance for the Company in the years ahead.

Remuneration decisions in 2015

Key decisions made by the Committee in the year included:

- A salary increase of 2.5% was awarded to S.C. Harris, taking his salary to £511,309 from 1 January 2016. D.F. Landless has also received an increase of 2.5%, taking his salary to £326,556.
- No financial performance targets set for the 2015 bonus plan were achieved, but personal strategic objectives were achieved and annual bonus payments of 20% and 26% of base salary for the Group Finance Director and the Group Chief Executive respectively (equivalent to 20% maximum opportunity for both), were paid out.
- The vesting outcome of the Bodycote Incentive Plan (BIP) award made in 2013 (which had a performance period ending on 31 December 2015) was determined. As the EPS underpin set at 42p was not achieved, awards made to S.C. Harris and D.F. Landless will not vest.
- The 2012 Co-Investment Plan (CIP) vested at 100% of maximum in May 2015, reflecting the strong TSR performance of Bodycote over the three year performance period.
- Performance targets were determined for 2016 BIP awards, based on current and stretch performance for the business and the sector, together with broker consensus forecasts. Targets have been revised in the context of significant pressures in the sector (particularly in the oil & gas market and the tax rate changes which will affect Bodycote in future years), and to ensure the Committee is able to deliver upper quartile reward for upper quartile performance.
- The calibration of the underpin has also been amended to ensure it represents a baseline affordability threshold below which no vesting under the BIP is considered appropriate. The Committee has determined that the underpin should be set at 85% of the threshold EPS performance level.
- Review of executive remuneration and development of new policy (see below).

New Directors' Remuneration Policy

In 2015 the Committee undertook an in-depth review of the remuneration arrangements in place at Bodycote, and determined that a number of changes should be made to the existing policy (which was approved by shareholders at the 2014 AGM). These changes are set out below, and will be incorporated into the revised policy that will be put to shareholders at the 2016 AGM:

1. Removal of the current CIP opportunity in order to simplify our arrangements and improve line of sight for participants.
2. Increasing the existing annual bonus opportunity to 200% of salary for the CEO and 150% of salary for the CFO. This increase partially replaces the value forgone through the removal of the CIP.
3. Introduction of bonus deferral to support alignment with shareholders and with market best practice. From 2018 onwards, 35% of any bonus earned will be deferred as shares, with a transitional arrangement operating in 2016 and 2017 to preserve cash flow to participants in the initial years of the new policy's operation.
4. Introduction of clawback into incentives, reflecting the requirements of the UK Corporate Governance Code and best practice.

We believe that the new structure (which is set out in full in Section A of this report) will continue to reward and motivate our executive directors, and support the Company in achieving its short and long-term strategic ambitions. In particular, these changes reflect the following key drivers:

- **Simplicity:** The Committee believes that the previous structure, comprising two long-term elements (CIP and BIP) was excessively complex, and reduced transparency for all stakeholders and line of sight for participants. We also recognise that simplicity is a key theme for investors, with the use of a single long-term incentive plan viewed as best practice by many.
- **Competitive reward:** To allow the Committee to continue to deliver upper quartile reward for upper quartile performance.
- **Retention:** The introduction of deferral on the annual bonus provides a retention tool for key management.
- **To align with corporate governance and best practice:** To comply with the UK Corporate Governance Code by introducing clawback alongside the existing malus arrangements, and to meet shareholder expectations of bonus deferral and long-term alignment.

Our proposed amendments to the policy were shared with the Company's ten largest shareholders, together with the Investment Association (IA) and Institutional Shareholder Service (ISS). I was able to talk to many of these stakeholders, and discussed with them in depth the rationale for our proposals. We received broadly supportive responses, and through consideration of shareholder feedback identified a number of areas in which changes to our initial proposals were appropriate. The Committee is extremely appreciative of the input we received from shareholders as part of this process.

I would also like to thank my fellow Committee members as well as all those who supported the Committee in the year for their support throughout this review. As a Committee we are fully committed to continue an open dialogue with our shareholders, and so I would welcome your views on any part of our revised remuneration policy.

E. Lindqvist
Chairman of the Remuneration Committee
25 February 2016

Board report on remuneration continued

Section A: Directors' Remuneration Policy

Remuneration Policy

Bodycote's Executive Remuneration Policy is to attract and motivate our senior executive team to execute our strategy and deliver value to our shareholders while ensuring the Group pays no more than is necessary.

In order to ensure continued alignment between remuneration and the evolving strategic direction of our business, the Committee has determined it appropriate that a revised policy be put to our shareholders for approval. This policy is set out below, with the intention that it will apply for three years from the date of the 2016 AGM.

Summary of changes from the 2014 Remuneration Policy

The table below sets out a summary of the proposed changes under the new Remuneration Policy from the previous Remuneration Policy approved by shareholders at the 2014 AGM. It is the intention that the new Remuneration Policy will apply for the three years from the date of the 2016 AGM.

Element	Summary of changes from 2014 Remuneration Policy
Base salary	No change in policy.
Benefits	No change in policy.
Pension	No change in policy.
Annual bonus	Incentive opportunity has been increased from 130% to 200% of salary for the CEO and from 100% to 150% of salary for the CFO. This increase has been made to replace the opportunity previously provided to executive directors under the Co-Investment Plan. Mandatory deferral of 35% of any bonus earned into shares for three years from 2018 with phased introduction of deferral in 2016 and 2017. Introduction of clawback in conjunction with existing malus provisions.
Bodycote Incentive Plan ('BIP')	Introduction of clawback in conjunction with existing malus provisions.
Co-Investment Plan ('CIP')	Removed from 2016 onwards (final award was in 2015).
Shareholding requirement	Increased from 100% of salary to 200% and 150% for the CEO and CFO (and other executive directors) respectively.

Discretion

The Committee has discretion in several areas of Policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant Plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

Executive Remuneration Policy

The table below sets out the key components of executive directors' pay packages, including why they are used and how they are operated in practice.

Future policy table

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Base salary *To award competitive salaries to attract and retain the talent required to execute the strategy while ensuring the Group pays no more than is necessary.*	Base salaries for executive directors are typically reviewed annually (or more frequently if specific circumstances necessitate this) by the Committee in December each year. Salary levels are set and reviewed taking into account a number of factors including: ■ Role, experience and performance of the executive. ■ The Company's guidelines for salaries for all employees in the Group for the forthcoming year. ■ The competitiveness of total remuneration assessed against FTSE 250 companies and other companies of similar size and complexity, as appropriate.	Whilst the Committee has not set a maximum level of salary, ordinarily, salary increases will not exceed the average increase awarded to other Group employees. Increases may be above this level in certain exceptional circumstances, which may, for example, include: ■ Increase in scope or responsibility. ■ A new executive director who is being moved to market positioning over time.	None
Benefits *Provides market-competitive benefits at an appropriate cost.*	The Company provides a range of cash benefits and benefits in kind to executive directors in line with market practice. These include the provision of company car (or allowance), private medical insurance, short- and long-term sick pay and death in service cover. This will also extend to the reimbursement of taxable work-related expenses, such as travel and relocation. The provision of other benefits payable to an executive director is reviewed by the Committee on an annual basis to ensure appropriateness in terms of the type and level of benefits provided. The Company provides a long-term savings vehicle into which the executive directors may elect to waive a proportion of pension allowance. In the case of non-UK executives, the Committee may consider providing additional allowances in line with relevant market practice.	The Committee has not set a maximum level of benefit, given that the cost of certain benefits will depend on the individual's particular circumstances. However benefits will be set at an appropriate level against market practice and needs for specific roles and individual circumstances.	None
Pension *Provides a market-competitive benefit in order to attract the talent required to execute the strategy and provide a market-competitive level of provision for post-retirement income.*	The Group operates a defined contribution scheme. Executive directors are provided with a contribution to this scheme or a cash allowance of equivalent value. Base salary is the only pensionable element of remuneration. The same general approach applies to all employees, although contribution levels vary by seniority.	Company contribution (or cash equivalent) of up to 30% of salary.	None

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Annual bonus *To incentivise delivery of corporate strategy on an annual basis and reward delivery of superior performance. The deferred portion of the bonus supports longer-term shareholder alignment.*	The level of bonus paid each year is determined by the Committee after the year-end based on performance against targets. A portion of the annual bonus is paid in cash shortly after the financial year-end with the remaining portion deferred for three years in Bodycote shares (see details below). Vesting of the deferred shares is not subject to further performance conditions (please see the 2016 AGM Notice for a summary of the Plan). Dividend equivalents are payable in respect of the shares which vest. From 2018 onwards, 35% of any bonus earned is deferred into shares for three years, conditional on continued employment until vesting date. Transitional treatment applies to deferral for 2016 and 2017. For 2016, any bonus earned over 130% of base salary is deferred into shares. For 2017, 15% of any bonus paid up to a value of 130% of base salary is deferred, with bonus earned over 130% also deferred in full. The deferral above 130% of salary would be capped so that no more than 35% of the total bonus is deferred. Malus provisions apply for the duration of the performance period and to shares held under deferral. Clawback provisions apply to cash amounts paid for three years following payment. Malus and/or clawback may be applied in the following scenarios: — Discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group Company; — The assessment of any performance condition or condition was based on error, or inaccurate or misleading information; — The discovery that any information used to determine the cash payment under the bonus or the number of shares subject to deferral was based on error, or inaccurate or misleading information; or — Action or conduct of a participant which amounts to fraud or gross misconduct. The Committee believes that the rules of the Plan provide sufficient powers to enforce malus and clawback where required.	The maximum potential is 200% of base salary for the CEO and 150% of base salary for the CFO and other executive directors. At the threshold performance level there will normally be no more than 30% vesting. Awards commence vesting progressively from this point with maximum performance resulting in awards vesting in full.	The Committee considers the performance conditions selected for the annual bonus to appropriately support the Company's strategic objectives and provide a balance between generating profit and cash to enable the Group to pay a dividend, reward its employees and make future investments; and achieve other strategic goals to drive long-term sustainable return. The weighting of the measures and specific targets are reviewed on an annual basis to ensure alignment to strategy and are set to be in line with budget. Information on measures and weights that will apply for specific years will be included in the relevant year's Annual Report on Remuneration. At least 70% of the bonus will be based on the achievement of Group financial targets. The Committee retains discretion in exceptional circumstances to change performance measures and targets and the weightings attached to performance measures part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate. Discretion may also be exercised in cases where the Committee believe that the bonus outcome is not a fair and accurate reflection of business performance. The exercise of this discretion may result in a downward or upward movement in the amount of bonus earned resulting from the application of the performance measures. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the annual bonus, disclosing precise targets for the Annual Bonus Plan in advance would not be in shareholder interests. Actual targets, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any pay-outs under the annual bonus.

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Bodycote Incentive Plan (BIP) 2016 *To incentivise delivery of long-term strategic goals and shareholder value and aid retention of senior management.*	Awards will be granted annually under the Bodycote Incentive Plan (please see the 2016 AGM Notice for a summary of the Plan) subject to a three year vesting period and stretching performance conditions measured over three years. Dividend equivalents are payable in respect of the shares which vest. The Committee retains the discretion in exceptional circumstances to adjust the vesting outcome or the targets for awards as long as the adjusted targets are no less stretching. In such an event the Committee will consult with major shareholders and will clearly explain the rationale for the changes in the report on remuneration. Discretion may also be exercised in cases where the Committee believes that the outcome is not a fair and accurate reflection of business performance. The exercise of this discretion may result in a downward or upward movement in the amount of the LTIP vesting resulting from the application of the performance measures. Malus provisions apply for the duration of the performance period. Clawback provisions apply to amounts for two years following vest. Malus and/or clawback may be applied in the following scenarios: – Discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group Company; – The assessment of any performance condition or condition was based on error, or inaccurate or misleading information; – The discovery that any information used to determine the number of shares subject to an award was based on error, or inaccurate or misleading information; or – Action or conduct of a participant which amounts to fraud or gross misconduct. The Committee believes that the rules of the Plan provide sufficient powers to enforce malus and clawback where required.	The maximum face value of an award which may be granted under the plan in any year is up to 175 % of base salary for the executive directors. At the threshold performance level there will normally be no more than 0% vesting. Awards commence vesting progressively from this point with maximum performance resulting in awards vesting in full.	Awards vest based on performance over three years against performance measures chosen by the Committee to align with business and strategic priorities. For the 2016 financial year the measures for executive directors are: ■ 50% ROCE ■ 50% headline EPS In addition, the vesting of awards may only occur if headline EPS is above a defined hurdle level. The Committee considers these performance conditions selected for the BIP to currently appropriately underpin the Company's strategic objectives. Due to the nature of the Company's activities the Committee consider ROCE to provide shareholders with an appropriate measure of how well the Company is performing and is being managed, while EPS provides a measure of the level of value created for shareholders. ROCE and EPS are our top two KPIs as shown on page 69 of the Annual Report. The Committee may adjust the performance measures attaching to awards and the weighting of these measures if it feels this will create greater alignment with business and strategic priorities. A significant change to the measures used would only be adopted following consultation with major shareholders. The targets for the performance measures are reviewed on an annual basis to ensure alignment to strategy and are set to be in line with budget. Details of performance targets will be included in the relevant year's Annual Report on Remuneration.

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Shareholding requirement *To provide alignment of interest between participants and shareholders.*	The Board operates a shareholding retention policy under which executive directors are expected, within five years from appointment, to build up a shareholding in the Company.	The CEO and CFO (and other executive directors) are required to build up a holding of 200% and 150% of base salary respectively.	None
Legacy awards – Co-Investment Plan (CIP) *To provide a link between short and long-term incentive arrangements and to provide further alignment with shareholders.* *Final award made in 2015.*	The CIP provides for the grant of awards of performance based matching shares to participants on an annual basis in a maximum ratio of 1:1 to the gross investment made in deferred shares. The deferred shares must be held for at least three years. The vesting of matching shares will be based on share price related performance conditions as determined by the Committee. Dividend equivalents are payable in respect of the matching shares which vest.	Executive directors are invited annually to purchase shares up to 40% of basic salary (net of tax) against which performance based matching shares are granted on a 1:1 basis.	The matching shares are subject to an absolute Total Shareholder Return ('TSR') performance measure which is expressed as percentage Compound Annual Growth Rate ('CAGR') in excess of CPI: Threshold performance results in a 0.5:1 match Maximum performance results in a 1:1 match.
Legacy awards – Bodycote Incentive Plan ('BIP') 2006 *To incentivise delivery of long-term shareholder value.* *Aids retention of senior management.* *Final award made in 2015.*	Awards are granted annually under the Bodycote Incentive Plan subject to a three year vesting period and stretching performance conditions measured over three years. Shares delivered following the vest of an award attract additional dividend shares calculated on the basis of the re-investment back into shares of the dividend that would have been received had the shares been beneficially held. The Committee retains the discretion in exceptional circumstances to adjust the vesting outcome or the targets for awards as long as the adjusted targets are no less stretching. In such an event the Committee will consult with major shareholders and will clearly explain the rationale for the changes in the report on remuneration. Malus provisions apply for the duration of the performance period and to shares held under deferral.	The maximum face value of an award which may be granted under the plan in any year is up to 175% of base salary for the executive directors. At the threshold performance level there will normally be no more than 0% vesting. Awards commence vesting progressively from this point with maximum performance resulting in awards vesting in full.	Awards vest based on performance over three years against performance measures chosen by the Committee to align with business and strategic priorities. For recent grants the measures for executive directors have been: 50% ROCE 50% headline EPS In addition, the vesting of awards may only occur if headline EPS is above a defined hurdle level.

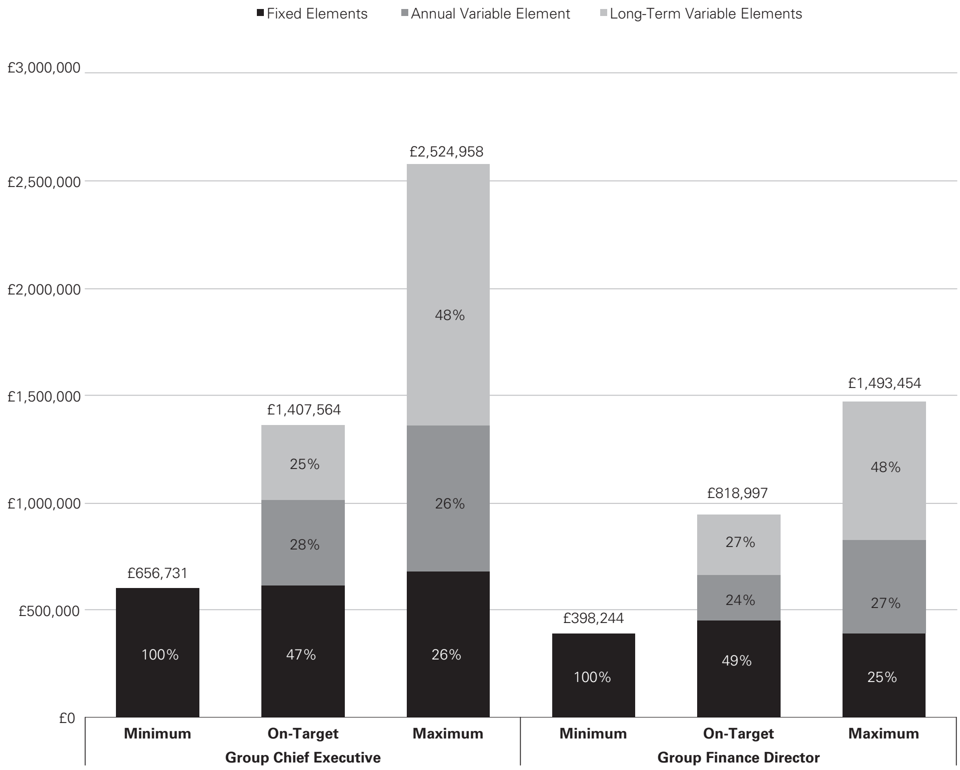
Notes to the Remuneration Policy table

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy set out on pages 57 to 65 where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment being "agreed" at the time the award is granted.

Executive directors' remuneration is reviewed annually and takes into account a number of factors. The Company adopts a policy of positioning fixed pay for all its employees at a level which is competitive to market but which does not require the Company to pay any more than is necessary. Senior and high performing individuals at all levels and across all functions within the organisation are invited to participate in both annual and long-term incentive arrangements, which are similar to those offered to the executive directors to ensure reward strategy is calibrated to provide substantive reward only on achievement of superior performance.

Illustrations of application of remuneration policy

The remuneration package for the executive directors is designed to provide an appropriate balance between fixed and variable performance-related components. The Committee is satisfied that the composition and structure of the remuneration package is appropriate, clearly supports the Company's strategic ambitions and does not incentivise inappropriate risk taking and reviews this on an annual basis.



For the purposes of this analysis, the following methodology has been used:

- Fixed elements comprise base salary and other benefits:
  - Base salary reflects the base salary as at 1 January 2016.
  - Benefits reflect benefits received in 2015.
- For on-target performance, an assumption of 60% of annual bonus is applied and vesting of 50% of the maximum for the BIP.
- No share price increase has been assumed or dividend reinvestment.
- Fixed Elements are salary, benefits and pension.
- Annual Variable Element is the annual bonus both cash and deferred shares.
- Long-Term Variable Element is the BIP award.

Non-Executive Director (NED) fee policy

The policy on non-executive director (NED) and Chairman fees is set out below.

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Fees for non-executive directors *To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.*	The fees for the non-executives are determined by the Chairman and the Chief Executive. The fee for the Chairman is reviewed by the Board in the absence of the Chairman. The Chairman and non-executive fees are reviewed on an annual basis. When reviewing fees, the primary source of comparative market data is FTSE 250 companies and other companies of similar size and complexity, as appropriate. The fees for the Chairman and non-executives are set a level that will attract individuals with the necessary experience and ability to make a significant contribution to the Group's affairs. The fees reflect the time commitment and responsibilities of the roles. The Chairman and non-executive directors are not entitled to any pension or other employment benefits or to participate in any incentive scheme. Appropriate benefits may be provided to non-executives and the Chairman from time to time. The Company will pay reasonable expenses incurred by the non-executive directors and Chairman and may settle any tax incurred in relation to these.	Fees for non-executive directors are set out in the statement of implementation of policy in the following financial year section on page 71. The Company's policy is that the Chairman and non-executive directors receive a fixed fee for their services as members of the Board and its Committees. The fee structure may also include additional fees for chairing a Board Committee and/or further responsibilities (for example, Senior Independent Directorship). In line with the Articles of Association, accumulative total fees for non-executive directors are capped at £500,000 p.a.	None

Fees retained for external Non-Executive Directorships

To broaden the experience of executive directors, they may hold positions in other companies as non-executive directors provided that permission is sought in advance. Any external appointment must not conflict with the directors' duties and commitments to Bodycote plc.

Statement of consideration of employment conditions elsewhere in the Group

The Company adopts a policy of positioning fixed pay for all its employees at a level which is competitive to market but which does not require the Company to pay any more than is necessary. Senior and high performing individuals at all levels and across all functions within the organisation are invited to participate in both annual and long-term incentive arrangements, similar to the executive directors to ensure reward strategy is calibrated to provide substantive reward only on achievement of superior performance.

The Committee does not consult directly with employees when formulating executive director pay policy. However, it does take into account information provided by the Human Resources function and feedback from employee satisfaction surveys.

In formulating executive director pay policy, the Committee receives information on all employee pay conditions throughout the Group. The Committee does not use any remuneration comparison metrics.

Statement of consideration of shareholder views

The Committee always welcomes the views of shareholders in respect of pay policy as well as those views expressed on behalf of shareholders by their respective proxy advisers. The Committee documents all remuneration related comments made at the Company's AGM and feedback received during consultation with shareholders throughout the year. Any feedback received is fully considered by the Committee.

In developing the proposed Remuneration Policy for 2016 and beyond the Remuneration Committee engaged extensively with the Company's key shareholders and their representative bodies. Through this process the Remuneration Committee took on board the feedback received and refined the proposed Remuneration Policy as appropriate to ensure it meets the expectations of our shareholders.

Approach to recruitment remuneration

When recruiting new executive directors, the Company's policy is to pay what is necessary to attract individuals with the skills and experience appropriate to the role to be filled, taking into account remuneration across the Group, including other senior executives, and that offered by other FTSE 250 companies and other companies of similar size and complexity. New executive directors will generally be appointed on remuneration packages with the same structure and pay elements as described in the pay policy table on pages 62 and 63. Each element of remuneration to be included in the package offered to a new director would be considered separately and collectively in this context.

Component	Policy
General	The Company's policy is to pay what is necessary to attract individuals with the skills and experience appropriate to the role to be filled. The initial notice period may be longer than the Company's one year policy (up to a maximum of two years). However, this will reduce by one month for every month served, until the Company's policy position is reached.
Base salary	Base salary levels will be set at an appropriate level to recruit the best candidate in consideration of the new recruit's existing salary, location, skills and experience and expected contribution to the new role, the current salaries of other executive directors in the Company and current market levels for the role.
Other benefits	Other benefits will be considered in light of the provision in place for the other executive director(s). If it is in the best interests of the Company and shareholders, the Committee may consider providing additional benefits, potentially including relocation costs, tax equalisation or advisers' fees.
Pension	Pension will be considered in light of the retirement arrangements which are in place for the other executive director(s) with a contribution level considered by the Committee to be appropriate in light of the new recruit's package as a whole, market practice at the time and on a broadly equivalent basis to existing provisions for other executives.
Annual bonus	Normal awards will be made under the annual bonus plan in line with the Remuneration Policy. The executive director may be invited to participate in the bonus on a pro rated basis in the first year of appointment.
Long-term incentives	Normal awards will be made under the BIP in line with the Remuneration Policy. The executive director may be invited to participate in 'in flight' BIP awards on a pro rated basis when appointed. The Company is required to set out the maximum amount of variable pay which could be paid to a new director in respect of his/her recruitment. In order to provide the Company with sufficient flexibility in a recruitment scenario, the Committee has set this figure as 450% of base salary. This covers the maximum annual bonus and the maximum face value of any long-term incentive awards. This level of variable pay would only be available in exceptional circumstances, and in order to achieve such a level of variable pay, stretching targets would need to be met. For the avoidance of doubt, this 450% variable pay limit excludes the value of any "buyout" payments or awards associated with forfeited awards.
Replacement awards	For an external appointment, although there are no plans to offer additional cash and/or share-based payments on recruitment, the Committee reserves the right to do so when it considers this to be in the best interests of the Company and shareholders. Such payments may take into account remuneration relinquished when leaving the former employer and would reflect the nature, time horizons and performance requirements attached to that remuneration. Shareholders will be informed of any such payments at the time of appointment. The Committee may make awards on hiring an external candidate to "buyout" awards which will be forfeited on leaving the previous employer. Our approach to this is to carry out a detailed review of the awards which the individual will lose and calculate the estimated value of them. In doing so, we will consider the vesting period, the option exercise period if applicable, whether the awards are cash or share based, performance related or not, the Company's recent performance and payout levels and any other factors we consider appropriate. If a buyout award is to be made, the structure and level will be carefully designed and will generally reflect and replicate the previous awards as accurately as possible. We will make the award subject to appropriate malus and clawback provisions in the event that the individual resigns or is summarily terminated within a certain timeframe. An explanation will be provided at the time of recruitment of why a buyout award has been granted.
Internal promotions	For internal promotions any commitments made prior to appointment may continue to be honoured as the executive is transitioned to the new remuneration arrangements.

Shareholders will be informed of any director appointment and the individual's remuneration arrangements as soon as practicable following the appointment via an announcement to the regulatory news services.

Fee levels for a new Chairman or new non-executive directors will be determined in accordance with the policy set out on pages 62 and 63.

Board report on remuneration continued

Service contracts

All directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

A summary of the key terms of the executive directors service contracts is set out below.

	S.C. Harris, Group Chief Executive	D.F. Landless, Group Finance Director
Date of service contract	6 October 2008	26 September 2001
Notice period	12 months	12 months
Remuneration	■ Annual base salary. ■ Potential for cash in lieu of pension. ■ Reimbursement of expenses (if satisfactory evidence provided). ■ Private medical insurance. ■ Company car allowance. ■ Entitlement to receive an annual performance related bonus award.	■ Annual base salary. ■ Potential for cash in lieu of pension. ■ Reimbursement of expenses (if satisfactory evidence provided). ■ Private medical insurance. ■ Company car allowance. ■ Entitlement to receive an annual performance related bonus award. ■ Entitlement to one year's remuneration if employment is terminated on a change of control.
Termination	Company has right to terminate on payment of a termination payment with agreement of executive.	Company has right to terminate on payment of a termination payment.
Non-Competition	During employment and for 12 months thereafter.	During employment and for 12 months thereafter.

Other than the contents of the contracts, there are no obligations that may give rise to remuneration.

Director	Date of appointment	Notice period
A.M. Thomson	1 December 2007	6 months
J.A. Biles	16 August 2007	6 months
R. Rajagopal	24 September 2008	6 months
E. Lindqvist	1 June 2012	6 months
I.B. Duncan	17 November 2014	6 months

The non-executive directors of the Company (including the Chairman) do not have service contracts. The non-executive directors are appointed by letters of appointment. Each independent non-executive director's term of office runs for a maximum three year period.

The initial terms of the non-executive directors' positions are subject to their re-election by the Company's shareholders at the next AGM and to re-election at any subsequent AGM at which the non-executive directors stand for re-election.

All directors will be put forward for re-election by shareholders on an annual basis.

Termination remuneration policy

It is the Company's policy that executive directors have service contracts with a one-year notice period and terminable by one year's notice by the employer at any time, and by payment of one year's basic salary and other fixed benefits in lieu of notice by the employer. All future appointments to the Board will comply with this requirement.

The Committee will honour executive directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its executive directors or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid (other than a legacy arrangement for D.F. Landless).

Component	Policy
Compensation for loss of office in service contracts	Currently, under the terms of the executive directors' contracts, the Company may at its choice, in lieu of giving notice, terminate an executive director's service contract by making a payment equivalent to: ■ One year's annual base salary, 25% of base salary in respect of all other remuneration and benefits (other than annual bonus and incentives) and annual bonus equal to the average bonus paid up to three years prior to the date of notice.
Treatment of cash element of the bonus under plan rules	If termination is by way of death, injury, illness, disability, redundancy, retirement, or any other circumstances the Committee determines (a "good leaver"), the level of bonus will be measured at the bonus measurement date. Bonus will normally be pro-rated for the period worked during the financial year. The Committee retains the discretion: ■ to determine that an executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; ■ not to pro-rate the bonus to time. The Committee's policy is that it will pro-rate bonus for time. It is the Committee's intention to use its discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. Under all other circumstances no bonus will be earned on cessation of employment (other than set out above in the legacy arrangements for current executive directors).
Treatment of unvested deferred bonus awards under plan rules	If termination is by way of death, injury, illness, disability, redundancy, retirement, or any other circumstances the Committee determines (a "good leaver"), deferred shares may be released to the participant at the normal vesting date. Under all other circumstances unvested awards will lapse on cessation of employment. The Committee has the following elements of discretion: ■ to determine that an executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; ■ to vest deferred shares at the end of the original deferral period or at the date of cessation. The Committee's policy is that shares will vest on the original date of vesting. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation.
Treatment of unvested BIP 2016, BIP 2006 and CIP awards	On cessation of employment, awards under the BIP and CIP will lapse in full, unless the Committee determines that the individual is a good leaver (see above for definition). In instances where the Committee determines that awards should not lapse in full, awards will normally vest at the normal vesting date, pro-rated for time served and subject to the achievement of the original performance conditions. The Committee has the following elements of discretion: ■ to determine that an executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; ■ to measure performance over the original performance period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation; and ■ to pro-rate the maximum number of shares to the time from the date of grant to the date of cessation. The Committee's policy is that it will pro-rate awards for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders.
Exercise of discretion	In the event that an executive director leaves the Company, the Committee's policy for exit payments is to consider the reasons for cessation and consequently whether any exit payments other than those contractually required are warranted. Further, in the event of a compromise or settlement agreement, the Committee may agree payments it considers reasonable in settlement of legal claims. This may include an entitlement to compensation in respect of their statutory rights under employment protection legislation in the UK or in other jurisdictions. The Committee may also include in such payments reasonable reimbursement of professional fees in connection with such agreements.
Change of control	Our policy is not to have a change in control clause in executive directors' service contracts. S.C. Harris does not have a change of control clause. D.F. Landless' service contract was agreed in accordance with what was considered best practice at the time of its execution in 2001 and provides for one year's remuneration if his employment is terminated on a change of control. This provision has been preserved. To the extent that executive contracts are renewed, or new appointments made, the Committee will continue to adopt a policy of not having change of control clauses in service contracts. In any case, legally appropriate factors would be taken into account to mitigate any compensation payment, covering basic salary, annual incentives and benefits, which may arise on the termination of employment of any executive director, other than payments made on a change in control or for payments in lieu of notice. On change of control the awards under the Company's incentive plans will generally vest subject to performance and time apportionment as determined by the Committee and in accordance with the rules of the relevant plan.

Board report on remuneration continued

Section B: Annual report on remuneration

Committee membership

During 2015 the Committee was chaired by E. Lindqvist. The Committee also comprised J.A. Biles (retired on 23 April 2015), A.M. Thomson, R. Rajagopal and I.B. Duncan.

The Committee's full terms of reference are available on the Group's website. No Committee members have any personal financial interest (other than as a shareholder), conflict of interest, cross-directorships or day-to-day involvement in the running of the business.

Committee activities

During 2015 the Committee met seven times and once in February 2016 to consider, amongst other matters:

Theme	Agenda items
Best practice	■ The Group's Remuneration Policy, discussions and feedback from the Group's AGM in 2015 and the revised Corporate Governance Code and Investment Management Association (IMA) guidelines on executive remuneration ■ Review of the current UK corporate governance environment and the implications for the Group
Remuneration policy	■ Consideration and approval of the revised Remuneration Policy to be put to shareholders, as summarised in Section A of the Board report on remuneration
Implementation policy	■ Consideration and approval of the Implementation Report to be put to shareholders and as summarised in Section B of the Board report on remuneration
Executive directors' and senior executives' remuneration	■ Basic salaries payable to each of the executive directors ■ The annual bonus and payments for the year ended 31 December 2015 ■ The annual bonus structure and performance targets for the year ended 31 December 2016 ■ The conditional awards and vestings made under the Bodycote Incentive Plan ('BIP') and Co-investment Plan ('CIP') during the year ■ Pension arrangements for senior executives ■ Design of a new bonus and share plan as part of benefit package
Reporting	■ Consideration and approval of the Board report on remuneration

Advisers to the Committee

The Committee was until July 2015 advised by Towers Watson on remuneration matters including providing advice on matters under consideration by the Committee, updates on good practice, legislative requirements and market practice. Towers Watson's fees for this work amounted to £40,250. Following a competitive tender, in July 2015 PwC was appointed by the Remuneration Committee as remuneration committee advisers. PwC's fees for the year, based on the quantity and complexity of the work undertaken, amounted to £25,500. PwC also undertakes tax and accounting work for the Company. Legal advice was provided by Eversheds and fees amounted to £1,926. All fees are based on the quantity and complexity of work undertaken. The Remuneration Committee is satisfied that the advice provided on executive remuneration is objective and independent, and that no conflict of interest arises as a result of these services. PwC and Towers Watson have signed up to the Remuneration Consultant Group's code of conduct.

The Committee also received assistance from the Group Chief Executive and Group Company Secretary, although they do not participate in discussions relating to the setting of their own remuneration. The Committee in particular consulted with the Group Chief Executive and received recommendations from him in respect of his direct reports.

Statement of shareholder voting

The table below displays the voting results on the remuneration resolution at the 2015 AGM as well as the result of the remuneration policy at the 2014 AGM:

	2015 Board report on remuneration (% votes)	2014 Directors' Remuneration Policy (% votes)
Votes cast	84%	79%
For	97%	96%
Against	3%	4%
Number of abstentions	14,666	40,318

Remuneration for 2015

This section of the report explains how Bodycote's Remuneration Policy has been implemented during the financial year.

Base salary

The base salaries of the executive directors are reviewed on an annual basis. As described in Section A: Directors' Remuneration Policy, a number of factors are taken into account when salaries are reviewed, principally market level salaries payable in FTSE 250 companies and other companies of similar size and complexity, and the individual's role, experience and performance. The 2015 base salary increases and comparative figures can be found in the Remuneration Committee Chairman's letter.

Base salaries are reviewed in January every year.

Name	Position	Salary from 1 January 2015*	Salary from 1 January 2016
S.C. Harris	Group Chief Executive	£498,838	£511,309
D.F. Landless	Group Finance Director	£318,591	£326,556

*The 2015 increase compares to the average 2015 salary increase across the Group of 2.3%.

Fees retained for external non-executive directorships

To broaden the experience of executive directors, the position of non-executive director may be held in other companies, provided that permission is sought in advance. Any external appointment must not conflict with the directors' duties and commitments to Bodycote plc. S.C. Harris has held such a position at Mondi plc since 1 March 2011 and in accordance with Group policy he retained fees for the year of £87,068. D.F. Landless was appointed a Non-Executive Director of Luxfer Holdings plc with effect from 1 March 2013 and retained fees for the year of £50,586. In addition D.F. Landless was given 3,168 of Luxfer American Depositary Receipts valued at $12.23 at the date of grant on 29 May 2015. D. F. Landless has been appointed a Non-Executive Director of Innospec Inc. with effect from 1 January 2016. No fees have been retained for the 2015 reporting period.

Pension

Following a contractual review of pension provision during 2015, it was decided that D.F. Landless' salary supplement above the defined benefit scheme cap should be increased from 16% to 20%. This was decided in March 2015 with effect from 1 January 2015.

S.C. Harris is entitled to a salary supplement in lieu of pension at a rate of 25% of basic salary. In addition, a death in service benefit of eight times basic salary is payable.

D.F. Landless no longer participates in the Group's UK contributory defined benefit and defined contribution pension schemes due to him prospectively reaching the lifetime limit. Instead D.F. Landless receives a salary supplement of 25% of basic salary up to the defined benefit scheme cap and 20% of basic salary above the cap, of which £50,095 was waived during the year. In addition, a death in service benefit of eight times basic salary is payable.

Taxable benefits

The Group provides other cash benefits and benefits in kind to directors as well as sick pay and life insurance. These include the provision of company car (or allowance) and family level private medical insurance.

Name	Car / car allowance	Fuel	Healthcare	Salary supplement
S.C. Harris	£13,939	£2,400	£1,256	£124,710
D.F. Landless	£18,822	£1,200	£1,570	£50,095

Long-term savings vehicle

During the financial year the Group made discretionary contributions into the Bodycote Investment Incentive Plan. The plan is entirely cash-based to provide an alternative long-term savings vehicle for senior executives. The Committee considers the plan an essential tool to aid retention while recognising the need for executives to have flexibility in long-term financial planning. Group contributions are discretionary, vary year-on-year and are made in lieu of other elements of pay and therefore are cost neutral to the Group. Any risk in relation to the value of investments made in the plan is borne entirely by participants.

Annual performance related bonus

Retrospective disclosure of 2014 annual bonus targets

In the 2013 Annual report on remuneration, the Committee communicated its intention to retrospectively disclose information in respect of the prior year annual bonus targets. The table below provides details of the annual bonus awards received in respect of the Group and individual performances in the 2014 financial year.

2014 was another successful year. While our reported revenues decreased by 1.7%, there was an increase of 4.0% at constant exchange rates. Headline operating profit grew by 3.4% and headline earnings per share increased by 6.3%. The actual payout, as a percentage of the total award, in respect of Group headline operating profit and Group headline operating cash flow, was 46.5% and 10.0% respectively. The targets for Group headline operating profit and Group headline operating cash flow were £128.9m and £93.4m respectively. The Committee also assessed the Group Chief Executive's and Group Finance Director's performance against their personal objectives, which included targets relating to safety, customer service and implementation of major projects. The Committee concluded that personal strategic objectives were achieved on target at a level of 16.0% and 14.6% for the Group Chief Executive and Group Finance Director respectively.

						Actual payout (% of award)	
	Threshold	**Target**	**Maximum**	**% of award**	**Actual performance achieved**	**CEO**	**FD**
Group headline operating profit	£107.4m	£115.1m	£128.9m	70%	£111.1m	**46.5%**	**46.5%**
Group headline operating cash flow	£88.7m	£93.4m	£93.4m	10%	£100.0m	**10.0%**	**10.0%**
Personal scorecard		✓		20%		**16.0%**	**14.6%**
Total						**72.5%**	**71.1%**

2015 Annual bonus

During the year the Committee has decided, in line with market practice, to disclose information in respect of last year's annual bonus targets. The table below provides the details of the annual bonus awards received in respect of the Group and individual performances in the 2015 financial year.

The annual bonus potential for the period to 31 December 2015 for executive directors was split 70% in respect of Group headline operating profit, 10% on Group headline operating cash flow and 20% on personal strategic objectives. These performance conditions and their respective weightings reflected the Committee's belief that any incentive compensation should be linked both to the overall performance of the Group and to those areas of the business that the relevant individual can directly influence.

Due to significant pressures particularly in the oil & gas sector, the performance of the Group during the year included headline operating profit of £102.1m (8.1% decrease on the previous year, 6.0% decrease at constant exchange rates) and headline operating cash flow of £81.6m (18.4% decrease on last year). No bonus is payable on the financial elements of the performance targets.

The Committee also assessed the performance of both the Group Chief Executive and Group Finance Director against their personal objectives, which included targets relating to safety, focus on preservation and maximisation of value and cash flow as well as implementation of major projects. The Committee concluded that personal strategic objectives were achieved at a level of 20% of the maximum award for both the Group Chief Executive and Group Finance Director.

						Actual payout (% of award)	
	Threshold	**Target**	**Maximum**	**% of award**	**Actual performance achieved**	**CEO**	**FD**
Group headline operating profit	£111.1m	£116.0m	£122.0m	70%	£102.1m	**0%**	**0%**
Group headline operating cash flow	£99.0m	£104.2m	104.2m	10%	£81.6m	**0%**	**0%**
Personal scorecard			✓	20%		**20%**	**20%**
Total						**20%**	**20%**

Bodycote Incentive Plan (BIP)

Awards with performance periods ending in the year

BIP awards made in 2013 had a three-year performance period ending on 31 December 2015, with 50% of the award subject to satisfaction of a ROCE target and 50% subject to a headline EPS target. The threshold and maximum targets along with the vesting schedule are set out in the tables below.

	ROCE		Headline EPS	
	Performance target	**Vesting of element (% of maximum)**	**Performance target**	**Vesting of element (% of maximum)**
Threshold performance	18.7%	0%	42.0p	0%
Maximum performance	23.0%	100%	61.3p	100%
Performance achieved	19.0%	6.6%	39.5p	0%

If headline EPS at the end of the performance period was below 42.0p, then no awards will vest. Over the period, ROCE was 19.0% and the headline EPS figure for the year was 39.5p. As the underpin was not achieved, the Committee concluded that the 2013 share award will not vest.

Awards made in the year

BIP awards with a face value of 175% of salary were granted to both executive directors in April 2015 and will vest in March 2018, subject to the achievement of ROCE and headline EPS growth performance targets. The performance period will end on 31 December 2017. The vesting of these awards will be based on ROCE and headline EPS targets summarised in the table below. The Committee has reviewed the performance targets and these have been altered accordingly to ensure that they remain stretching targets which underpin the Group's objectives.

	ROCE		Headline EPS	
	Performance target	**Vesting of element (% of maximum)**	**Performance target**	**Vesting of element (% of maximum)**
Threshold performance	18.7%	0%	45.0p	0%
Maximum performance	23.0%	100%	61.3p	100%

If headline EPS at the end of the performance period is below 41.8p, then no awards will vest. The Committee has decided that the ROCE figure of 23% is a good aspiration for the Group and is cognisant of the fact that over-incentivising on capital employed can lead to unintended consequences in terms of short-term capital underinvestment for the business. Dividend equivalents are payable in respect of those shares that vest.

The number and value of shares that were awarded to the executive directors during the year is set out on page 72.

Co-Investment Plan (CIP)

Awards with performance periods ending in the year

As described in Section A: Directors' Remuneration Policy, CIP awards are subject to an absolute TSR target. The CIP awards made in 2012 had a three-year performance period ending on 30 April 2015. The absolute TSR performance targets applicable to this award are set out below.

Absolute TSR performance target	**Vesting level**
4% CAGR + CPI	50% (0.5:1 match)
10% CAGR + CPI	100% (1:1 match)

Over the three-year period, the Group achieved absolute TSR growth of 25.4%. This performance resulted in the TSR targets being achieved at a level of 100%. The number and value of shares which vested to each of the executive directors is set out on page 72.

Awards made in the year

CIP awards were made to both executive directors in May 2015 and will vest in May 2018, subject to the achievement of absolute TSR targets summarised in the table below. The Committee reviewed the performance targets and felt that they remain appropriately stretching. Therefore, no change has been made to the absolute TSR performance targets used in the previous year. Dividend equivalents will be payable in respect of the shares which vest.

	Threshold		Maximum	
Performance target	**Target**	**Vest**	**Target**	**Vest**
Absolute TSR	4% CAGR + CPI	50% (0.5:1 match)	10% CAGR + CPI	100% (1:1 match)

The number and value of shares that were awarded to the executive directors during the year is set out on page 72.

Implementation of policy in 2016

In 2015 the Committee undertook an in-depth review of the remuneration arrangements and determined that a number of changes should be made to the existing policy (to be approved by shareholders at the May 2016 AGM). These changes are set out below:

1. Removal of the current CIP opportunity in order to simplify our arrangements and improve line of sight for participants.
2. Increase in the existing annual bonus opportunity to 200% of salary for the CEO and 150% for the CFO. This increase partially replaces the value forgone through the removal of the CIP.
3. Introduction of bonus deferral to support alignment with shareholders and with market best practice. From 2018 onwards, 35% of any bonus earned will be deferred as shares, with a transitional arrangement operating in 2016 and 2017 to preserve cash flow to participants in the initial years of the new policy's operation.
4. Introduction of clawback onto incentives, reflecting the requirements of the UK Corporate Governance Code and best practice.

Base salary is reviewed on an annual basis. The 2016 base salary increases from 1 January 2016 were 2.5% for the Group Chief Executive and 2.5% for the Group Finance Director. As 2016 base salary increases for the Group are applied after the publication of this report, the comparative figure for 2016 can only be provided in next year's report. The comparative figure for 2015 is disclosed in the base salary section on page 67.

For 2016 the Committee has determined that the annual bonus opportunity for executive directors and senior executives will again be contingent on meeting targets relating to operating profit, cash management and personal objectives. The Committee has reviewed targets for the year to ensure they remain appropriately stretching and relevant for the Group's business strategy.

The Committee has determined to set the targets for the 2016 BIP awards as disclosed in the consultation exercise. The targets below were set in the context of significant pressures in the sector, and to ensure that the Committee are able to deliver upper quartile reward for upper quartile performance.

	BIP Targets for 2016 Award	
Performance metric	EPS	ROCE
Weighting (% of total award)	50%	50%
Performance period	3 years	3 years
Threshold Performance	31.7p	15.5%
Vesting level	0%	0%
Maximum performance	52p	23%
Vesting level	Full vesting	Full vesting
EPS underpin	27p	

Auditable section

Total single figure table

Incumbent	Financial year	Total salary / fees £000	Total other benefits[1] £000	**Total fixed pay £000**	Annual bonus £000	Total BIP[2] £000	Total CIP[3] £000	**Total LTI £000**	**Dividend equiva-lent for BIP+ CIP**	**Total variable pay £000**	**Total £000**
Executive Directors											
S.C. Harris	2015	499	142	**641**	130	–	–	**–**	**–**	**130**	**771**
	2014	484	135	**619**	456	652	76	**728**	**–**	**1,184**	**1,803**
D.F. Landless	2015	319	72	**391**	64	–	61	**61**	**–**	**125**	**516**
	2014	309	85	**394**	220	417	20	**437**	**–**	**657**	**1,051**
Non-Executive Directors											
A.M. Thomson	2015	165	–	**165**	–	–	–	**–**	**–**	**–**	**165**
	2014	160	–	**160**	–	–	–	**–**	**–**	**–**	**160**
J.A. Biles[4]	2015	23	–	**23**	–	–	–	**–**	**–**	**–**	**23**
	2014	63	–	**63**	–	–	–	**–**	**–**	**–**	**63**
R. Rajagopal	2015	52	–	**52**	–	–	–	**–**	**–**	**–**	**52**
	2014	50	–	**50**	–	–	–	**–**	**–**	**–**	**50**
E. Lindqvist	2015	60	–	**60**	–	–	–	**–**	**–**	**–**	**60**
	2014	58	–	**58**	–	–	–	**–**	**–**	**–**	**58**
I.B. Duncan[5]	2015	60	–	**60**	–	–	–	**–**	**–**	**–**	**60**
	2014	8	–	**8**	–	–	–	**–**	**–**	**–**	**8**

Notes accompanying the total single figure table

1. Other benefits consist of company car (or allowance), family level private medical insurance and salary supplement. Life assurance cover, sick pay and Board travel expenses are also provided. The only benefit received by the non-executive directors is the payment of Board travel expenses.
2. The 2015 figures relate to BIP awards made in 2013 with performance periods ending on 31 December 2015. No shares vested as the underpin was not achieved.
3. The 2015 figures relate to CIP awards made in 2012 with performance periods ending 30 April 2015. The shares vested in May 2015 at a share price of 740.5p.
4. J.A. Biles resigned at the AGM on 23 April 2015.
5. I.B. Duncan was appointed in November 2014.

Payments to past directors and for loss of office

During the year no payments were made to past directors or for loss of office.

CIP and BIP Awards granted and vested during the year

Awards or grants were made under the CIP and BIP Schemes as follows:

- BIP: Awards consisting of conditional shares were granted to both executive directors, equivalent in value to 175% of their base salaries on 13 April 2015, and will vest after three years. Details of the awards are set out below. Awards are subject to continued employment and the achievement of the performance conditions specified on page 69.
- CIP: Awards consisting of shares were granted to both executive directors, equivalent in value to 8% of S.C. Harris' base salary and 12% of D.F. Landless' base salary on 27 May 2015, and will vest after three years. Details of the awards are set out below. The maximum take up is 40% of the base salary and awards are subject to continued employment and the achievement of the performance conditions specified on pages 69 and 70.

Directors' interests under the Bodycote Incentive Plan

	Interests as at 1 January 2015	Awarded in year[1]	Vested in year[2]	Lapsed in year	**At 31 December 2015**	Market price at award date	Market value at date of vesting	Vesting date
S.C. Harris	449,728		85,761	107,892	**–**	£3.94	£7.61	2 March 2015
	–	110,687	–	–	**366,762**	£7.66	–	March 2018
D.F. Landless	287,248	–	54,780	68,918	**–**	£3.94	£7.61	2 March 2015
	–	70,691	–	–	**234,241**	£7.66	–	March 2018

1. Mid-market closing price of a share on the day before grant was £7.16. The face value of the award to S.C. Harris was £847,530. The face value of the award to D.F. Landless was £541,281.
2. Subject to satisfaction of the relevant performance conditions (details of which are set on page 69). The awards that vested during the year did so at 44.3% of the maximum.

Directors' interests under the Bodycote Co-investment Plan

	Interests as at 1 January 2015	Awarded in year[1]	Vested in year[2]	Lapsed in year	**At 31 December 2015**	Market price at award date	Market value at date of vesting	Vesting date
S.C. Harris	11,450	–	–	–	**–**	–	–	
	–	5,113	–	–	**16,563**	£7.49	–	May 2017
D.F. Landless	23,299	–	8,187	–	**–**	£3.79	£7.41	22 May 2015
	–	5,113	–	–	**20,225**	£7.49	–	May 2017

1. Mid-market closing price of a share on the day before grant was £7.44. The face value of the award to S.C. Harris was £38,271. The face value of the award to D.F. Landless was £38,271.
2. Subject to satisfaction of the relevant performance conditions (details of which are set on pages 69 and 70). The awards that vested during the year did so in full.

Directors' shareholdings

The interests in ordinary shares of directors and their connected persons as at 31 December 2015, including any interests awarded under the CIP or BIP, are presented below.

As at 25 February 2016, the interests of the directors were unchanged from those at 31 December 2015.

	Beneficial	**Shares subject to performance conditions BIP[1]**	**Shares subject to performance conditions CIP[1]**
Executive Directors			
S.C. Harris	177,422	366,762	16,563
D.F. Landless	125,203	234,241	20,225
Non-Executive Directors			
A.M. Thomson	46,071	–	–
R. Rajagopal	22,368	–	–
E. Lindqvist	5,000	–	–
I.B. Duncan	–	–	–

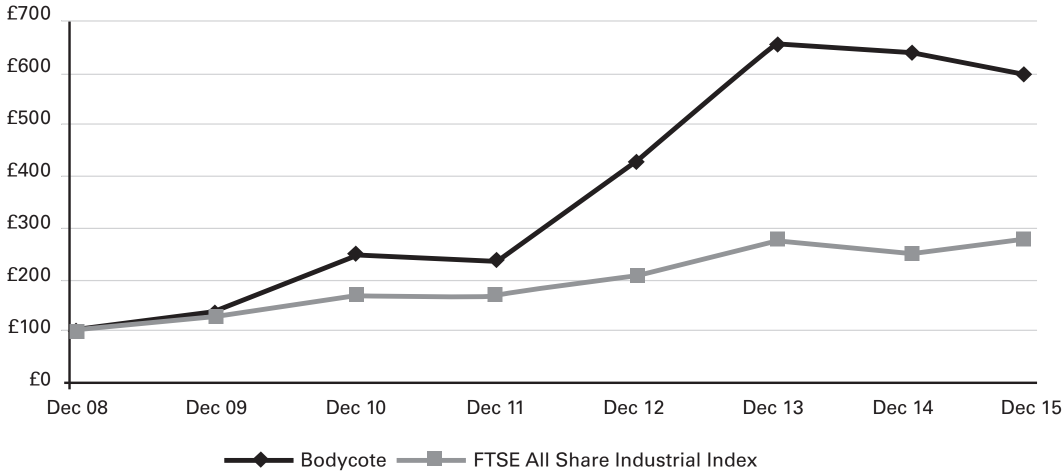
1. Figures relate to unvested awards under the BIP and the CIP.

As described in Section A: Directors' Remuneration Policy, the Board operates a shareholding retention policy under which executive directors and other senior executives are expected, within five years of appointment, to build up a shareholding in the Company. In respect of executive directors, the expectation is to hold at least 100% of basic salary. For the purposes of this requirement, only beneficially-owned shares will be counted. At the December 2015 Remuneration Committee meeting it was decided to increase the minimum shareholding requirement to 200% of salary for the Chief Executive and to 150% of salary for the Group Finance Director. The new shareholding requirement will not need to be achieved until five years after the adoption of the new requirement. As at 31 December 2015, the Committee is satisfied that executive directors have fulfilled this requirement. At the 31 December 2015 share price, S.C. Harris held 202% of salary and D.F. Landless held 223% of salary.

End of auditable section

Comparison of overall performance and pay

The chart below shows the value over the last seven financial years of £100 invested in Bodycote plc compared with that of £100 invested in the FTSE All Share Industrial index. The Committee has chosen this index as the most reasonable comparison in terms of performance. The points plotted represent the values at each financial year end.



The table below shows how total remuneration for the Group Chief Executive, S.C. Harris, developed over the last seven years.

	2009	2010	2011	2012	2013	2014	**2015**
Single figure of remuneration £000	531	906	3,252	3,840	3,089	1,803	**771**
Annual variable element award (as a % of maximum) opportunity	5%	98%	95%	73%	46%	73%	**20%**
Long-term incentive vesting (as a % of maximum)	0%	0%	100%	100%	99%	44%	**0%**

Percentage change in remuneration of Chief Executive

The total value of salary, non-pension benefits and bonus decreased by 32.6% for the Group Chief Executive in 2015 compared to the previous financial year (2014: £957,998; 2015: £646,132). The equivalent average percentage change for the senior management population as a whole was a 3.7% increase on 2014. The Remuneration Committee has chosen the senior management population as the group which should provide the most appropriate comparator. The salary increase for the Group Chief Executive in 2015 compared to the previous financial year was 3.0% (2014: £484,306; 2015: 498,838). Non-pension benefits increased by 2.2% for the Group Chief Executive in 2015 compared to 2014 (2014: £17,214; 2015:17,596). Bonus payable to the Group Chief Executive decreased by 72% in 2015 compared to 2014 (2014: £456,478; 2015: £129,698). The equivalent average percentage change in 2014 for the senior management population was 3.2% for salary and a 4.7% increase for bonus.

Relative importance of pay spend

The table below shows the total expenditure in relation to staff and employee costs, distributions to shareholders and the Group's corporation tax paid in 2014 and 2015.

	2015 £m	2014 £m	% change
Staff and employee costs	**220.3**	234.9	(6.2)%
Distributions to shareholders	**66.0**	45.2	46.0%
Corporation tax paid	**23.2**	19.0	22.1%

E. Lindqvist
Chairman of the Remuneration Committee
25 February 2016

Directors' responsibilities statement

Responsibility of directors for the preparation of the Annual Report and financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the Annual Report and financial statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 25 February 2016 and is signed on its behalf by:

By order of the Board:

S.C. Harris
Group Chief Executive
25 February 2016

D.F. Landless
Group Finance Director
25 February 2016

Independent auditor's report

To the Members of Bodycote plc

Opinion on financial statements of Bodycote plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2015 and of the Group's and the Parent Company's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company balance sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, the Statement of Group and Company Accounting Policies and the related notes to the consolidated financial statements (notes 1 to 30) and to the company financial statements (notes 1 to 14). The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting on page 23 and the directors' statement on the longer-term viability of the Group on page 27.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 24 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 24 to 26 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement on page 23 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the director's explanation on page 23 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. The significant risks identified below are consistent with those in the previous year, with the addition of the risk regarding Restructuring provisions for this report.

The Audit Committee has requested that, whilst not required under International Standards on Auditing (UK and Ireland), we include in our report any significant key observations in respect of these assessed risks of material misstatement.

Independent auditor’s report continued

To the Members of Bodycote plc

Risk	How the scope of our audit responded to the risk	Key observations
Impairment of non-current assets The Group has a significant non-current asset base including tangible fixed assets of £429.6m and intangible assets (including goodwill) of £175.2m as shown in notes 11, 12 and 13 respectively. Current macro-economic uncertainties result in a risk regarding the carrying value of these assets. Performing an impaiment review of these non-current assets requires the exercise of significant judgement regarding future growth rates, discount rates and sensitivity assumptions, as described in note 11 and the key sources of estimation uncertainty within the accounting policies on page 86.	We challenged the assumptions used in the impairment model for intangible and tangible assets. As part of our procedures we: ■ considered the appropriateness of the growth rate assumptions by comparing them to historical trading performance and World Bank historical GDP data across the Group’s geographical and market segments; ■ assessed the appropriateness of the assumptions concerning inputs to the discount rate against latest market expectations. In performing our procedures, we used our internal valuation specialists and third party evidence to assess the individual inputs to the discount rates of between 12.4% and 13.4% applied as described in note 11; and ■ considered management’s assertions of the future utilisation of assets supporting their carrying value by reviewing the strategic plan for the business by cash generating unit.	Based on the procedures performed, no impairments were noted and we have concluded that the assumptions in the impairment model were appropriate.
Environmental remediation provisions Given the nature of the Group’s operations and potential environmental contamination which could have arisen historically, a risk arises in connection with the appropriateness and completeness of the £13.2m environmental remediation provisions. The risk specifically applies to the level of judgement involved in calculating the provisions required and to the likely period of utilisation, as described in the Critical judgments within the accounting policies.	We evaluated the environmental provisions by undertaking the following testing: ■ comparing the basis for the recognition of provisions against the regulatory and legal requirements; ■ assessing the value of the provision recognised; and ■ challenging the status and utilisation of provisions. As part of our audit procedures we reviewed the available third party evidence collated by management’s experts and assumptions detailing the assessment of environmental liabilities for the Group together with correspondence from the Group’s internal environmental remediation team. We considered the appropriateness of the qualifications of management’s experts and have benchmarked the Group’s accounting policy against comparator companies. We have also considered the requirement to discount the balance should the impact of doing so be material and audited management’s calculation for this assessment.	Based on the results of work carried out we concur that the provision recognised by management is in accordance with IAS 37. We also concur with management’s assessment that the impact of discounting the provision is not material.

Risk	How the scope of our audit responded to the risk	Key observations
Taxation – deferred tax assets and tax provisions The tax risk concerns the judgements and estimates applied in the determination of tax balances, in particular in relation to the recognition of the £31.2m deferred tax asset balance for which an amount of £3.1m is recognised in relation to £14.1m of tax losses across the Group based on future profitability, as disclosed in note 20 and provisions for liabilities attributed to specific uncertain tax positions linked to the Group's corporate arrangements.	We have assessed and challenged the appropriateness of management's assumptions and estimates in relation to the likelihood of generating future taxable, as opposed to accounting, profits to support the recognition of deferred tax assets by comparing to forecast information and historical trends in loss utilisation. In conjunction with our taxation audit specialists, we have also assessed the assumptions and judgements concerning the adequacy of tax provisions for uncertain tax positions by viewing the latest correspondence from the various tax authorities and drawing on the experience of our tax specialists in respect of similar situations.	From the work performed we are satisfied that the assumptions applied in respect of the Income Statement and the carrying value of amounts held on the balance sheet regarding current and deferred tax balances are appropriate.
Pensions – liability assumptions for defined benefit schemes This risk concerns the appropriateness of the actuarial assumptions applied in calculating the Group's defined benefit liability of £99.9m (2014: £103.3m) within the net defined benefit liability of £2.7m (2014: £1.0m) as shown in note 30. The valuation of the Group's IAS 19 liability involves significant judgement as described in note 30 and in the key sources of estimation uncertainty in the accounting policies, in particular in relation to the discount rate, inflation and mortality assumptions.	We have assessed the appropriateness of the assumptions underpinning the valuation of the scheme liabilities. Specifically we challenged the discount rate, inflation and mortality assumptions applied in the calculation by using our internal pension specialists to benchmark the assumptions applied against comparable third party data and assessed the appropriateness of the assumptions in the context of the Group's own position.	From the work performed we are satisfied that the assumptions applied in respect of the valuation of the Group's IAS 19 liabilities are materially correct and are considered to be towards the prudent end of our benchmarked range.
Restructuring provisions During 2015 the Group has implemented a significant global restructuring programme driven by the fall in global oil prices along with widespread softer economic conditions, both of which have combined to cause a notable fall in demand for many types of industrial equipment and machinery. This restructuring has led to management recognising a net exceptional charge of £20.0m in the Income Statement. A risk exists regarding the completeness, utilisation and validity of the provision as shown in note 23. There is also a risk relating to ensuring the appropriate classification of these costs in the Income Statement as exceptional items in accordance with the Group's policy.	We evaluated the restructuring provisions by comparing the basis for the recognition of provisions to assess whether the recognition criteria of a constructive obligation arising from a past event are satisfied, assessing the value of the provision recognised and challenging the status and utilisation of provisions. Additionally we have assessed the disclosure of the costs incurred within the Income Statement to assess whether those costs described as exceptional are in accordance with the Group's policy for exceptional costs as per note 5.	From the work performed we are satisfied that the provisions recognised were complete, valid and appropriately utilised and appropriately presented as exceptional costs.

Our application of materiality

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 50 and 51.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

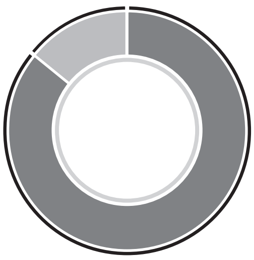
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £4.8m (2014: £4.9m), which is below 5% of adjusted pre-tax profit, which has been determined to be the most stable basis of underlying performance (2014: 5% of pre-tax profit), and below 1% (2014: 1%) of equity. The adjustment to pre-tax profit relates to the adding back of exceptional restructuring costs of £20.0m in order to use an underlying pre-tax profit base for materiality. There were no such exceptional costs in 2014.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.15m (2014: £0.145m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

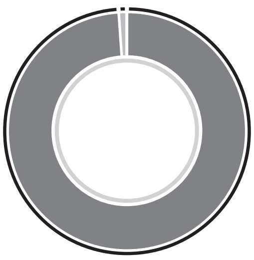
An overview of the scope of our audit

Revenue



- Full audit scope 86%
- Review at group level 14%

Profit before tax



- Full audit scope 99%
- Review at group level 1%

Net assets

- Full audit scope 91%
- Review at group level 9%

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on this assessment, we focused our Group audit scope primarily on the audit work at thirteen countries, being USA, UK, France, Italy, Germany, Poland, Sweden, Netherlands, Czech Republic, Turkey, Singapore, China and Mexico. Consistent with the prior year and as agreed with the Audit Committee, the smaller components in territories such as China, Singapore and Mexico have remained in scope and we have maintained the scoping levels in territories such as Netherlands, Luxembourg, Germany and Turkey.

In 2015 we have continued to have direct Group oversight, leadership and control over the components of the Group accounted for in the US Shared Service Centre ('SSC') and in conjunction with our Czech component audit team we jointly audited the components of the Group accounted for at the Prague SSC.

As a consequence of the audit scope determined, we achieved coverage of approximately 86% (2014: 86%) of revenue, 99% (2014: 97%) of profit before tax and 91% (2014: 88%) of net assets. Our audit work at each location was executed at levels of materiality applicable to each individual entity which was lower than Group materiality. Component materiality ranged from £0.5m to £2.5m (2014: £0.5m to £2.9m).

The Group audit team continued to follow a program of planned visits that has been designed so that a senior member of the Group audit team visits each of the locations included as full scope for the Group audit at least once every three years and the most significant of them at least once a year.

In years when we do not visit a significant component we include the component audit team in our team briefing, discuss their risk assessment, attend close meetings by conference call and review documentation of the findings from their work.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Board report on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Board report on remuneration to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Independent auditor's report continued
To the Members of Bodycote plc

Scope of the audit of the financial statements	An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Mullins FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
25 February 2016

Consolidated income statement

For the year ended 31 December 2015

	Note	2015 £m	2014 £m
Revenue	1	**567.2**	609.1
Cost of sales and overheads		**(469.3)**	(501.9)
Operating profit prior to exceptional items		**97.9**	107.2
Acquisition costs	5	**–**	(0.2)
Reorganisation costs	5	**(20.0)**	–
Operating profit	3	**77.9**	107.0
Investment revenue	6	**0.1**	0.1
Finance costs	7	**(3.0)**	(3.4)
Profit before taxation		**75.0**	103.7
Taxation	8	**(18.8)**	(24.4)
Profit for the year		**56.2**	79.3
Attributable to:			
Equity holders of the parent		**56.2**	79.4
Non-controlling interests		**–**	(0.1)
		56.2	79.3
Earnings per share	10		
		Pence	Pence
Basic		**29.6**	41.7
Diluted		**29.6**	41.7

All activities have arisen from continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	2015 £m	2014 £m
Profit for the year	**56.2**	79.3
Items that will not be reclassified to profit or loss:		
Actuarial (losses) / gains on defined benefit pension schemes	**(1.7)**	0.5
Tax on items not reclassified	**0.2**	1.0
Total items that will not be reclassified to profit or loss	**(1.5)**	1.5
Items that may be reclassified subsequently to profit or loss:		
Exchange gains / (losses) on translation of foreign operations	**0.4**	(7.0)
Cumulative exchange differences recycled to profit or loss on disposal of subsidiaries	**(3.3)**	–
Total items that may be reclassified subsequently to profit or loss	**(2.9)**	(7.0)
Other comprehensive expense for the year	**(4.4)**	(5.5)
Total comprehensive income for the year	**51.8**	73.8
Attributable to:		
Equity holders of the parent	**51.9**	73.9
Non-controlling interests	**(0.1)**	(0.1)
	51.8	73.8

Consolidated balance sheet
At 31 December 2015

	Note	2015 £m	2014 £m
Non-current assets			
Goodwill	11	**140.0**	138.4
Other intangible assets	12	**35.2**	33.7
Property, plant and equipment	13	**429.6**	434.6
Other investments	14	**0.2**	–
Deferred tax assets	20	**31.2**	27.2
Trade and other receivables	16	**0.4**	1.6
		636.6	635.5
Current assets			
Inventories	15	**19.5**	20.9
Current tax assets		**26.3**	20.3
Trade and other receivables	16	**105.7**	109.0
Cash and bank balances	16	**16.2**	38.5
Assets held for sale	17	**1.2**	0.9
		168.9	189.6
Total assets		**805.5**	825.1
Current liabilities			
Trade and other payables	22	**111.1**	119.3
Current tax liabilities		**37.3**	33.4
Obligations under finance leases	21	**0.1**	0.1
Borrowings	18	**3.8**	2.5
Provisions	23	**12.5**	6.9
		164.8	162.2
Net current assets		**4.1**	27.4
Non-current liabilities			
Retirement benefit obligations	30	**17.9**	17.0
Deferred tax liabilities	20	**61.9**	60.7
Obligations under finance leases	21	**–**	0.2
Provisions	23	**8.8**	10.4
Other payables	22	**2.5**	3.7
		91.1	92.0
Total liabilities		**255.9**	254.2
Net assets		**549.6**	570.9
Equity			
Share capital	24	**33.1**	33.1
Share premium account		**177.1**	177.1
Own shares		**(9.3)**	(7.1)
Other reserves		**134.1**	136.6
Translation reserves		**(5.8)**	(3.0)
Retained earnings		**220.0**	233.7
Equity attributable to equity holders of the parent		**549.2**	570.4
Non-controlling interests		**0.4**	0.5
Total equity		**549.6**	570.9

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 25 February 2016.

They were signed on its behalf by:

S.C. Harris
Director

D.F. Landless
Director

Consolidated cash flow statement

For the year ended 31 December 2015

	Note	2015 £m	2014 £m
Net cash from operating activities	26	**111.3**	131.6
Investing activities			
Purchases of property, plant and equipment		**(61.1)**	(55.3)
Proceeds on disposal of property, plant and equipment and intangible assets		**5.4**	5.6
Purchases of intangible fixed assets		**(5.6)**	(4.1)
Acquisition of businesses		**–**	(2.7)
Purchase of sundry investments		**(0.2)**	(0.1)
Disposal of sundry investments		**–**	1.8
Disposal of subsidiary undertakings		**1.6**	–
Net cash used in investing activities		**(59.9)**	(54.8)
Financing activities			
Interest received		**0.1**	0.1
Interest paid		**(2.7)**	(2.8)
Dividends paid		**(66.0)**	(45.2)
Repayments of bank loans		**–**	(0.5)
Payments of obligations under finance leases		**(0.2)**	(0.1)
New bank loans raised		**0.5**	–
Own shares purchased / settlement of share options		**(6.7)**	(7.0)
Net cash used in financing activities		**(75.0)**	(55.5)
Net (decrease) / increase in cash and cash equivalents		**(23.6)**	21.3
Cash and cash equivalents at beginning of year		**36.0**	15.3
Effect of foreign exchange rate changes		**–**	(0.6)
Cash and cash equivalents at end of year	26	**12.4**	36.0

Consolidated statement of changes in equity
For the year ended 31 December 2015

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non controlling interests £m	Total equity £m
1 January 2014	33.1	177.1	(5.5)	140.1	4.7	197.3	546.8	0.6	547.4
Net profit for the year	–	–	–	–	–	79.4	79.4	(0.1)	79.3
Exchange differences on translation of overseas operations	–	–	–	–	(7.0)	–	(7.0)	–	(7.0)
Actuarial gains on defined benefit pension schemes net of deferred tax	–	–	–	–	–	1.5	1.5	–	1.5
Total comprehensive income for the year	–	–	–	–	(7.0)	80.9	73.9	(0.1)	73.8
Acquired in the year / settlement of share options	–	–	(1.6)	(5.4)	–	–	(7.0)	–	(7.0)
Share-based payments	–	–	–	1.9	–	–	1.9	–	1.9
Dividends paid	–	–	–	–	–	(45.2)	(45.2)	–	(45.2)
Disposal / dissolution of subsidiary	–	–	–	–	(0.7)	0.7	–	–	–
31 December 2014	**33.1**	**177.1**	**(7.1)**	**136.6**	**(3.0)**	**233.7**	**570.4**	**0.5**	**570.9**
Net profit for the year	**–**	**–**	**–**	**–**	**–**	**56.2**	**56.2**	**–**	**56.2**
Exchange differences on translation of overseas operations	**–**	**–**	**–**	**–**	**0.5**	**–**	**0.5**	**(0.1)**	**0.4**
Cumulative exchange differences recycled to profit or loss on disposal of subsidiaries	**–**	**–**	**–**	**–**	**(3.3)**	**–**	**(3.3)**	**–**	**(3.3)**
Actuarial losses on defined benefit pension schemes net of deferred tax	**–**	**–**	**–**	**–**	**–**	**(1.5)**	**(1.5)**	**–**	**(1.5)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(2.8)**	**54.7**	**51.9**	**(0.1)**	**51.8**
Acquired in the year / settlement of share options	**–**	**–**	**(2.2)**	**(2.1)**	**–**	**(2.4)**	**(6.7)**	**–**	**(6.7)**
Share-based payments	**–**	**–**	**–**	**(0.4)**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(66.0)**	**(66.0)**	**–**	**(66.0)**
31 December 2015	**33.1**	**177.1**	**(9.3)**	**134.1**	**(5.8)**	**220.0**	**549.2**	**0.4**	**549.6**

Included in other reserves is the capital redemption reserve of £129.8m (2014: £129.8m) and the share-based payments reserve of £3.5m (2014: £5.9m).

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2015 1,464,515 (2014: 1,212,547) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes (see note 28).

Group accounting policies
Year ended 31 December 2015

Basis of accounting
The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore the Group financial statements comply with article 4 of EU IAS Regulation as adopted for use in the EU.

The Group has adopted Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB (IFRIC). Individual standards and interpretations have to be adopted by the European Commission (EC) and the process leads to a delay between the issue and adoption of new standards and in some cases amendment by the EC.

International Financial Reporting Standards are subject to ongoing amendment by the IASB and subsequent endorsement by the EC and are therefore subject to change.

The financial statements have been prepared on the historical cost basis, with the exception of accounting for certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

Going concern
The directors have at the time of approving the financial statements a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Finance Director's report on page 23.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

Group accounting policies continued
Year ended 31 December 2015

Critical judgements in applying the Group's accounting policies
In the process of applying the Group's accounting policies, which are described above, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below) and have been identified as being particularly complex or involve subjective assessments.

Taxation
The Group is subject to taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax provision, deferred tax provisions and income statement in the period in which such determination is made.

Provisions for environmental liabilities
The Group provides for the costs of environmental remediation that have been identified, either as part of acquisition due diligence, or in other circumstances where remediation by the Group is required. The provision is reviewed annually. Due to the significant uncertainty associated with the future level of such environmental liabilities, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that will be incurred. The directors take account of the advice of experts in quantifying the expected costs of future remediation.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill, intangible assets and fixed assets
Determining whether goodwill and fixed assets are impaired requires an estimation of the value in use of the cash-generating units to which the assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £140.0m (2014: £138.4m). Details of the accounting policies applied in respect of impairment are set out on pages 87 and 90.

Retirement benefit schemes
Accounting for retirement benefit schemes under IAS 19 (revised) requires an assessment of the future benefits payable in accordance with actuarial assumptions, which are set out in note 30. Details of the accounting policies applied in respect of retirement benefit schemes are set out on pages 88 and 89.

Provisions for restructuring costs
Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring which are those amounts that are both necessarily required by the restructuring and not associated with the ongoing activities of the Group. Uncertainty arises in the estimation of site clean up and dilapidation costs. The Group has to make a subjective assessment of the cost involved based on previous experience, there can be no guarantee that the assumptions used to estimate the provision will result in a wholly accurate prediction of the actual costs that may be incurred.

Investments in associates
An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit and loss in the period of acquisition.

Where a Group Company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred, in which case appropriate provision is made for impairment.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary or associate at the date of acquisition. If after restatement, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to assets of the unit on a pro-rata basis. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts, subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenue is recognised on the completion of services rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Other operating income represents scrap sales, rents receivable and other operating income.

The Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Group accounting policies continued
Year ended 31 December 2015

Foreign currencies
Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses arising on retranslation are included in net profit or loss for the period.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see page 92); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation) which are recognised initially in the consolidated statement of comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling-denominated assets and liabilities.

Borrowing costs
Borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Government grants
Government grants relating to property, plant and equipment are treated as deferred income and released to profit and loss over the expected useful lives of the assets concerned.

Operating profit
Operating profit is stated after charging restructuring costs, goodwill impairment, amortisation of acquired intangible assets and after the post-tax share of results of associates but before investment income and finance costs.

Exceptional items
The Group considers exceptional items to be those which derive from events or transactions which are considered significant for separate disclosure by virtue of their size or incidence in order for the user to obtain a proper understanding of the Group's financial performance. These items include, but are not limited to, impairment charges, reorganisation costs and profits and losses on disposal of subsidiaries and other one off items which meet this definition.

Retirement benefit costs
Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment. Net interest is calculated by applying a discount rate to the defined benefit liability or asset. Defined benefit costs are split into three categories:

- current service cost, past-service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs within cost of sales and administrative expenses (see note 3) in its consolidated income statement. Curtailment gains and losses are accounted for as past-service cost.

Net-interest expense or income is recognised within finance costs (see note 7).

The retirement benefit obligation recognised in the consolidated balance sheet represents the deficit or surplus in the Group's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, less their residual values, over their estimated useful lives, using the straight-line method, on the following bases:

Freehold buildings	2%
Leasehold property	over the period of the lease
Fixtures and fittings	10% – 20%
Plant and machinery	5% – 20%
Motor vehicles	20% – 33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Assets in the course of construction are carried at cost, plus appropriate borrowing costs, less any recognised impairment loss. Depreciation commences when the assets are ready for their intended use.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

Group accounting policies continued
Year ended 31 December 2015

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 (revised) Employee Benefits respectively; and
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment.

Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives, on the following bases:

	Years
Software	3 to 10
Non-compete agreements	4 to 5
Customer relationships	10 to 15

Amortisation is recognised within administration expenses.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for trade receivables, which do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Other financial liabilities
Other financial liabilities are not interest-bearing and are stated at their nominal value.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the customer or counterparty; or
- default or delinquency in payments.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derivative financial instruments
The Group uses derivative financial instruments, in particular interest rate swaps, foreign currency swaps and forward exchange contracts, to manage the financial risks arising from the business activities and the financing of those activities. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are recognised as assets and liabilities measured at their fair value on the balance sheet date. Changes in the fair value of any derivative instruments that do not fulfil the criteria for hedge accounting contained in IAS 39 Financial Instruments: Recognition and Measurement are recognised immediately in the income statement. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

Hedge accounting

The Group uses foreign currency debt and cross currency swaps to hedge its exposure to changes in the underlying net assets of overseas operations arising from foreign exchange rate movements.

The Group maintains documentation of the relationship between the hedged item and the hedging instrument at the inception of a hedging transaction together with the risk management objective and the strategy underlying the designated hedge. The Group also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items.

When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges.

Note 19 sets out the details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Cash flow hedge

Cash flow hedging matches the cash flows of hedged items against the corresponding cash flow of the derivative. The effective part of any gain or loss on the derivative is recognised directly in other comprehensive income and the hedged item is accounted for in accordance with the policy for that financial instrument. Any ineffective part of any gain or loss is recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. To the extent the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognised in the consolidated statement of comprehensive income and accumulated in the hedging and translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement and is included in other operating expenses.

Gains and losses accumulated in equity are included in the income statement in the event that the foreign operation is disposed of.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that the Group will be required to settle that obligation and when a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation and the effect of the adjustment is material in relation to the financial statements, its carrying amount is the present value of those cash flows.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates with a corresponding adjustment to the equity-settled employee benefits reserve.

General information

Bodycote plc is a company incorporated in the United Kingdom under the Companies Acts 1948 to 1980. The address of the registered office is given on page 37.

The nature of the Group's operations and its principal activities are included within the Group's Strategic report.

Information on the Group's objectives, policies and processes are included within the Group's Strategic report.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in the Foreign Currencies accounting policy on page 88.

Adoption of new and revised standards

The Group has applied IFRIC 21 Levies for the first time in the year. IFRIC 21 addresses when a liability to pay a levy imposed by a government should be recognised.

In addition, the following amendments have been adopted in the year:

- IFRS 1 "Clarification of the meaning of 'effective IFRSs'"
- IFRS 3 "Clarification of the scope exclusion for joint ventures"
- IFRS 13 "Clarification of the scope of the portfolio exemption"
- IAS 40 "Clarification of the relationship between IFRS 3 and IAS 40"
- IAS 19 "Defined benefit plans: employee contributions"
- Annual improvements to IFRSs 2010-2012 cycle (Dec 2014)
- Annual improvements to IFRSs 2011-2013 cycle (Dec 2013)

The above interpretations and revised standard have not had any material impact on the amounts reported in these financial statements or the disclosures required.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

■ IFRS 9	Financial instruments
■ IFRS 14	Regulatory deferral accounts
■ IFRS 15	Revenue from contracts with customers
■ IFRS 16	Leases
■ Amendments to IAS 1	Disclosure initiative
■ Amendments to IFRS 10, IFRS 12 and IAS 28	The application of the investment entities exemptions
■ Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture
■ Amendments to IFRS 11	Accounting for acquisitions of interest in joint operations
■ Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
■ Amendments to IAS 27	Equity method in separate financial statements
■ Annual improvements to IFRSs	2012-2014 cycle (Sep 2014)

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 9 will impact both the measurement and disclosures of financial instruments;
- IFRS 15 may have an impact on revenue disclosures and is unlikely to impact significantly the financial statements; and,
- IFRS 16 will impact the recognition, measurement and disclosure of operating leases. It is considered that a material amount of lease assets and liabilities will require recognition on the Group balance sheet. It is anticipated that finance charges will require reclassification in the Group income statement.

Beyond the information above, it is not practicable to provide a reasonable financial estimate of the effect of these standards until a detailed review has been completed.

1. Revenue

	2015 £m	2014 £m
Heat treatment and metal joining, hot isostatic pressing and surface technology services	**567.2**	609.1
Other operating income (see note 3)	**4.1**	5.4
Investment revenue (see note 6)	**0.1**	0.1
Total Revenue (as defined in IAS 18 Revenue)	**571.4**	614.6

2. Business and geographical segments

The Group has 178 locations across the world serving a range of market sectors with various thermal processing services. The range and type of services offered is common to all market sectors.

In accordance with IFRS 8 'Operating Segments', the segmentation of Group activity reflects the way the Group is managed by the chief operating decision maker, being the Group Chief Executive, who on a monthly basis reviews the operating performance of six operating segments, split between the Aerospace, Defence & Energy (ADE) and Automotive & General Industrial (AGI) business areas, as follows:

- ADE – Western Europe;
- ADE – North America;
- ADE – Emerging markets;
- AGI – Western Europe;
- AGI – North America; and
- AGI – Emerging markets.

The split of operating segments by geography reflects the divisional reporting structure of the Group.

In accordance with the aggregation criteria of IFRS 8, the operating segments are aggregated into the Group's two key business areas, ADE and AGI, the split being driven by customer behaviour and requirements. Customers in the ADE segment tend to operate and purchase more globally and have long supply chains, whilst customers in the AGI segment tend to purchase more locally and have shorter supply chains.

Bodycote plants do not exclusively supply services to customers of a given market sector. Allocations of plants between ADE and AGI is therefore derived by reference to the preponderance of markets served.

Group	**ADE 2015 £m**	**AGI 2015 £m**	**Central costs and eliminations 2015 £m**	**Consolidated 2015 £m**
Revenue				
Total revenue	**243.5**	**323.7**	**–**	**567.2**
Result				
Headline operating profit prior to share-based payments and unallocated central costs	**59.1**	**53.7**	**–**	**112.8**
Share-based payments (including social charges)	**0.1**	**(0.3)**	**0.8**	**0.6**
Unallocated central costs	**–**	**–**	**(11.3)**	**(11.3)**
Headline operating profit / (loss)	**59.2**	**53.4**	**(10.5)**	**102.1**
Amortisation of acquired intangible fixed assets	**(1.4)**	**(2.8)**	**–**	**(4.2)**
Operating profit / (loss) prior to exceptional items	**57.8**	**50.6**	**(10.5)**	**97.9**
Reorganisation costs	**(5.1)**	**(14.9)**	**–**	**(20.0)**
Segment result	**52.7**	**35.7**	**(10.5)**	**77.9**
Investment revenue				**0.1**
Finance costs				**(3.0)**
Profit before taxation				**75.0**
Taxation				**(18.8)**
Profit for the year				**56.2**

Inter-segment sales are not material in either year.

The Group does not rely on any individual major customers.

2. Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2015 £m	North America 2015 £m	Emerging markets 2015 £m	Total ADE 2015 £m
Revenue				
Total revenue	**111.2**	**130.3**	**2.0**	**243.5**
Result				
Headline operating profit prior to share-based payments	**23.4**	**35.6**	**0.1**	**59.1**
Share-based payments (including social charges)	**(0.1)**	**0.2**	**–**	**0.1**
Headline operating profit	**23.3**	**35.8**	**0.1**	**59.2**
Amortisation of acquired intangible fixed assets	**(0.3)**	**(1.1)**	**–**	**(1.4)**
Operating profit prior to exceptional items	**23.0**	**34.7**	**0.1**	**57.8**
Reorganisation costs	**(3.3)**	**(1.8)**	**–**	**(5.1)**
Segment result	**19.7**	**32.9**	**0.1**	**52.7**

Automotive & General Industrial	Western Europe 2015 £m	North America 2015 £m	Emerging markets 2015 £m	Total AGI 2015 £m
Revenue				
Total revenue	**195.9**	**89.3**	**38.5**	**323.7**
Result				
Headline operating profit prior to share-based payments	**34.1**	**16.3**	**3.3**	**53.7**
Share-based payments (including social charges)	**(0.3)**	**0.1**	**(0.1)**	**(0.3)**
Headline operating profit	**33.8**	**16.4**	**3.2**	**53.4**
Amortisation of acquired intangible fixed assets	**(0.2)**	**(2.4)**	**(0.2)**	**(2.8)**
Operating profit prior to exceptional items	**33.6**	**14.0**	**3.0**	**50.6**
Reorganisation costs	**(8.0)**	**(1.6)**	**(5.3)**	**(14.9)**
Segment result	**25.6**	**12.4**	**(2.3)**	**35.7**

Group	ADE 2014 £m	AGI 2014 £m	Central costs and eliminations 2014 £m	Consolidated 2014 £m
Revenue				
Total revenue	263.0	346.1	–	609.1
Result				
Headline operating profit prior to share-based payments and unallocated central costs	70.7	55.1	–	125.8
Share-based payments (including social charges)	(0.1)	(1.0)	(1.1)	(2.2)
Unallocated central costs	–	–	(12.5)	(12.5)
Headline operating profit / (loss)	70.6	54.1	(13.6)	111.1
Amortisation of acquired intangible fixed assets	(1.3)	(2.6)	–	(3.9)
Operating profit / (loss) prior to exceptional items	69.3	51.5	(13.6)	107.2
Acquisition costs	–	(0.2)	–	(0.2)
Segment result	69.3	51.3	(13.6)	107.0
Investment revenue				0.1
Finance costs				(3.4)
Profit before taxation				103.7
Taxation				(24.4)
Profit for the year				79.3

2. Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2014 £m	North America 2014 £m	Emerging markets 2014 £m	Total ADE 2014 £m
Revenue				
Total revenue	129.7	130.8	2.5	263.0
Result				
Headline operating profit prior to share-based payments	30.4	39.8	0.5	70.7
Share-based payments (including social charges)	(0.1)	–	–	(0.1)
Headline operating profit	30.3	39.8	0.5	70.6
Amortisation of acquired intangible fixed assets	(0.3)	(1.0)	–	(1.3)
Segment result	30.0	38.8	0.5	69.3

Automotive & General Industrial	Western Europe 2014 £m	North America 2014 £m	Emerging markets 2014 £m	Total AGI 2014 £m
Revenue				
Total revenue	220.1	84.6	41.4	346.1
Result				
Headline operating profit prior to share-based payments	37.6	15.5	2.0	55.1
Share-based payments (including social charges)	(1.0)	–	–	(1.0)
Headline operating profit	36.6	15.5	2.0	54.1
Amortisation of acquired intangible fixed assets	(0.2)	(2.2)	(0.2)	(2.6)
Operating profit prior to exceptional items	36.4	13.3	1.8	51.5
Acquisition costs	(0.2)	–	–	(0.2)
Segment result	36.2	13.3	1.8	51.3

Other information

Group	**ADE 2015 £m**	**AGI 2015 £m**	**Central costs and eliminations 2015 £m**	**Consolidated 2015 £m**
Gross capital additions	**17.9**	**43.3**	**5.5**	**66.7**
Depreciation and amortisation	**20.3**	**32.7**	**0.8**	**53.8**
Balance sheet				
Assets:				
Segment assets	**309.2**	**421.5**	**74.8**	**805.5**
Liabilities:				
Segment liabilities	**(69.0)**	**(111.1)**	**(75.8)**	**(255.9)**
	240.2	**310.4**	**(1.0)**	**549.6**
Allocation of head office net assets	**(0.4)**	**(0.6)**	**1.0**	**–**
Adjusted segment net assets	**239.8**	**309.8**	**–**	**549.6**

2. Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2015 £m	North America 2015 £m	Emerging markets 2015 £m	Total ADE 2015 £m
Gross capital additions	**8.7**	**9.2**	**–**	**17.9**
Depreciation and amortisation	**9.0**	**11.0**	**0.3**	**20.3**
Balance sheet				
Assets:				
Segment assets	**136.2**	**170.6**	**2.4**	**309.2**
Liabilities:				
Segment liabilities	**(35.8)**	**(32.1)**	**(1.1)**	**(69.0)**
Segment net assets	**100.4**	**138.5**	**1.3**	**240.2**

Automotive & General Industrial	Wester Europe 2015 £m	North America 2015 £m	Emerging markets 2015 £m	Total AGI 2015 £m
Gross capital additions	**18.5**	**13.4**	**11.4**	**43.3**
Depreciation and amortisation	**19.6**	**8.7**	**4.4**	**32.7**
Balance sheet				
Assets:				
Segment assets	**232.7**	**127.6**	**61.2**	**421.5**
Liabilities:				
Segment liabilities	**(83.4)**	**(18.4)**	**(9.3)**	**(111.1)**
Segment net assets	**149.3**	**109.2**	**51.9**	**310.4**

Group	ADE 2014 £m	AGI 2014 £m	Central costs and eliminations 2014 £m	Consolidated 2014 £m
Gross capital additions	18.9	36.2	4.3	59.4
Depreciation and amortisation	20.1	34.0	1.0	55.1
Balance sheet				
Assets:				
Segment assets	308.1	434.7	82.3	825.1
Liabilities:				
Segment liabilities	(68.2)	(122.8)	(63.2)	(254.2)
	239.9	311.9	19.1	570.9
Allocation of head office net liabilities	8.3	10.8	(19.1)	–
Adjusted segment net assets	248.2	322.7	–	570.9

2. Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2014 £m	North America 2014 £m	Emerging markets 2014 £m	Total ADE 2014 £m
Gross capital additions	9.2	9.5	0.2	18.9
Depreciation and amortisation	9.5	10.3	0.3	20.1
Balance sheet				
Assets:				
Segment assets	140.3	164.7	3.1	308.1
Liabilities:				
Segment liabilities	(35.5)	(31.0)	(1.7)	(68.2)
Segment net assets	104.8	133.7	1.4	239.9

Automotive & General Industrial	Western Europe 2014 £m	North America 2014 £m	Emerging markets 2014 £m	Total AGI 2014 £m
Gross capital additions	18.8	6.9	10.5	36.2
Depreciation and amortisation	21.6	7.9	4.5	34.0
Balance sheet				
Assets:				
Segment assets	248.2	118.9	67.6	434.7
Liabilities:				
Segment liabilities	(93.1)	(15.6)	(14.1)	(122.8)
Segment net assets	155.1	103.3	53.5	311.9

Geographical information

The Group's revenue from external customers and information about its segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) by country are detailed below:

	Revenue from external customers		**Non-current assets**	
	2015 £m	2014 £m	**2015 £m**	2014 £m
USA	**211.5**	206.7	**257.3**	244.9
France	**82.2**	91.4	**60.4**	63.1
UK	**50.9**	59.5	**74.6**	71.2
Germany	**59.8**	65.5	**58.5**	59.9
Sweden	**41.9**	51.4	**35.8**	37.6
Netherlands	**23.2**	26.1	**20.9**	22.9
Others	**97.7**	108.5	**97.5**	107.1
	567.2	609.1	**605.0**	606.7

3. Operating profit

	2015 £m	2014 £m
Revenue	**567.2**	609.1
Cost of sales	**(359.0)**	(382.0)
Gross profit	**208.2**	227.1
Other operating income	**4.1**	5.4
Distribution costs	**(18.5)**	(17.9)
Administration expenses*	**(93.8)**	(102.1)
Other operating income / (expenses)	**2.1**	(1.4)
Headline operating profit	**102.1**	111.1
Amortisation of acquired intangible fixed assets*	**(4.2)**	(3.9)
Operating profit prior to exceptional items	**97.9**	107.2
Exceptional items*	**(20.0)**	(0.2)
Operating profit	**77.9**	107.0

* Administration and exceptional expenses total £118.0m (2014: £106.2m).

Exceptional items comprise:

	2015 £m	2014 £m
Acquisition costs	**–**	0.2
Reorganisation costs	**20.0**	–
	20.0	0.2

Further details of these items are included in the Finance Director's report on page 20.

Profit for the year has been arrived at after charging / (crediting):

	2015 £m	2014 £m
Net foreign exchange losses	**0.4**	0.1
Inventory expensed	**44.5**	51.9
Depreciation of property, plant and equipment	**48.8**	50.3
Amortisation of intangible fixed assets	**5.0**	4.8
Gain on disposal of property, plant and equipment	**(2.1)**	(1.4)
Staff costs (see note 4)	**220.3**	234.9
Impairment loss on trade receivables	**1.3**	0.1
Impairment of fixed assets - recognised in exceptional items	**9.0**	–
Impairment of fixed assets - recognised in operating profit	**–**	2.7
Impairment of other assets - recognised in exceptional items	**0.5**	–

The analysis of auditor's remuneration on a worldwide basis is as follows:

	2015 £m	2014 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**0.6**	0.6
Total audit fees	**0.7**	0.7
Audit related assurance services*	**0.1**	0.1
Taxation compliance services	**0.1**	0.1
Total non-audit fees	**0.2**	0.2
	0.9	0.9

In addition to the amounts shown above, the auditor received fees of £5,900 (2014: £5,750) for the audit of the Group's pension schemes.

Fees paid to Deloitte LLP and its associates for non-audit services to the Company are not required to be disclosed.

A description of the work of the Audit Committee is set out in the Audit Committee report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

*This includes £0.1m (2014: £0.1m) for the review of the half year report.

4. Staff costs

The average monthly number of employees (including executive directors) was:

	2015 Number	2014 Number
ADE:		
Western Europe	**940**	976
North America	**884**	943
Emerging markets	**27**	24
AGI:		
Western Europe	**1,895**	1,963
North America	**912**	927
Emerging markets	**773**	812
Shared services	**209**	193
Head office	**29**	29
	5,669	5,867

	2015 £m	2014 £m
Their aggregate remuneration comprised:		
Wages and salaries	**185.9**	198.5
Social security costs	**27.1**	29.6
Other pension costs	**7.3**	6.8
	220.3	234.9

Included in wages and salaries are share-based payments resulting in a credit of £0.4m (2014: £1.9m charge).

Included in other pension costs are £6.0m relating to defined contribution schemes (2014: £5.6m) and £1.3m relating to defined benefit schemes (2014: £1.2m).

Disclosure of individual directors' remuneration, share interests, share options, long term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and those specified for audit by the Listing Rules of the Financial Conduct Authority are shown in the tables in the Board report on remuneration on pages 54 to 73 and form part of these financial statements.

5. Exceptional items

	2015 £m	2014 £m
Reorganisation costs	**23.8**	–
Profit on disposal of subsidiaries (see note 25)	**(3.8)**	–
Acquisition costs	**–**	0.2
	20.0	0.2

Reorganisation costs of £23.8m (2014: £nil) relate to restructuring initiatives in Europe, Brazil, USA and India. This has been driven by the fall in global oil prices along with widespread weakness in industrial production, both of which have coincided to cause a notable fall in demand for many types of industrial equipment and machinery, affecting a number of plants.

Reorganisation costs include £11.9m of net restructuring charges (see note 23) and £2.4m of net restructuing environmental charges (see note 23), together with asset impairments amounting to £9.5m (see note 3).

Restructuring initiatives announced during the first half of the year and their associated costs have been reviewed during the second half. As a result of this review and the decision to expand the scope of the restructuring actions, there has been a net increase of £0.1m to the total exceptional items reported at 30 June 2015.

Bodycote Brazil was sold on 25 September 2015 and Bodycote India was sold on 11 September 2015. Further details are disclosed in note 25. No acquisition costs have been expensed in the year (2014: £0.2m).

6. Investment revenue

	2015 £m	2014 £m
Interest on bank deposits	**0.1**	0.1
Total interest and investment revenue	**0.1**	0.1

All investment revenue relates to bank balances and other receivables.

7. Finance costs

	2015 £m	2014 £m
Interest on bank overdrafts and loans*	**0.4**	0.3
Total interest expense	**0.4**	0.3
Net interest on the defined benefit pension liability	**0.3**	0.6
Other finance charges*	**2.3**	2.5
Total finance costs	**3.0**	3.4

* Amounts arising on financial liabilities measured at amortised cost.

8. Taxation

	2015 £m	2014 £m
Current taxation - charge for the year	**22.3**	30.4
Current taxation - adjustments in respect of previous years	**(0.1)**	(7.1)
Deferred tax (see note 20)	**(3.4)**	1.1
	18.8	24.4

UK corporation tax is calculated at 20.25% (2014: 21.50%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2015 £m	2014 £m
Profit before taxation	**75.0**	103.7
Tax at the UK corporation tax rate of 20.25% (2014: 21.50%)	**15.2**	22.3
Tax effect of income that is not taxable in determining taxable profit	**(6.0)**	(2.1)
Deferred tax (assets) / liabilities recognised	**(1.5)**	0.9
Tax effect of other adjustments in respect of previous years:		
Current tax	**0.1**	(7.1)
Deferred tax	**0.2**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**10.8**	10.4
Tax expense for the year	**18.8**	24.4

Tax on items taken directly to equity is a credit of £0.2m (2014: credit of £1.0m).

Tax on exceptional items and amortisation of acquired intangible fixed assets is £5.4m (2014: £0.1m).

9. Dividends

	2015 £m	2014 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2014 of 9.8p (2013: 9.1p) per share	**18.7**	17.4
Special dividend for the year ended 31 December 2014 of 20.0p (2013: 10.0p) per share	**38.2**	19.1
Interim dividend for the year ended 31 December 2015 of 4.8p (2014: 4.6p) per share	**9.1**	8.7
	66.0	45.2
Proposed final dividend for the year ended 31 December 2015 of 10.3p (2014: 9.8p) per share	**19.6**	18.7
Proposed special dividend for the year ended 31 December 2015 of 10.0p (2014: 20.0p) per share	**19.0**	38.1

The proposed final dividend and special dividend are subject to approval by shareholders at the Annual General Meeting and have not been included as liabilities in these financial statements.

The dividend is waived on shares held by the Bodycote International Employee Benefit Trust.

10. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2015 £m	2014 £m
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	**56.2**	79.4

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**189,991,657**	190,243,625
Effect of dilutive potential ordinary shares:		
Share options	**–**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**189,991,657**	190,243,625

	Pence	Pence
Earnings per share:		
Basic	**29.6**	41.7
Diluted	**29.6**	41.7

	£m	£m
Headline earnings		
Net profit attributable to equity holders of the parent	**56.2**	79.4
Add back:		
Amortisation of acquired intangible fixed assets (net of tax)	**3.2**	3.8
Acquisition costs (net of tax)	**–**	0.2
Reorganisation costs (net of tax)	**15.6**	–
Headline earnings	**75.0**	83.4

	Pence	Pence
Earnings per share from headline earnings:		
Basic	**39.5**	43.8
Diluted	**39.5**	43.8

11. Goodwill

	2015 £m	2014 £m
Cost		
At 1 January	**207.4**	205.1
Exchange differences	**(0.6)**	0.9
Recognised on acquisition of subsidiaries	**–**	1.4
Derecognised on disposal of subsidiaries	**(6.2)**	–
At 31 December	**200.6**	207.4
Accumulated impairment		
At 1 January	**69.0**	69.4
Exchange differences	**(2.2)**	(0.4)
Derecognised on disposal of subsidiaries	**(6.2)**	–
At 31 December	**60.6**	69.0
Carrying amount	**140.0**	138.4

11. Goodwill (continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the business units that are expected to benefit from that business combination. After recognition of impairment losses, the carrying amount of goodwill has been allocated to the Group's operating segments as follows:

	2015 £m	2014 £m
ADE:		
Western Europe	**26.4**	26.5
North America	**46.2**	45.4
Emerging markets	**–**	–
AGI:		
Western Europe	**18.1**	18.6
North America	**43.7**	42.1
Emerging markets	**5.6**	5.8
	140.0	138.4

The Group tests goodwill at least annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for those calculations are the discount rates and growth rates in respect of future cash flows. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. This rate is risk adjusted, for specific countries, where the Group perceives a risk premium is appropriate. The rates used to discount the forecast cash flows for cash generating units are between 12.4% (2014: 12.3%) and 13.4% (2014: 14.3%). The recoverable amount is the sum of the discounted cash flows as forecasted for the coming five years, together with a further estimate of cash flows in perpetuity.

The forecast sales reflect management's expectation of how sales will develop at this point in the economic cycle. The expected profit margin reflects management's experience of each cash generating unit's profitability at the forecast level of sales. As outlined in the Business review, these forecasts take into account the current and expected economic environment both in respect of geography and market sectors. Cash flows after five years are based on an estimated growth rate of 3.0% (2014: 3.0%), being the historical weighted average growth in GDP in the markets that the Group operates in. Growth rates by cash generating unit range from 2.75% to 6.0%. This rate does not exceed the average long-term growth rate for the relevant markets.

If the goodwill allocated to a cash generating unit represents more than 15% of the Group's total goodwill carrying value, the cash generating unit is considered to be individually significant. The Group considers the North America ADE Heat Treatment and North America AGI Heat Treatment cash generating units to be significant cash generating units. The long term growth rates applied to cash flows after five years and the rates used to discount the forecast cash flows for these significant cash generating units are shown below:

Cash generating unit	**Goodwill carrying value £m**	**Long term growth rate %**	**Discount rate %**
North America ADE Heat Treatment	**43.6**	**3.2**	**12.4**
North America AGI Heat Treatment	**43.6**	**3.2**	**12.4**

The Group has conducted sensitivity analyses on the key assumptions applied to the value in use calculations for each cash generating unit. A decline in sales of 11.2% per annum in perpetuity would result in the recoverable amount of goodwill for the Group being reduced to its carrying value. The directors do not believe such a decline to be likely.

Declines in long-term growth rates of 32.1 percentage points and 6.9 percentage points for North America ADE Heat Treatment and North America AGI Heat Treatment cash generating units, respectively, would result in the recoverable amount of goodwill for these cash generating units being reduced to their carrying values. The directors do not believe such declines to be likely.

The Board has concluded that no impairment charge is required in 2015.

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12. Other intangible assets

	Software £m	Non compete agreements £m	Customer relationships £m	Total £m
Cost				
At 1 January 2014	20.2	2.9	32.6	55.7
Exchange differences	(0.3)	–	1.4	1.1
Additions	4.1	–	–	4.1
Acquired on acquisition of subsidiaries	–	–	1.2	1.2
Disposals	(0.2)	–	–	(0.2)
At 1 January 2015	**23.8**	**2.9**	**35.2**	**61.9**
Exchange differences	**(0.2)**	**–**	**0.8**	**0.6**
Additions	**5.6**	**–**	**–**	**5.6**
Disposals	**(0.4)**	**–**	**–**	**(0.4)**
Derecognised on disposal of subsidiaries	**–**	**–**	**(1.0)**	**(1.0)**
At 31 December 2015	**28.8**	**2.9**	**35.0**	**66.7**
Amortisation				
At 1 January 2014	12.4	0.8	10.3	23.5
Exchange differences	(0.2)	–	0.3	0.1
Charge for the year	0.9	0.7	3.2	4.8
Disposals	(0.2)	–	–	(0.2)
At 1 January 2015	**12.9**	**1.5**	**13.8**	**28.2**
Exchange differences	**(0.2)**	**–**	**(0.2)**	**(0.4)**
Charge for the year	**0.9**	**0.8**	**3.3**	**5.0**
Impairment loss	**0.1**	**–**	**–**	**0.1**
Disposals	**(0.4)**	**–**	**–**	**(0.4)**
Derecognised on disposal of subsidiaries	**–**	**–**	**(1.0)**	**(1.0)**
At 31 December 2015	**13.3**	**2.3**	**15.9**	**31.5**
Carrying amount				
At 31 December 2015	**15.5**	**0.6**	**19.1**	**35.2**
At 31 December 2014	10.9	1.4	21.4	33.7

13. Property, plant and equipment

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost or valuation							
At 1 January 2014	220.6	2.7	14.1	751.0	29.6	33.4	1,051.4
Additions	1.0	0.3	0.2	16.6	1.0	36.2	55.3
Acquisition of businesses	–	–	–	0.9	–	0.2	1.1
Exchange differences	(8.4)	–	(0.3)	(21.2)	(1.2)	(0.3)	(31.4)
Recategorisation	2.1	4.5	(4.1)	24.2	0.5	(27.2)	–
Disposals	(1.2)	–	(0.2)	(16.6)	(0.8)	(0.3)	(19.1)
At 1 January 2015	**214.1**	**7.5**	**9.7**	**754.9**	**29.1**	**42.0**	**1,057.3**
Additions	**0.9**	**2.0**	**0.2**	**15.5**	**0.9**	**41.6**	**61.1**
Exchange differences	**(3.5)**	**(0.1)**	**(0.4)**	**(9.6)**	**(1.0)**	**(0.4)**	**(15.0)**
Transfer to assets held for sale	**(1.4)**	**–**	**–**	**–**	**–**	**–**	**(1.4)**
Recategorisation	**6.5**	**0.9**	**(0.2)**	**25.3**	**(1.2)**	**(31.3)**	**–**
Disposals	**(0.9)**	**(0.1)**	**(0.1)**	**(21.2)**	**(1.8)**	**(0.3)**	**(24.4)**
Disposal of subsidiaries	**(1.8)**	**(0.7)**	**(0.3)**	**(12.1)**	**(0.9)**	**–**	**(15.8)**
At 31 December 2015	**213.9**	**9.5**	**8.9**	**752.8**	**25.1**	**51.6**	**1,061.8**
Accumulated depreciation and impairment							
At 1 January 2014	85.8	1.5	7.9	486.1	24.2	1.3	606.8
Charge for the year	5.8	0.4	0.6	41.8	1.7	–	50.3
Impairment losses incurred	0.2	–	0.1	2.2	0.2	–	2.7
Exchange differences	(3.7)	–	(0.2)	(15.8)	(1.0)	–	(20.7)
Recategorisation	–	2.3	(2.3)	1.3	–	(1.3)	–
Eliminated on disposals	(1.1)	–	–	(14.5)	(0.8)	–	(16.4)
At 1 January 2015	**87.0**	**4.2**	**6.1**	**501.1**	**24.3**	**–**	**622.7**
Charge for the year	**5.7**	**0.6**	**0.6**	**40.2**	**1.7**	**–**	**48.8**
Impairment losses incurred	**1.7**	**0.5**	**0.1**	**6.2**	**0.5**	**–**	**9.0**
Exchange differences	**(2.2)**	**–**	**(0.3)**	**(7.8)**	**(0.9)**	**–**	**(11.2)**
Transfer to assets held for sale	**(1.1)**	**–**	**–**	**–**	**–**	**–**	**(1.1)**
Recategorisation	**3.3**	**–**	**(0.1)**	**(0.2)**	**(3.0)**	**–**	**–**
Eliminated on disposals	**(0.6)**	**(0.1)**	**–**	**(18.7)**	**(1.8)**	**–**	**(21.2)**
Eliminated on disposal of subsidiaries	**(1.8)**	**(0.5)**	**(0.3)**	**(11.3)**	**(0.9)**	**–**	**(14.8)**
At 31 December 2015	**92.0**	**4.7**	**6.1**	**509.5**	**19.9**	**–**	**632.2**
Carrying amount							
At 31 December 2015	**121.9**	**4.8**	**2.8**	**243.3**	**5.2**	**51.6**	**429.6**
At 31 December 2014	127.1	3.3	3.6	253.8	4.8	42.0	434.6

The carrying amount of leased assets is £nil (2014: £nil).

At 31 December 2015 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.5m (2014: £5.6m).

In addition to the above, property, plant and equipment amounting to £1.2m (2014: £0.9m) has been classified as held for sale and is disclosed within current assets.

13. Property, plant and equipment (continued)

The Group restructured various operations during the year and identified £9.0m of asset impairments. Asset impairments broken down by business segment are as follows:

	2015 £m
ADE:	
Western Europe	0.4
North America	–
Emerging markets	–
AGI:	
Western Europe	2.4
North America	0.3
Emerging markets	5.9
	9.0

It is the directors' view that there are no material differences between the value of the land owned and their carrying value in the balance sheet.

14. Subsidiaries and other investments

A list of investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on pages 135 to 137.

	2015 £m	2014 £m
Sundry investments	0.2	–

The sundry investments relate to the Bodycote Investment Incentive Plan, as explained in the Board report on remuneration.

15. Inventories

	2015 £m	2014 £m
Raw materials	11.4	12.3
Work-in-progress	7.8	8.3
Finished goods and goods for resale	0.3	0.3
	19.5	20.9

16. Other financial assets

Trade and other receivables

	2015 £m	2014 £m
Amounts falling due within one year:		
Amounts receivable for the supply of services	90.6	92.1
Other debtors and prepayments*	15.1	16.9
	105.7	109.0
Amounts falling due after more than one year:		
Other debtors and prepayments*	0.4	1.6

* Other financial assets include prepayments of £6.7m (2014: £6.4m), which are not included as financial assets under IFRS 7.

The average credit period given to customers for the supply of services as at 31 December 2015 is 62 days (2014: 60 days). An allowance has been made for estimated irrecoverable amounts from the supply of services of £5.9m (2014: £5.5m). This allowance has been determined by reference to past default experience.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

16. Other financial assets (continued)

Credit risk

The Group's principal financial assets are bank balances, cash and trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Further disclosure of the Group's financial instrument risk management activities is set out in note 19.

Included in the Group's trade receivable balance are debtors with a carrying amount of £19.4m (2014: £17.2m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

The average credit terms offered to customers is 37 days, with a range from 14 days to 70 days.

Ageing of past due but not impaired receivables:

	2015 £m	2014 £m
31–60 days	**11.5**	10.4
61–90 days	**5.5**	4.5
91–120 days	**0.9**	1.1
Greater than 120 days	**1.5**	1.2
	19.4	17.2

Movement in the allowance for doubtful debts:

	2015 £m	2014 £m
At 1 January	**5.5**	6.1
Impairment losses recognised	**2.4**	1.3
Amounts written off as uncollectable	**(0.4)**	(0.5)
Impairment losses reversed	**(1.1)**	(1.2)
Allowance disposed with subsidiaries	**(0.2)**	–
Exchange differences	**(0.3)**	(0.2)
At 31 December	**5.9**	5.5

In determining the recoverability of a trade receivable the Group considers any change in the quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a gross balance of £8.6m (2014: £8.3m). The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds. The Group does not hold any collateral over these balances.

Ageing of impaired trade receivables:

	2015 £m	2014 £m
Less than 3 months	**0.9**	1.8
3–12 months	**3.4**	2.0
Over 12 months	**4.3**	4.5
	8.6	8.3

16. Other financial assets (continued)

Cash and bank balances

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value. A breakdown of significant cash and bank balances by currency is as follows:

	2015 £m	2014 £m
Sterling	**5.2**	25.6
Euro	**4.0**	2.4
US Dollar	**3.8**	7.6
Swedish Krona	**1.3**	0.6
Chinese Yuan	**0.4**	0.1
Czech Republic Koruna	**0.3**	0.1
Turkish Lira	**0.2**	–
Mexican Peso	**0.2**	0.3
Polish Zloty	**0.2**	0.2
Romanian Leu	**0.1**	0.2
Canadian Dollar	**0.1**	0.1
Swiss Franc	**0.1**	0.1
Brazilian Real	**–**	0.1
Danish Krone	**–**	0.1
Indian Rupee	**–**	0.4
Other	**0.3**	0.6
Total cash and bank balances	**16.2**	38.5

17. Assets held for sale

Assets held for sale comprise the following:

	2015 £m	2014 £m
Property, plant and equipment	**1.2**	0.9

Assets held for sale consist exclusively of land and buildings currently not in use by the Group. It is expected that the disposal of these assets will be completed during 2016. The assets held for sale are analysed between operating segments as follows:

	2015 £m	2014 £m
ADE:		
North America	**0.7**	0.7
AGI:		
Western Europe	**0.5**	0.2
	1.2	0.9

18. Borrowings

	2015 £m	2014 £m
Borrowings at amortised cost:		
Bank overdrafts	**3.8**	2.5
The borrowings are repayable as follows:		
On demand or within one year	**3.8**	2.5
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(3.8)**	(2.5)
Amount due for settlement after 12 months	**–**	–

18. Borrowings (continued)

Analysis of borrowings by currency:

	Euro £m	US Dollar £m	Other currencies £m	Total £m
At 31 December 2015				
Bank overdrafts	**0.1**	**1.5**	**2.2**	**3.8**
At 31 December 2014				
Bank overdrafts	0.2	0.5	1.8	2.5

The weighted average interest rates paid were as follows:

	2015 %	2014 %
Bank overdrafts and loans	**2.2**	3.8

The directors estimate the fair value of the Group's borrowings as follows:

	2015 £m	2014 £m
Bank overdrafts	**3.8**	2.5

The other principal features of the Group's borrowings are as follows:

(i) Bank overdrafts are repayable on demand. No overdrafts are secured.

(ii) At 31 December 2015 the Group's principal borrowing facility had drawings of £nil (2014: £nil) under a Revolving Credit Facility of £230m. This unsecured facility commenced on 3 July 2014 and matures on 3 July 2019. The multi currency drawings under this facility carry an interest rate of between 1.05% and 1.90% above LIBOR (the applicable margin at 31 December 2015 was 1.05%).

At 31 December 2015 the Group had available £230.0m (2014: £230.0m) of undrawn committed borrowing facilities. All borrowings are classified as financial liabilities measured at amortised cost.

19. Derivative financial instruments

Currency derivatives that are designated and effective as hedging instruments carried at fair value

Asset	**Notional amount 2015 £m**	**Fair value 2015 £m**	Notional amount 2014 £m	Fair value 2014 £m
Current				
Forward foreign exchange contracts	**3.8**	**–**	5.6	–
Total				
Forward foreign exchange contracts	**3.8**	**–**	5.6	–

The Group utilises currency derivatives to hedge material future transactions and cash flows. The Group uses foreign currency forward contracts in the management of its exchange rate exposures. The contracts are primarily denominated in the currencies of the Group's principal markets. The unrecognised gains and losses were not significant in either 2015 or 2014.

In accordance with IFRS 7 'Improving Disclosures about Financial Instruments', the Group's financial instruments are considered to be classified as level 2 instruments. Fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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Year ended 31 December 2015

19. Derivative financial instruments (continued)

Fair value is determined using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The Group's interest rate risk is primarily in relation to its fixed rate borrowings (fair value risk) and floating rate borrowings (cash flow risk). From time to time the Group will use interest rate derivative contracts to manage its exposure to interest rate movements within Group policy. However, at the balance sheet date, the Group had no interest rate derivative contracts.

Asset / (liability)	**Euro 2015 £m**	**US Dollar 2015 £m**	**Other currencies 2015 £m**	**Total fair value 2015 £m**
Forward foreign exchange contracts	**0.1**	**2.5**	**(2.6)**	**–**
On demand or within one year	**0.1**	**2.5**	**(2.6)**	**–**

Asset / (liability)	Euro 2014 £m	US Dollar 2014 £m	Other currencies 2014 £m	Total fair value 2014 £m
Forward foreign exchange contracts	(0.4)	1.1	(0.7)	–
On demand or within one year	(0.4)	1.1	(0.7)	–

Financial risk management

The Group's treasury function provides a centralised service to the Group for funding, foreign exchange, interest rate management and counterparty risk. Treasury activities have the objective of minimising risk and treasury operations are conducted within a framework of policies and guidelines reviewed and authorised by the Board.

The Group uses a number of derivative instruments that are transacted, for risk management purposes only, by specialist treasury personnel. The use of financial instruments, including derivatives, is permitted when approved by the Board, where the effect is to minimise risk for the Group. Speculative trading of derivatives or other financial instruments is not permitted. There has been no significant change during the financial year, or since the end of the year, to the types or scope of financial risks faced by the Group.

Liquidity risk

Liquidity risk is defined as the risk that the Group might not be able to settle or meet its obligations on time or at a reasonable price. Liquidity risk arises as a result of mismatches between cash inflows and outflows from the business. This risk is monitored on a centralised basis through regular cash flow forecasting, a three-year rolling strategic plan, an annual budget agreed by the Board each December and a quarterly re-forecast undertaken during the financial year. To mitigate the risk, the resulting forecast net debt / cash is measured against the liquidity headroom policy which, at the current net debt / cash levels, requires committed facilities (plus term loans in excess of one year) to exceed net debt by 50% (minimum facilities of £75m).

As at 31 December 2015, the Group had a revolving credit committed borrowing facility of £230.0m (2014: £230.0m) which, together with net cash of £12.3m (2014: £35.7m), resulted in available funds of £242.3m (2014: £265.7m). The Group also uses uncommitted short-term bank facilities to manage short-term liquidity but these facilities are excluded from the liquidity headroom policy. The Group manages longer-term liquidity through its committed bank facilities and will, if appropriate, raise funds on capital markets. As at 31 December 2015 the Group's principal committed bank facilities have the following maturity dates:

- £230m Revolving Credit Facility 3 July 2019 (3.5 years)
- $10m Letter of Credit Facility 31 August 2016 (0.7 years)

The facilities were undrawn at the end of the current and previous year.

Cash management pooling, netting and concentration techniques are used to minimise borrowings. As at 31 December 2015, the Group had gross cash of £16.2m (2014: £38.5m).

19. Derivative financial instruments (continued)

Interest rate risk

Interest rate risk arises on borrowings and cash balances (and derivative liabilities and assets) which are at floating interest rates. Changes in interest rates could have the effect of either increasing or decreasing the Group's net profit. Under the Group's interest rate management policy, the interest rates on each of the Group's major currency monetary assets and liabilities are managed to achieve the desired mix of fixed and variable rates for each major net currency exposure. The major interest rate risk is to UK rates but exposures also exist to rates in the USA, Europe and Sweden. Measurement of this interest rate risk and its potential volatility to the Group's reported financial performance is undertaken on a monthly basis and the Board uses this information to determine, from time to time, an appropriate mix of fixed and floating rates.

As at 31 December 2015, 4% of gross debt and 0% of gross cash were at fixed rates (2014: 9% of gross debt, 0% of gross cash). The average tenure of the fixed rate debt was 1.2 years (2014: 2.2 years).

Currency risk

Bodycote has operations in 24 countries and is therefore exposed to foreign exchange translation risk when the profits and net assets of these entities are consolidated into the Group accounts.

91% of the Group's sales are in currencies other than sterling (EUR 35%, USD 37% and SEK 7%). Cumulatively over the year, sterling rates moved such that the sales for the year were £16.9m lower than if sales had been translated at the rates prevailing in 2014.

It is Group policy not to hedge exposure for the translation of reported profits.

The Group's balance sheet translation policy is not to actively hedge currency net assets. However, where appropriate, the Group will still match centrally held currency borrowings to the net assets. The Group principally borrows in sterling but also maintains debt in US Dollar, Euro and Swedish Krona, consistent with the location of the Group's assets. The Group recognises foreign exchange movements in equity for the translation of net investment hedging instruments and balances.

Transaction foreign exchange exposures arise when entities within the Group enter into contracts to pay or receive funds in a currency different from the functional currency of the entity concerned. It is Group policy to hedge exposure to cash transactions in foreign currencies when a commitment arises, usually through the use of foreign exchange forward contracts. Even though approximately 91% of the Group's sales are generated outside the UK, the nature of the business is such that cross border sales and purchases are limited and, other than interest, such exposures are immaterial for the Group.

Market risk sensitivity analysis

To represent management's best estimate of a reasonable range of potential outcomes, the Group has measured the estimated charge to the income statement and equity of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening in sterling against all other currencies from the applicable rates as at 31 December 2015, for all financial instruments with all other variables remaining constant. This analysis is for illustrative purposes only. The sensitivity analysis excludes the impact of market risks on net post employment benefit obligations.

Interest rate sensitivity

The interest rate sensitivity analysis is based on the following assumptions:

- changes in market interest rates affect the interest income or expense of variable interest financial instruments;
- changes in market interest rates only affect the income statement in relation to financial instruments with fixed interest if these are recognised at their fair value; and
- changes in market interest rates affect the fair value of derivative financial instruments designated as hedging instruments.

Under these assumptions, a one percentage point fall or rise in market interest rates for all currencies in which the Group has variable net cash or net borrowings at 31 December 2015 would reduce or increase profit before tax by approximately £0.1m (2014: £0.4m). There is no significant impact on equity in the current or previous year.

Currency sensitivity

Taking the 2015 sales by currency, a 10% weakening / strengthening in the 2015 cumulative average rates for all currencies versus sterling would have given rise to a +£57.4m / -£46.9m movement in sales respectively. The impact on headline operating profit is affected by the mix of losses and profits in the various currencies. However, taking the 2015 operating profit mix, a 10% weakening / strengthening in 2015 cumulative average rates for all currencies would have given rise to a +£10.9m / -£8.9m movement in headline operating profit.

Counterparty risk

Counterparty risk encompasses settlement risk on derivative financial instruments and money market contracts and credit risk on cash, time deposits and money market funds. The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy, thereby limiting its exposure to any one party to ensure there is no significant concentration of credit risk. Group policy is to enter into such transactions only with counterparties with a long-term credit rating of A- / A3 or better. However, acquired businesses occasionally have dealings with banks with lower credit ratings. Business with such banks is moved as soon as practicable.

20. Deferred tax

The following are the major deferred tax liabilities and (assets) recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation £m	Tax losses £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 January 2014	41.8	(3.7)	(5.2)	(0.7)	32.2
Charge / (credit) to income	(0.2)	1.2	(0.4)	0.5	1.1
Credit to equity	–	–	(1.0)	–	(1.0)
Acquisition of subsidiaries	0.1	–	–	0.3	0.4
Transfers*	10.0	(0.2)	1.1	(9.4)	1.5
Exchange differences	(0.7)	0.1	0.3	(0.4)	(0.7)
Effect of change in tax rate:					
Income statement	–	0.1	–	(0.1)	–
At 1 Januray 2015	**51.0**	**(2.5)**	**(5.2)**	**(9.8)**	**33.5**
(Credit) / charge to income	**(4.1)**	**(0.7)**	**–**	**1.4**	**(3.4)**
Credit to equity	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Transfers*	**1.9**	**–**	**–**	**(1.3)**	**0.6**
Exchange differences	**0.4**	**0.1**	**0.1**	**(0.4)**	**0.2**
Effect of change in tax rate:					
Income statement	**0.1**	**–**	**–**	**(0.1)**	**–**
At 31 December 2015	**49.3**	**(3.1)**	**(5.3)**	**(10.2)**	**30.7**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2015 £m	2014 £m
Deferred tax liabilities	**61.9**	60.7
Deferred tax assets	**(31.2)**	(27.2)
	30.7	33.5

Other deferred tax assets relate to provisions recognised in the financial statements that are not yet deductible for tax purposes, in particular in relation to restructuring charges, share-based payments and local profit differences that are expected to reverse over time.

At the balance sheet date, the Group has unused tax losses of £40.1m (2014: £71.7m) available for offset against future profits. A deferred tax asset has been recognised in respect of £14.1m (2014: £10.4m) of such losses, based on management forecasts of future taxable profits against which the assets can be recovered in the relevant jurisdictions. No deferred tax asset has been recognised in respect of the remaining £26.0m (2014: £61.3m) of such losses where there remains uncertainty over the timing of utilisation relating to future profitability. The majority of losses may be carried forward indefinitely.

A deferred tax liability of £nil (2014: £0.2m) relating to the temporary differences on unremitted earnings of overseas subsidiaries has not been recognised as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

* Includes movements between current tax and deferred tax

21. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Amounts payable under finance leases:				
Within one year	**0.1**	0.1	**0.1**	0.1
In the second to fifth years inclusive	**–**	0.2	**–**	0.2
	0.1	0.3	**0.1**	0.3
Less: future finance charges	**–**	–		
Present value of lease obligations	**0.1**	0.3		

	2015 £m	2014 £m
Analysed as:		
Amount due for settlement after 12 months	**–**	0.2
Amount due for settlement within 12 months (shown under current liabilities)	**0.1**	0.1
	0.1	0.3
The present value of minimum lease payments is denominated in the following currencies:		
Sterling	**0.1**	0.3
	0.1	0.3

The Group's average lease term is 1.2 years. For the year ended 31 December 2015, the average effective borrowing rate was 8.0% (2014: 8.0%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations approximates to their carrying amount.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

22. Other financial liabilities

Trade and other payables

	2015 £m	2014 £m
Amounts falling due within one year:		
Trade creditors	**36.0**	38.8
Other taxes and social security*	**13.9**	15.1
Other creditors	**10.6**	10.4
Accruals and deferred income	**50.6**	55.0
	111.1	119.3
Amounts falling due after more than one year:		
Other creditors	**2.5**	3.7

* Other financial liabilities include other taxes and social security, which are not included as financial liabilities in IFRS 7.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases as at 31 December 2015 is 41 days (2014: 40 days).

The directors consider that the carrying amount of trade payables approximates to their fair value.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

22. Other financial liabilities (continued)

	Less than 1 year 2015 £m	1–2 years 2015 £m	2–5 years 2015 £m	5+ years 2015 £m	Total 2015 £m
Non-interest bearing*	**123.6**	**3.2**	**3.4**	**4.7**	**134.9**
Finance lease liability	**0.1**	**–**	**–**	**–**	**0.1**
Bank loans and overdrafts	**3.8**	**–**	**–**	**–**	**3.8**
Derivative financial instruments	**3.3**	**0.5**	**–**	**–**	**3.8**
	130.8	**3.7**	**3.4**	**4.7**	**142.6**

	Less than 1 year 2014 £m	1–2 years 2014 £m	2–5 years 2014 £m	5+ years 2014 £m	Total 2014 £m
Non-interest bearing*	126.2	3.3	5.6	5.2	140.3
Finance lease liability	0.1	0.1	0.1	–	0.3
Bank loans and overdrafts	2.5	–	–	–	2.5
Derivative financial instruments	5.6	–	–	–	5.6
	134.4	3.4	5.7	5.2	148.7

* Non-interest bearing financial liabilities include other taxes and social security, which are not included as financial liabilities in IFRS 7. These are payable in less than one year.

Of the £3.8m (2014: £2.5m) bank loans and overdrafts outflows disclosed above, £nil (2014: £nil) of bank loans are drawn under the committed facility maturing on 3 July 2019. The overdrafts are on-demand and some are part of pooling arrangements, which include offsetting cash balances. Of the £3.8m (2014: £5.6m) derivative financial instruments outflows disclosed above, £3.8m (2014: £5.6m) are matched by derivative cash inflows, therefore the net impact on the balance sheet is £nil (2014: £nil).

23. Provisions

	Restructuring £m	Restructuring Environmental £m	Environmental £m	Total £m
At 1 January 2015	**3.3**	**6.1**	**7.9**	**17.3**
Increase in provision	**15.6**	**2.7**	**–**	**18.3**
Release of provision	**(3.7)**	**(0.3)**	**(1.2)**	**(5.2)**
Utilisation of provision	**(6.3)**	**(2.1)**	**(0.4)**	**(8.8)**
Exchange difference	**(0.8)**	**0.2**	**0.3**	**(0.3)**
At 31 December 2015	**8.1**	**6.6**	**6.6**	**21.3**
Included in current liabilities				**12.5**
Included in non-current liabilities				**8.8**
				21.3

The restructuring provision relates to the costs associated with the closure of a number of Heat Treatment sites. The net increase in restructuring and restructuring environmental provisions of £14.3m relates to costs associated with the Group's withdrawal from Brazil, together with new restructuring initiatives announced, primarily in Europe. Asset impairments of £9.5m have also been recognised.

The Group provides for the costs of environmental remediation that have been identified, either as part of acquisition due diligence, or in other circumstances where remediation by the Group is required. This provision is reviewed annually and is separated into Restructuring Environmental and Environmental to separately identify environmental provisions relating to the restructuring programme from those arising in the ordinary course of business.

The majority of cash outflows in respect of these liabilities are expected to occur within five years.

Whilst the Group's use of chlorinated solvents and other hazardous chemicals continues to reduce, the Group remains exposed to contingent liabilities in respect of environmental remediation liabilities. In particular, the Group could be subjected to regulatory or legislative requirements to remediate sites in the future. However, it is not possible at this time to determine whether and to what extent any liabilities exist, other than for those recognised above. Therefore no provision is recognised in relation to these items.

24. Share capital

	2015 £m	2014 £m
Issued and fully paid:		
191,456,172 (2014: 191,456,172) ordinary shares of 17 3/11p each	**33.1**	33.1

25. Disposal of subsidiaries

On 30 June 2015, the Group announced its decision to withdraw from its operations in Brazil. Subsequent to this decision, on 25 September 2015, the Group sold 100% of its interest in Bodycote Brasimet Processamento Termico Ltda ("Bodycote Brazil"). The decision to exit the Group's activities in Brazil is the consequence of a prolonged and substantial reduction in demand in the business's core markets.

During the year, Bodycote Brazil contributed £4.0m (2014: £7.7m) to Group revenue and contributed a headline operating loss of £1.8m to Group results (2014: loss of £2.9m). Closure costs incurred during the year were £6.4m (2014: £nil). Bodycote Brazil is disclosed within the Emerging Markets - AGI operating segment.

On 11 September 2015, the Group also sold 100% of its interest in Bodycote Metallurgical Services India Pvt. Ltd ("Bodycote India") due to the company delivering returns below those considered acceptable to the Group. During the year, Bodycote India contributed £1.0m (2014: £1.4m) to Group revenue and contributed a headline operating loss of £0.2m (2014: loss of £0.2m) to Group results. Bodycote India is disclosed within the Emerging Markets - AGI operating segment.

The net assets of both subsidiaries at the date of disposal were as follows:

	Bodycote Brazil £m	Bodycote India £m	Other £m	Group Total £m
Property, plant and equipment	–	1.0	–	1.0
Trade and other receivables	1.0	0.4	–	1.4
Inventories	0.1	–	–	0.1
Trade and other payables	(1.4)	–	–	(1.4)
Net (liabilities) / assets on date of disposal	(0.3)	1.4	–	1.1
Cash consideration	–	1.8	–	1.8
Disposal costs	(0.1)	(0.1)	–	(0.2)
Cumulative exchange differences recycled on disposal	3.8	(0.7)	0.2	3.3
Profit / (loss) on disposal of subsidiaries recognised in exceptional items (see note 5)	**4.0**	**(0.4)**	**0.2**	**3.8**
Net cash (outflow) / inflow arising on disposal:				
Cash consideration net of disposal costs	**(0.1)**	**1.7**	**–**	**1.6**

26. Notes to the cash flow statement

	2015 £m	2014 £m
Profit for the year	**56.2**	79.3
Adjustments for:		
Investment revenue	**(0.1)**	(0.1)
Finance costs	**3.0**	3.4
Taxation	**18.8**	24.4
Depreciation of property, plant and equipment	**48.8**	50.3
Amortisation of intangible assets	**5.0**	4.8
Profit on disposal of property, plant and equipment	**(2.1)**	(1.4)
Share-based payments	**(0.4)**	1.9
Impairment of fixed assets	**9.0**	2.7
Impairment of other assets	**0.5**	–
Profit on sale of subsidiaries	**(3.8)**	–
EBITDA*	**134.9**	165.3
Decrease / (increase) in inventories	**0.7**	(3.4)
Decrease / (increase) in receivables	**0.9**	(2.2)
Decrease in payables	**(6.3)**	(9.6)
Increase in provisions	**4.3**	0.5
Cash generated by operations	**134.5**	150.6
Income taxes paid	**(23.2)**	(19.0)
Net cash from operating activities	**111.3**	131.6

* Earnings before interest, tax, depreciation, amortisation, impairment of fixed assets and other assets, profit or loss on disposal of property, plant and equipment, profit on sale of subsidiaries and share-based payments.

	2015 £m	2014 £m
Cash and cash equivalents comprise:		
Cash and bank balances	**16.2**	38.5
Bank overdrafts (included in borrowings)	**(3.8)**	(2.5)
	12.4	36.0

27. Operating lease arrangements – the Group as lessee

	2015 £m	2014 £m
Minimum lease payments under operating leases recognised as an expense	**14.6**	15.9

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2015 £m	2014 £m
Within one year	**12.2**	11.6
In the second to fifth years inclusive	**26.4**	24.7
After five years	**16.5**	12.2
	55.1	48.5

Operating lease payments represent rentals payable by the Group for certain of its land and buildings, fixtures and fittings and motor vehicles.

28. Share-based payments

Bodycote Incentive Plan (BIP)

The Company operates the BIP under which executive directors and senior executives received a conditional award of Bodycote shares up to a maximum of 175% of base salary. Vestings of awards are based upon two performance measures, over a three year period.

Fifty percent of the award is subject to a return on capital employed (ROCE) performance condition and fifty percent of the award is subject to an earnings per share (EPS) performance condition.

In the event that threshold performance for both EPS and ROCE is not achieved none of the conditional awards will vest.

Bodycote Co-investment Plan (CIP)

The CIP permits executives to invest in shares up to a value equivalent to 40% of net basic salary. The CIP provides for the grant of awards of matching shares to participants on an annual basis in a maximum ratio of 1:1 to the gross investment made in deferred shares. Deferred shares must be held for three years and matching shares are subject to an absolute Total Shareholder Return (TSR) target. The threshold target for CIP matching awards is TSR growth of not less than 4% per annum compound in excess of growth in the Consumer Prices Index (CPI) for a threshold matching ratio of 1:2. Ten percent per annum compound growth in excess of growth in the CPI will be required for a vesting matching ratio of 1:1.

The number of outstanding share awards is as follows:

	BIP 2015	**CIP 2015**	BIP 2014	CIP 2014
At 1 January	**2,322,260**	**186,791**	2,949,936	176,934
Granted during the year	**702,072**	**38,688**	609,981	52,312
Exercised during the year	**(706,394)**	**(60,239)**	(1,027,355)	(42,455)
Expired during the year	**(313,942)**	**–**	(210,302)	–
At 31 December	**2,003,996**	**165,240**	2,322,260	186,791
Average fair value of share awards granted during the year at date of grant (pence)	**723.3**	**331.0**	713.3	337.0
Fair value of awards granted during the year (£)	**5,078,087**	**128,057**	4,350,994	176,291

Exercise Price = £nil.

The inputs to the Black–Scholes Simulation model, used to determine the charge to the income statement for BIP are as follows:

		2015	2014
Weighted average share price	pence	**765.7**	752.8
Weighted average exercise price	pence	**nil**	nil
Expected life	years	**3.0**	3.0
Expected dividend yields	%	**1.9**	1.8

The inputs to the Monte Carlo Simulation model, used to determine the charge to the income statement for CIP, are as follows:

		2015	2014
Weighted average share price	pence	**748.5**	746.0
Weighted average exercise price	pence	**nil**	nil
Expected volatility	%	**26.0**	35.3
Expected life	years	**3.0**	3.0
Risk-free rate	%	**0.9**	1.2
Expected dividend yields	%	**1.9**	1.8

The Group recognised a total credit to the income statement of £0.4m (2014: charge of £1.9m) related to equity-settled share-based payment transactions.

29. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The remuneration of the Board of Directors, who are considered key management personnel of the Group, was as follows:

	2015 £m	2014 £m
Short-term employee benefits	**1.6**	2.0
Share-based payments	**0.1**	1.2
	1.7	3.2

Further information about the remuneration of the individual directors is provided in the Board Report on Remuneration on pages 54 to 73.

30. Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for employees in the United Kingdom, France, Belgium, Canada and the United States of America. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The Group's employees in Denmark, Finland, Sweden, Italy and the Netherlands are members of state-managed retirement benefit schemes operated by the governments of each country. The relevant subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to these retirement benefit schemes is to make the specified contributions.

The total cost charged to income of £6.0m (2014: £5.6m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2015 contributions of £0.3m (2014: £0.2m) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit schemes

The Group operated a number of pension schemes and provided leaving service benefits to certain employees during the year. The defined benefit obligation less fair value of assets at the end of the year and total expense recognised in the income statement are summarised below as follows:

	2015 £m	2014 £m
UK Scheme	**2.7**	1.0
Non-UK Schemes	**15.2**	16.0
	17.9	17.0

Total expense recognised in income statement

	2015 £m	2014 £m
UK Scheme	**1.0**	1.2
Non-UK Schemes	**0.9**	1.0
	1.9	2.2

Further details of the Group's defined benefit arrangements are given in the Finance Director's report on pages 22 and 23.

30. Retirement benefit schemes (continued)

UK Scheme

The Group sponsors the Bodycote UK Pension Scheme ("the Scheme") which is a funded defined benefit arrangement for certain UK employees, and pays out pensions at retirement based on service, final pensionable pay and price inflation. The Scheme is funded by the Group and current employee members. The Scheme exposes the Company to actuarial risks such as longevity risk, interest rate risk and market (investment) risk.

The Scheme operates under UK trust law and the trust is a separate legal entity from the Group. The Scheme is governed by a board of trustees, composed of two member representatives, two employer representatives and one independent trustee. The trustees are required by law to act in the best interests of scheme members and are responsible for setting certain policies (e.g. investment, funding) together with the Group.

Funding of the Scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Funding requirements are formally set out in the Statement of Funding Principles, Schedule of Contributions and Recovery Plan agreed between the Trustees and the Group. The actuarial valuation of the Scheme as at 6 April 2014 was completed by a qualified independent actuary and the results of this have been updated on an approximate basis to 31 December 2015.

The contributions made by the employer over the financial year have been £1.6m, comprising £0.4m in respect of benefit accrual and £1.2m in respect of deficit recovery and ongoing expenses.

It is the policy of the Group to recognise all actuarial gains and losses in the year in which they occur outside of the profit and loss account and in Other Comprehensive Income.

As the Group does not have an unconditional right to a return of any surplus in the Scheme under the wording of the Scheme Rules, the additional reporting requirements of IFRIC14 apply. Under IFRIC14 the Group is required to recognise additional liabilities of £4.2m as at 31 December 2015 due to the restriction imposed on the surplus in the Scheme at that date and the future contributions agreed at the 6 April 2014 actuarial valuation that the Group will pay to the Scheme. It has not been necessary to recognise additional liablities in previous years due to the funding position of the Scheme on an IAS19 basis.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2015 £m	2014 £m
Defined benefit obligation at start of year	103.3	85.7
Current service cost	0.7	0.6
Interest expense	3.3	3.8
Contributions by plan participants	0.2	0.2
Actuarial gains arising from changes in demographic assumptions	–	(1.2)
Actuarial (gains) / losses arising from changes in financial assumptions	(2.3)	19.6
Experience gains on liabilities	–	(2.0)
Benefits paid, death in service insurance premiums and expenses	(5.3)	(3.4)
Defined benefit obligation at end of year	99.9	103.3

Reconciliation of opening and closing balances of the fair value of the assets

	2015 £m	2014 £m
Fair value of assets at start of year	102.3	80.9
Interest income	3.3	3.6
Return on scheme assets excluding interest income	(0.4)	19.9
Scheme administration expenses	(0.3)	(0.4)
Contributions by employer	1.6	1.5
Contributions by plan participants	0.2	0.2
Benefits paid, death in service insurance premiums and expenses (incl. age related rebate)	(5.3)	(3.4)
Fair value of assets at end of year	101.4	102.3

Total expense recognised in the income statement

	2015 £m	2014 £m
Current service cost	0.7	0.6
Net interest on the defined benefit liability	–	0.2
Scheme administration expenses	0.3	0.4
Total expenses	1.0	1.2

30. Retirement benefit schemes (continued)

UK Scheme (continued)

Assets

	2015 Quoted £m	2015 Unquoted £m	2014 Quoted £m	2014 Unquoted £m
Equities	**13.3**	**–**	17.6	–
Bonds	**53.9**	**7.8**	60.4	4.0
Cash	**3.5**	**–**	0.3	–
Diversified growth funds	**22.5**	**0.4**	20.0	–
	93.2	**8.2**	98.3	4.0

None of the fair value of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by the Group.

The scheme's present strategic target is to allocate 65% of the investment portfolio to 'contractual' asset classes including equities, diversified growth funds, absolute return bonds and direct lending, and 35% to 'non-contractual' asset classes, namely Liability Driven Investment ('LDI'). The LDI portion of assets has been put in place to reduce interest rate and inflation risk.

Assumptions

	2015 % per annum	2014 % per annum
RPI inflation	**3.20**	3.10
CPI inflation	**2.40**	2.30
Salary increases	**3.00**	3.00
Rate of discount	**3.50**	3.30
Allowance for pension in payment increases of RPI or 3% p.a. if less	**2.37**	2.36
Allowance for revaluation of deferred pensions	**2.40**	2.30

Mortality – current pensioners:

	2015	2014
Actuarial tables used	**S2PxA YoB CMI 2013 1.5% long term trend**	S2PxA YoB CMI 2013 1.5% long term trend
Life expectancy for members currently aged 65	**22.7**	22.6

Mortality – future pensioners:

	2015	2014
Actuarial tables used	**S2PxA YoB CMI 2013 1.5% long term trend**	S2PxA YoB CMI 2013 1.5% long term trend
Life expectancy at age 65 for members currently aged 40	**24.9**	24.8

	2015	2014
Cash commutation	**Members commute 75% of maximum permitted**	Members commute 75% of maximum permitted

The weighted average duration of the defined benefit obligation as at 31 December 2015 is approximately 18 years (31 December 2014: 18 years).

30. Retirement benefit schemes (continued)

UK Scheme (continued)

Present value of defined benefit obligations, fair value of assets and deficit

	2015 £m	2014 £m
Present value of defined benefit obligation	**99.9**	103.3
Fair value of plan assets	**(101.4)**	(102.3)
(Surplus) / deficit in the scheme	**(1.5)**	1.0
Adjustment relating to minimum funding requirements	**4.2**	–
Net defined benefit liability before deferred tax	**2.7**	1.0

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2015 is that recognised in the balance sheet. As the Group does not have an unconditional right to a return of any surplus in the Scheme under the wording of the Scheme Rules, the additional reporting requirements of IFRIC14 apply. Under IFRIC14 the Group is required to recognise additional liabilities of £4.2m as at 31 December 2015 due to the restriction imposed on the surplus in the Scheme at that date and the future contributions agreed at the 6 April 2014 actuarial valuation that the Group will pay to the Scheme. It has not been necessary to recognise additional liabilities in previous years due to the funding position of the Scheme on an IAS19 basis.

The best estimate of contributions to be paid into the plan for the year ending 31 December 2016 is £4.4m.

Amounts recognised in Other Comprehensive Income

	2015 £m	2014 £m
Gain from experience on plan liabilities	**–**	2.0
Return on scheme assets excluding interest income	**(0.4)**	19.9
Effects of changes in financial assumptions underlying the present value of the liabilities	**2.3**	(19.6)
Effects of changes in demographic assumptions underlying the present value of the liabilities	**–**	1.2
Charge due to minimum funding obligations	**(4.2)**	–
Total (loss) / gain recognised in Other Comprehensive Income	**(2.3)**	3.5

Impact of changes to assumptions

	2015		2014	
	Increase £m	**Decrease £m**	Increase £m	Decrease £m
0.25% change in discount rate	**(4.6)**	**4.6**	(4.8)	4.8
0.25% change in discount rate	**4.6**	**(4.6)**	4.8	(4.8)
0.25% change in price inflation (and associated assumptions)	**1.9**	**(1.9)**	2.1	(2.1)
0.25% change in price inflation (and associated assumptions)	**(1.9)**	**1.9**	(2.1)	2.1
1 year change in life expectancy at age 65	**3.6**	**(3.6)**	3.7	(3.7)
1 year change in life expectancy at age 65	**(3.6)**	**3.6**	(3.7)	3.7

Combined non-UK disclosures

The Group operates schemes in the USA and continental Europe.

In Europe the Group operates defined benefit pension, post retirement and long-service arrangements for certain employees in France, Germany, Italy, Turkey, Switzerland and Liechtenstein.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2015 £m	2014 £m
Defined benefit obligation at start of year	**26.2**	23.0
Current service cost	**0.6**	0.6
Interest expense	**0.6**	0.7
Actuarial losses arising from changes in demographic assumptions	**–**	0.1
Actuarial losses arising from changes in financial assumptions	**0.3**	3.2
Experience gains on liabilities	**(1.0)**	–
Benefits paid, death in service insurance premiums and expenses	**(1.2)**	(0.4)
Employee contributions	**0.1**	0.1
Exchange rate gain	**–**	(1.1)
Defined benefit obligation at end of year	**25.6**	26.2

30. Retirement benefit schemes (continued)

Combined non-UK disclosures (continued)

Reconciliation of opening and closing balances of the fair value of plan assets

	2015 £m	2014 £m
Fair value of assets at start of year	**10.2**	9.3
Interest income	**0.3**	0.3
(Costs to) / return on scheme assets excluding interest income	**(0.1)**	0.3
Contributions by employer	**0.2**	0.3
Contributions by employees	**0.1**	0.1
Benefits paid, death in service insurance premiums and expenses	**(0.8)**	0.1
Exchange rate gain / (loss)	**0.5**	(0.2)
Fair value of assets at end of year	**10.4**	10.2

Total expense recognised in the income statement

	2015 £m	2014 £m
Current service cost	**0.6**	0.6
Net interest on the defined benefit liability	**0.3**	0.4
Total expenses	**0.9**	1.0

Assets

	2015 Quoted £m	**2015 Unquoted £m**	2014 Quoted £m	2014 Unquoted £m
Equities	**1.9**	**–**	1.8	–
Bonds	**0.1**	**–**	0.1	–
Cash	**1.5**	**0.1**	1.5	0.1
Insurance contracts	**–**	**6.8**	–	6.7
	3.5	**6.9**	3.4	6.8

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by the Group.

Assumptions for 2015

	Salary increases % per annum	**Rate of discount % per annum**	**Inflation % per annum**	**Pension increases % per annum**
USA - metallurgical	n/a	4.5	n/a	n/a
USA - non-metallurgical	n/a	4.5	n/a	n/a
France	2.8	2.0	1.8	1.5
Germany	2.5	2.4	n/a	1.8
Italy	2.5	1.9	1.5	n/a
Turkey	n/a	10.0	6.0	n/a
Liechtenstein	2.5	0.9	n/a	n/a
Switzerland	3.0	0.9	n/a	n/a

30. Retirement benefit schemes (continued)

Combined non-UK disclosures (continued)

Duration

The weighted average durations of the defined benefit obligations of the overseas schemes at 31 December 2015 range from 11 years to 19 years. The durations ranged from 11 years to 16 years as at 31 December 2014.

Present value of defined benefit obligations, fair value of assets and deficit

	2015 £m	2014 £m
Present value of defined benefit obligation	**25.6**	26.2
Fair value of plan assets	**(10.4)**	(10.2)
Deficit in the schemes	**15.2**	16.0

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2015 is that recognised in the balance sheet.

Amounts recognised in Other Comprehensive Income

	2015 £m	2014 £m
Gain from experience on plan liabilities	**1.0**	–
(Costs to) / return on scheme assets excluding interest income	**(0.1)**	0.3
Effects of changes in financial assumptions underlying the present value of the liabilities	**(0.3)**	(3.2)
Effects of changes in demographic assumptions underlying the present value of the liabilities	**–**	(0.1)
Total gain / (loss) recognised in Other Comprehensive Income	**0.6**	(3.0)

The only funded plans are those operated in USA, Switzerland and Liechtenstein. The best estimate of contributions to be paid into the plans for the year ending 31 December 2016 is £0.3m.

Sensitivities (changes to total defined benefit obligations)

	2015		2014	
	Increase £m	**Decrease £m**	Increase £m	Decrease £m
0.25% change in discount rate	**(0.9)**	**0.9**	(1.0)	1.0
0.25% change in price inflation (and associated assumptions)	**0.4**	**(0.4)**	0.5	(0.5)

The scheme sensitivities are designed to give a broad indication of the effect of changes to the assumptions, and are applied to adjust the defined benefit obligation at the end of the reporting period.

Five year summary

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Revenue	**567.2**	609.1	619.6	587.8	570.7
Profit:					
Headline operating profit	**102.1**	111.1	107.4	97.5	84.9
Amortisation of acquired intangible fixed assets	**(4.2)**	(3.9)	(4.5)	(2.0)	(0.9)
Operating profit prior to exceptional items	**97.9**	107.2	102.9	95.5	84.0
Impairment charge	**–**	–	–	–	(4.2)
Profit on disposal of investments	**–**	–	–	2.4	–
Acquisition costs	**–**	(0.2)	–	(2.5)	–
Reorganisation costs	**(20.0)**	–	(0.8)	(2.4)	–
Operating profit	**77.9**	107.0	102.1	93.0	79.8
Net finance costs	**(2.9)**	(3.3)	(3.7)	(3.0)	(4.2)
Profit before taxation	**75.0**	103.7	98.4	90.0	75.6
Taxation	**(18.8)**	(24.4)	(25.3)	(22.8)	(19.8)
Profit after taxation	**56.2**	79.3	73.1	67.2	55.8
Non-controlling interests	**–**	0.1	(0.1)	(0.1)	(0.2)
Profit attributable to the equity holders of the parent	**56.2**	79.4	73.0	67.1	55.6
Headline earnings per share (pence)	**39.5**	43.8	41.2	37.5	32.6
Dividend per share (pence)	**15.1**	14.4	13.5	12.3	10.9
Special dividend per share (pence)	**10.0**	20.0	10.0	–	–
Assets employed					
Intangible fixed assets	**175.2**	172.1	167.9	166.8	111.5
Tangible fixed assets	**429.6**	434.6	444.6	448.7	443.9
Other assets and liabilities	**(67.5)**	(71.5)	(80.1)	(77.2)	(73.2)
	537.3	535.2	532.4	538.3	482.2
Financed by					
Share capital	**33.1**	33.1	33.1	33.1	33.0
Reserves	**516.1**	537.3	513.7	469.6	448.0
Shareholders' funds	**549.2**	570.4	546.8	502.7	481.0
Non-controlling interests	**0.4**	0.5	0.6	1.4	1.3
Net (cash) / borrowings	**(12.3)**	(35.7)	(15.0)	34.2	(0.1)
Capital employed	**537.3**	535.2	532.4	538.3	482.2
Net assets per share (pence)	**286.9**	297.9	285.6	262.6	251.5
Return on capital employed (%): Headline operating profit divided by the average of opening and closing capital employed as adjusted for certain items of goodwill written off	**19.0**	20.7	19.9	17.9	16.3

Company statement of financial position

At 31 December 2015

	Note	2015 £m	2014 (Restated) £m
Fixed assets			
Intangible fixed assets	2	**14.1**	9.5
Tangible fixed assets	3	**0.3**	0.4
Investments	4	**395.0**	392.6
Receivables	5	**3.5**	5.0
		412.9	407.5
Current assets			
Receivables	5	**10.8**	7.9
		10.8	7.9
Current liabilities			
Payables	6	**(7.2)**	(9.1)
Net current assets / (liabilities)		**3.6**	(1.2)
Total assets less current liabilities		**416.5**	406.3
Payables: Amounts falling due after more than one year	6	**(17.2)**	(7.1)
Retirement benefit obligations	11	**(2.7)**	(1.0)
Net assets		**396.6**	398.2
Capital and reserves			
Called-up share capital	8	**33.1**	33.1
Share premium account		**177.1**	177.1
Other reserves		**124.2**	128.9
Profit and loss account		**62.2**	59.1
Shareholders' funds		**396.6**	398.2

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 25 February 2016.

They were signed on its behalf by:

S.C. Harris
Director

D.F. Landless
Director

Company statement of changes in equity

For the year ended 31 December 2015

	Called-up share capital £m	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
1 January 2014 (restated, see note 13)	33.1	177.1	133.9	57.5	401.6
Profit for the year	–	–	–	43.0	43.0
Actuarial gains on defined benefit pension schemes net of deferred tax	–	–	–	3.0	3.0
Other comprehensive income	–	–	–	(0.6)	(0.6)
Total comprehensive income for the year	–	–	–	45.4	45.4
Dividends paid	–	–	–	(45.2)	(45.2)
Share-based payments	–	–	1.8	–	1.8
Acquisition of own shares	–	–	(7.0)	–	(7.0)
Settlement of share options	–	–	0.2	1.4	1.6
31 December 2014 (restated)	33.1	177.1	128.9	59.1	398.2
Profit for the year	–	–	–	71.6	71.6
Actuarial loss on defined benefit pension schemes net of deferred tax	–	–	–	(1.4)	(1.4)
Other comprehensive income	–	–	–	(0.5)	(0.5)
Total comprehensive income for the year	–	–	–	69.7	69.7
Dividends paid	–	–	–	(66.0)	(66.0)
Share-based payments	–	–	(0.4)	–	(0.4)
Acquisition of own shares	–	–	(6.7)	–	(6.7)
Settlement of share options	–	–	2.4	(0.6)	1.8
31 December 2015	**33.1**	**177.1**	**124.2**	**62.2**	**396.6**

Details of dividends paid are set out in note 9 to the consolidated financial statements.

Details of share-based payment transactions are set out in note 28 of the consolidated financial statements.

The other reserves are stated after deducting £9.2m (2014: £7.1m) relating to shares held in the Bodycote International Employee Benefit Trust. The Bodycote International Employee Benefit Trust holds Bodycote plc shares and satisfies awards made under various employee incentive schemes when issuance of new shares is not appropriate.

At 31 December 2015 1,464,515 (2014: 1,212,547) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust and, following recommendations by the employer, are provisionally allocated to satisfy awards under employee incentive schemes. The trust waives payment of dividend. The market value of these shares was £8.3m (2014: £7.9m).

Included in other reserves is the capital redemption reserve of £129.8m (2014: £129.8m).

Company accounting policies

Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The financial statements have been prepared under the historical cost convention and in accordance with applicable law. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year in dealing with items that are considered material in relation to the Company's financial statements. In accordance with Section 408 of the Companies Act 2006 a separate profit and loss account dealing with the results of the Company has not been presented.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets, business combinations, discontinued operations and related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

Going concern

The directors have at the time of approving the financial statements a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Finance Director's Report on page 23.

Investments

Investments are held at cost less provision for impairment, if any.

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses arising on retranslation are included in net profit or loss for the period.

Pension costs

The Company participates in a final salary defined benefit pension scheme in the United Kingdom which is funded by the payment of contributions to a separately administered trust fund. This is a defined benefit plan which shares the risks between entities under common control. For further details, see note 11.

There is no contractual arrangement or policy for charging the net benefit cost between the entities who participate in this scheme. The Company is considered to be the entity that is legally the sponsoring employer of this scheme. As such, the Company recognises the net defined benefit cost and the retirement benefit obligation as per the requirements of IAS 19 Employee Benefits, as described in further detail in the accounting policies of the consolidated financial statements on page 88.

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

The Company as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Company accounting policies continued

Tangible fixed assets
Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided on a straight-line basis, to reduce the carrying value to the estimated residual value at the point of sale, at the following annual rates:

Fixtures and fittings	10% to 20%

Intangible fixed assets
Intangible fixed assets are stated at cost net of amortisation and any provision for impairment. Amortisation is provided on a straight-line basis over their estimated useful lives, at the following annual rates:

Software	10% to 33%

Taxation
Current UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained on government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

Related party transactions
The Company has taken advantage of the exemption contained in FRS 8 Related Party Transactions not to disclose transactions or balances with wholly-owned entities of the Group.

Share-based payments
The Company has applied the requirements of IFRS 2 Share-based Payment.

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates with a corresponding adjustment to the equity-settled employee benefits reserve.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relevant to the Company financial statements are included within the Group considerations on page 86.

Notes to the company financial statements
Year ended 31 December 2015

1. Profit for the year

Bodycote plc reported a profit for the financial year ended 31 December 2015 of £71.6m (2014 restated, see note 13: £43.0m).

The auditor's remuneration for audit and other services is disclosed in note 3 to the consolidated financial statements.

Disclosure of individual directors' remuneration, share interests, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and those specified for audit by the Listing Rules of the Financial Conduct Authority are shown in the tables in the Board Report on remuneration on pages 54 to 73 and form part of these financial statements.

2. Intangible fixed assets

	Software £m
Cost	
At 1 January 2015	14.6
Additions	5.1
At 31 December 2015	**19.7**
Amortisation	
At 1 January 2015	5.1
Charge for the year	0.5
At 31 December 2015	**5.6**
Net book value	
At 31 December 2015	**14.1**
At 31 December 2014	9.5

3. Tangible fixed assets

	Fixtures and fittings £m
Cost	
At 1 January 2015	1.3
Disposals	(0.5)
At 31 December 2015	**0.8**
Depreciation	
At 1 January 2015	0.9
Charge for the year	0.1
Disposals	(0.5)
At 31 December 2015	**0.5**
Net book value	
At 31 December 2015	**0.3**
At 31 December 2014	0.4

Notes to the company financial statements continued
Year ended 31 December 2015

4. Investments

	Shares £m
Cost	
At 1 January 2015	400.0
Acquisitions	2.7
Disposals	(1.0)
At 31 December 2015	**401.7**
Provision for impairment	
At 1 January 2015	7.4
Provision in the year	0.1
Disposals	(0.8)
At 31 December 2015	**6.7**
Net book value	
At 31 December 2015	**395.0**
At 31 December 2014	392.6

5. Receivables

	2015 £m	2014 (Restated) £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**0.6**	0.4
Corporation tax recoverable	**4.2**	2.1
Other receivables and prepayments	**6.0**	5.4
	10.8	7.9
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**2.7**	3.1
Deferred taxation (note 7)	**0.8**	1.2
Other receivables	**–**	0.7
	3.5	5.0
	14.3	12.9

6. Payables

	2015 £m	2014 £m
Amounts falling due within one year:		
Trade payables	**1.6**	0.5
Amounts owed to subsidiary undertakings	**0.5**	0.8
Other taxes and social security	**0.5**	1.1
Other payables	**1.5**	2.8
Accruals and deferred income	**3.1**	3.9
	7.2	9.1
Amounts falling due after more than one year:		
Amounts owed to subsidiary undertakings	**17.2**	7.1

7. Deferred tax asset

The following are the major deferred tax assets recognised by the Company and movements thereon during the current and prior reporting period.

	Retirement benefit obligations £m	Other timing differences £m	Total £m
At 1 January 2014 (restated)	1.1	0.9	2.0
Credit to profit or loss	–	0.1	0.1
Charge to other comprehensive income (restated)	(0.9)	–	(0.9)
At 1 January 2015 (restated)	0.2	1.0	1.2
Charge to profit or loss	–	(0.7)	(0.7)
Credit to other comprehensive income	0.3	–	0.3
At 31 December 2015	**0.5**	**0.3**	**0.8**

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2015 £m	2014 (Restated) £m
Deferred tax asset	**0.8**	1.2

8. Called-up share capital

Share capital:
Ordinary shares (allotted, called-up and fully paid)

	Number of shares	£m
At 1 January 2015	191,456,172	33.1
At 31 December 2015	**191,456,172**	**33.1**

Details of share options in issue on the Company's share capital and share-based payments are set out in note 28 to the consolidated financial statements.

9. Contingent liabilities

The Company has guaranteed bank overdrafts, loans and letters of credit of certain subsidiary undertakings amounting to £7.8m (2014: £5.4m).

10. Operating lease arrangements - the Company as lessee

	2015 £m	2014 £m
Minimum lease payments under operating leases recognised as an expense	**0.3**	0.4

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2015 £m	2014 £m
Within one year	**0.4**	0.3
In the second to fifth years inclusive	**0.4**	0.7
	0.8	1.0

Operating lease payments represent rentals payable by the Company for its land and buildings and motor vehicles.

Notes to the company financial statements continued
Year ended 31 December 2015

11. Pension commitments

The Company participates in a final salary defined benefit scheme, the details of which are disclosed in note 30 to the consolidated financial statements. This is a defined benefit plan which shares the risks between entities under common control. There is no contractual agreement or policy for charging the net benefit cost between entities who participate in this scheme. The Company is considered to be the entity that is legally the sponsoring employer of this scheme. The net defined benefit cost and the retirement benefit obligation are recognised as per the requirements of IAS 19 (revised) Employee Benefits. Full disclosures concerning the scheme as required by IAS 19 (revised) are set out in note 30 to the consolidated financial statements.

The contributions made by the Company over the financial year to the defined contribution scheme amounted to £0.3m (2014: £0.3m). As at 31 December 2015, contributions of £0.1m (2014: £0.1m) due in respect of the current reporting period had not been paid over to the scheme.

12. Related party transactions

During the current and prior year, the Company has not entered into any transactions with related parties who are not wholly-owned members of the Group.

13. Transition to FRS 101

For all periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2014, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

On transition to FRS 101, the Company has applied the requirments of paragraph 6-33 of IFRS 1 First time adoption of International Financial Reporting Standards.

Exemptions applied

IFRS 1 allows first time adopters certain exemptions from the general requirements to apply IFRSs retrospectively. The Company has taken advantage of the following exemptions:

IFRS 2 Share-based payment has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005. This treatment is consistent with the transitional provisions taken when the Company adopted FRS 20, the UK equivalent standard.

Cumulative actuarial gains and losses on pensions and other post employment benefits are recognised in full in equity on the date of transition to IFRS. This is the same treatment as under UK GAAP.

13. Transition to FRS 101 (continued)

Reconciliation of equity as at 1 January 2014

	Note	UK GAAP £m	FRS 101 reclassifications / remeasurements £m	FRS 101 £m
Fixed assets				
Intangible fixed assets	14	–	6.3	6.3
Tangible fixed assets	14	6.7	(6.3)	0.4
Investments		393.2	–	393.2
Receivables	14	–	6.7	6.7
		399.9	6.7	406.6
Current assets				
Receivables - due within one year	14	14.9	–	14.9
Receivables - due after one year	14	5.6	(5.6)	–
		20.5	(5.6)	14.9
Current liabilities				
Payables		(14.0)	–	(14.0)
Net current assets		6.5	(5.6)	0.9
Total assets less current liabilities		406.4	1.1	407.5
Payables: Amounts falling due after more than one year		(1.1)	–	(1.1)
Retirement benefit obligations	14	–	(4.8)	(4.8)
Net assets		405.3	(3.7)	401.6
Capital and reserves				
Called-up share capital		33.1	–	33.1
Share premium account		177.1	–	177.1
Other reserves		133.9	–	133.9
Profit and loss account	14	61.2	(3.7)	57.5
Shareholders' funds		405.3	(3.7)	401.6

Reconciliation of equity as at 31 December 2014

	Note	UK GAAP £m	FRS 101 reclassifications remeasurements £m	FRS 101 £m
Fixed assets				
Intangible fixed assets	14	–	9.5	9.5
Tangible fixed assets	14	9.9	(9.5)	0.4
Investments		392.6	–	392.6
Receivables	14	–	5.0	5.0
		402.5	5.0	407.5
Current assets				
Receivables - due within one year	14	8.9	(1.0)	7.9
Receivables - due after one year	14	3.8	(3.8)	–
		12.7	(4.8)	7.9
Current liabilities				
Payables		(9.1)	–	(9.1)
Net current assets / (liabilities)		3.6	(4.8)	(1.2)
Total assets less current liabilities		406.1	0.2	406.3
Payables: Amounts falling due after more than one year		(7.1)	–	(7.1)
Retirement benefit obligations	14	–	(1.0)	(1.0)
Net assets		399.0	(0.8)	398.2
Capital and reserves				
Called-up share capital		33.1	–	33.1
Share premium account		177.1	–	177.1
Other reserves		128.9	–	128.9
Profit and loss account	14	59.9	(0.8)	59.1
Shareholders' funds		399.0	(0.8)	398.2

14. Restatement from UK GAAP to FRS 101

On transition to FRS 101, the net defined benefit cost and retirement benefit obligation relating to the final salary defined benefit pension scheme is recognised as per the requirements of IAS 19 (revised) Employee Benefits. As such, the Company has recognised a retirement benefit obligation of £1.0m at 31 December 2014 (1 January 2014: £4.8m) and a corresponding deferred tax asset of £0.2m at 31 December 2014 (1 January 2014: £1.1m). The net impact of recognising the retirement benefit obligation and corresponding deferred tax asset is a £0.8m reduction in the profit and loss reserves account at 31 December 2014 (1 January 2014: £3.7m reduction).

Software assets of £9.5m (1 January 2014: £6.3m) have been reclassified from tangible fixed assets to intangible fixed assets as per the requirements of IAS 38 Intangible Assets.

Receivables of £4.8m (1 January 2014: £5.6m) have been reclassified from current to fixed assets as per the requirments of IAS 1 Presentation of Financial Statements.

Subsidiary undertakings

Thermal Processing – Heat Treatment and Metal Joining

Company name	Plants	Country of incorporation
Bodycote Heat Treatments Limited	Birmingham, Cambridge, Chard, Coventry, Derby, Macclesfield, Rotherham, Skelmersdale, Stillington and Stockport	England
Bodycote Hardiff GmbH	Landsberg	Germany
Bodycote Wärmebehandlung GmbH	Ebersbach, Eching, Essen, Esslingen, Karben, Korntal, Langenfeld, Langenselbold, Lüdenscheid, Menden, Nürnberg, Otterfing, Remscheid, Sömmerda, Sprockhövel and Wehingen	Germany
Bodycote Hardingscentrum BV	Apeldoorn, Diemen, Gandrange (France), Haaksbergen, Hengelo, Tilburg and Venlo	Netherlands
Bodycote Värmebehandling AB	Göteborg, Hudiksvall, Malmö, Mora, Stockholm, Värnamo, Västerås and Vellinge	Sweden
Bodycote SAS	Ambazac, Amiens, Beaugency, Billy-Berclau, Cernay, Chanteloup les Vignes, Chassieu, Condé sur Noireau, Duttlenheim, Gemenos, Gorgonzola (Italy), Lagny sur Marne, La Monnerie le Montel, La Talaudière, Le Subdray, Neuilly en Thelle, Nogent, Pusignan, Serres Castet, St Aubin les Elbeuf, St Nicolas d'Aliermont, St Rémy en Mauges, Villaz and Voreppe	France
Techniques Metallurgiques Avancées SAS	Metz-Tessy	France
Nitruvid SAS	Argenteuil	France
Bodycote Belgium SA	Brussels	Belgium
Bodycote Lämpökäsittely Oy	Pieksämäki, Tampere and Vantaa	Finland
Bodycote Varmebehandling A/S	Ejby and Herlev	Denmark
Bodycote Trattamenti Termici SpA	Madone and Rodengo	Italy
Bodycote Austria GmbH	Kapfenberg, Marchtrenk and Vienna	Austria
Bodycote Rheintal Wärmebehandlung AG	Schaan	Liechtenstein
Bodycote Schweiz Wärmebehandlung AG	Urdorf	Switzerland
Bodycote HT s.r.o	Brno, Krnov, Liberec and Prague	Czech Republic
Bodycote Polska Sp z.o.o	Chelmno, Czestochowa, Swiebodzin, Warsaw, Wroclaw and Zabrze	Poland
Bodycote Tratamente Termice SRL	Brasov and Cugir	Romania
Bodycote Hökezelö KFT	Budapest	Hungary
Bodycote Istas Isil Islem Sanayi ve Ticaret AS (79.3% owned)	Bursa, Gebze and Izmir	Turkey
Bodycote Thermal Processing, Inc.	Athens AL, Fremont, Huntington Park, Rancho Dominguez, Sante Fe Springs, Vernon, Westminster CA, Berlin, South Windsor, Waterbury CT, Conyers GA, Melrose Park IL, Elkhart, Fort Wayne, Greensburg, Indianapolis IN, Wichita KS, Lafayette LA, Ipswich, Worcester MA, Canton, Grand Rapids, Holland, Livonia MI, Eden Prairie MN, Reidsville NC, Laconia NH, Roselle NJ, Rochester NY, Cincinnati, Cleveland, Columbus, London OH, Oklahoma City, Tulsa OK, York PA, Fountain Inn SC, Morristown TN, Arlington, Fort Worth, Houston TX, New Berlin and Sturtevant WI	USA

Subsidiary undertakings continued

Thermal Processing – Heat Treatment and Metal Joining (continued)

Company name	Plants	Country of incorporation
Bodycote Thermal Processing Canada, Inc.	Kitchener and Newmarket ON	Canada
Bodycote Thermal Processing Mexico Limited	Empalme, Mexico	England
Bodycote Thermal Processing de Mexico S de RL de CV	Silao	Mexico
Bodycote Wuxi Technology Co., Ltd.	Wuxi	China
Bodycote (Ningbo) Heat Treatment Co., Ltd.	Ningbo	China
Bodycote (Jinan) Heat Treatments Technology Co., Ltd.	Jinan	China
Bodycote (Kunshan) Heat Treatments Technology Co., Ltd.	Kunshan	China
Bodycote Ytbehandling AB	Katrineholm and Västra Frölunda	Sweden
Techmeta Engineering SAS	Metz-Tessy	France

Thermal Processing — Hot Isostatic Pressing

Company name	Plants	Country of incorporation
Bodycote H.I.P. Limited	Chesterfield and Hereford	England
Bodycote IMT, Inc.	Princeton KY, Andover MA, London OH and Camas WA	USA
Bodycote Heiß-Isostatisches Pressen GmbH	Haag-Winden	Germany
Bodycote Hot Isostatic Pressing NV	Sint-Niklaas	Belgium
Bodycote SAS	Magny-Cours	France
Bodycote Hot Isostatic Pressing AB	Surahammar	Sweden

Thermal Processing — Surface Technology

Company name	Plants	Country of incorporation
Bodycote Surface Technology Limited	Knowsley, Newport, Skelmersdale, Stonehouse, Wolverhampton and Dubai (UAE)	England
Bodycote K-Tech, Inc.	Hot Springs AR and Houston TX	USA
Bodycote SAS	Ambazac and Serres Castet	France
Bodycote Singapore Pte Ltd	Singapore	Singapore

Non-Trading Entities

Company name	Country of incorporation
Autumnwood 2 Limited	Jersey
Berstar Properties Limited	England
Bodycote (Somerset) Limited	England
Bodycote America Finance Limited	England
Bodycote America Finance LLC	USA
Bodycote America Treasury Limited	England
Bodycote Americas Inc	USA
Bodycote Canada Property Inc.	Canada
Bodycote de Mexico S. de R.L. de C.V.	Mexico
Bodycote de SLP, S. de R. L de C.V.	Mexico
Bodycote Deutschland GmbH	Germany
Bodycote Developments Limited	England
Bodycote European Holdings GmbH	Germany

Non-Trading Entities (continued)

Company name	Country of incorporation
Bodycote Finance Limited	England
Bodycote Finance UK Limited	England
Bodycote France Holdings SA	France
Bodycote Heat Treatments Technology (Taicang) Co. Limited	China
Bodycote HIP Germany Limited	England
Bodycote International Limited	England
Bodycote Investments	England
Bodycote Ireland Treasury Limited	Ireland
Bodycote Japan K.K.	Japan
Bodycote Jersey Holdings Limited	Jersey
Bodycote K-Tech Limited	England
Bodycote Luxembourg Finance SARL	Luxembourg
Bodycote Lyon SNC	France
Bodycote Nominees No. 1 Limited	England
Bodycote Nominees No. 2 Limited	England
Bodycote Pension Trustees Limited	England
Bodycote Processing (Skelmersdale) Limited	England
Bodycote Springwood Limited	England
Bodycote SSC s.r.o	Czech Republic
Bodycote Sweden AB	Sweden
Bodycote Testing de Mexico S. de R.L. de C.V.	Mexico
Bodycote Thermal Processing de Mexico Servicios, S. de R.L. de C.V.	Mexico
Bodycote Thermal Processing Limited	England
Bodycote Thermotreat AB	Sweden
Bodycote Treasury Services Limited	England
Bodycote USA, Inc.	USA
Expert Heat Treatments Limited	England
HITEC SAS	France
Newcroft Limited	England
Taylor & Hartley Fabrics Limited	England
Techmeta Participations SAS	France
Thixomat Technologies, LLC (13.9% Investment)	USA

Except where stated, these companies are wholly-owned subsidiaries and have only one class of issued shares.

It is agreed that the two German subsidiaries Bodycote Wärmebehandlung GmbH and Bodycote Hardiff GmbH make use of the exemption option under Sec. 264 para. 3 German Commercial Code for the fiscal year 2015, and will not publish their annual financial statements according to Sec. 325 et seq. German Commercial Code.

Shareholder enquiries

Enquiries on the following administrative matters can be addressed to the Company's registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone +44 (0)871 664 0300 (Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales.); Fax: +44 (0)1484 600911; and email shareholderenquiries@capita.co.uk.

- Change of address
- Lost share certificates or dividend cheques
- Dividend mandates
- Amalgamation of holdings

Forms for some of these matters can be downloaded from the registrars' website at www.capitaassetservices.com. Shareholders can easily access and maintain their shareholding online by registering at www.capitashareportal.com. To register, shareholders will require their investor code, which can be located on a share certificate, tax voucher (issued prior to 5 April 2016) or dividend confirmation.

Share dealing service

For information on the share dealing service offered by Capita Asset Services, telephone +44 (0)371 664 0445 (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales.). For the online service, Capita's commission rates are 1.25%* of the value of the deal (minimum charge £34.50) and for the telephone service, Capita's commission rates are 1.50%* of the value of the deal (minimum charge £44.50). Maximum deal size for online trades is £25,000. Rates for deals above £25,000 will be advised at the time of dealing.

All other charges apply, including stamp duty at 0.5% on all purchases and a £1 Panel on Takeovers and Mergers levy on transactions over £10,000.

* The commission charges are correct at the time of printing and may be subject to change. For information on the current charges and to find out more visit www.capitadeal.com.

Dividend reinvestment plan (DRIP)

Capita's Dividend Re-investment Plan offers a convenient way for shareholders to build up their shareholding by using dividend payments to purchase additional shares. The plan is provided by Capita Asset Services, a trading name of Capita IRG Trustees Limited, which is authorised and regulated by the Financial Conduct Authority.

For more information and an application pack please call +44 (0)871 664 0381 (Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.). Alternatively, email shares@capita.co.uk or log on to www.capitashareportal.com.

It is important to remember that the value of shares and dividend payments can fall as well as rise and you may not recover the amount of money that you invest. Past performance should not be seen as indicative of future performance.

Overseas shareholders

Capita has partnered with Deutsche Bank to provide overseas shareholders with a service that will convert sterling dividends into local currency at a competitive rate. Overseas shareholders can choose to receive payments directly into local bank accounts, or alternatively, can be sent a currency draft. Overseas shareholders can sign up for this service on the Share Portal (by clicking on 'Your Dividend Options' and following the on screen instructions) or by contacting the Customer Support Centre. For further information contact Capita on +44 (0)871 664 0385 (Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales). E-mail: ips@capita.co.uk.

Duplicate share register accounts

If you are receiving more than one copy of our report, it may be that your shares are registered in two or more accounts on our register of members. If that was not your intention you might consider merging them into one single entry. Please contact Capita, who will be pleased to carry out your instructions.

Shareholder analysis

Analysis of share register as at 18 February 2016:

Holding range	Number of shareholders	%	Number of shares	%
1 to 1,000	994	43.3	426,709	0.2
1,001 to 10,000	899	39.2	2,819,829	1.5
10,001 to 100,000	223	9.7	7,310,647	3.8
100,001 to 500,000	113	4.9	27,635,413	14.4
500,001 and over	67	2.9	153,263,574	80.1
	2,296	**100.0**	**191,456,172**	**100.0**

Type of shareholders	% of shareholders	% of total shares
Directors' interests	0.2	0.2
Major institutional and corporate holdings	33.3	97.6
Other shareholdings	66.5	2.2
	100.0	**100.0**

As at 18 February 2016 the following voting rights in the Company had been notified in accordance with the Disclosure and Transparency Rules.

Type of shareholders	Number of shares	%
Standard Life Investments Ltd	27,956,363	14.6
Franklin Templeton Fund Management Limited	9,625,000	5.0
Mondrian Investments Partners Ltd	8,584,147	4.5
Dimensional Fund Advisors, LP	8,463,302	4.4
Old Mutual Global Investors (UK) Limited	8,008,224	4.2
Baillie Gifford & Co	7,787,502	4.1
Schroder Investment Management Ltd	7,429,651	3.9
Legal & General Investment Management Ltd	6,891,446	3.6
BlackRock Investment Management (UK) Ltd	6,827,527	3.6

Company information

Advisers

Auditor
Deloitte LLP

Principal bankers
HSBC Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Svenska Handelsbanken AB, UniCredit Bank AG, ING Bank NV, Wells Fargo Bank, NA and KBC Bank NV

Solicitors
Eversheds LLP and Herbert Smith Freehills LLP

Financial calendar

Annual General Meeting	27 May 2016
Final dividend for 2015	3 June 2016
Interim results for 2016	July 2016
Interim dividend for 2016	November 2016
Results for 2016	February 2017

www.bodycote.com

For the online version of this report go to
bodycote.annualreport2015.com

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