

## Notice of Annual General Meeting 2015 to be held at:

Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield, Cheshire SK10 2XF on Friday 27 May 2016, at 12:00 noon. Attendees will be required to register on arrival prior to the start of the meeting. Further instructions will be notified to attendees by the Chairman of the meeting prior to and during the course of the meeting. Please note that the building is wheelchair accessible.

**This document is important and requires your immediate attention:**

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised pursuant to the Financial Services and Markets Act 2000. If you have sold or transferred all of your shares in Bodycote plc (the Company), please forward this document together with the accompanying Form of Proxy to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale was effected without delay, for delivery to the purchaser or transferee. If you have sold some but not all of your shares, please contact your stockbroker, bank or other agent through whom the sale was effected without delay for advice as to how to proceed. Shareholders may, as an alternative, register a proxy electronically on the company registrar's website at [www.capitashareportal.com](http://www.capitashareportal.com). To be valid, the Form of Proxy, or registration of your proxy electronically, in accordance with the instructions printed thereon, must be lodged by post or by hand with the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU during normal office hours, no later than 48 hours before the time of the meeting.

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Bodycote plc  
Registered in England and Wales  
No 519057

Registered Office:  
Springwood Court, Springwood Close  
Tytherington Business Park  
Macclesfield  
Cheshire  
SK10 2XF

16 March 2016  
From the Chairman, Mr A. M. Thomson

### Dear Shareholder,

As you will see from the notice of the Annual General Meeting of the Company, to be held on 27 May 2016, in addition to the ordinary business to be transacted at the meeting, your Board is proposing 4 items of special business, as set out in resolutions 13 to 16, an explanation of which is given on page 11 of this circular.

The ordinary business of the meeting will include proposals to re-elect the Directors of the Company in line with the UK Corporate Governance Code and to approve the annual remuneration report.

The special business relates to the renewal of the authority for Directors to allot shares; the renewal of the authority for Directors to allot shares on a non-pre-emptive basis; the renewal of authority for the Company to purchase its own shares; and the renewal of authority for the Company to call General Meetings on 14 days' notice.

The Company is also seeking approval for the introduction of a new deferred bonus plan and renewal of the current long-term incentive plan. In addition, as a result of these changes the Company will also be seeking shareholder approval for a new remuneration policy. A letter from the Chair of the Remuneration Committee, Eva Lindqvist, follows my letter and provides the background and details of the Company's proposed remuneration arrangements.

Your Board believes that the resolutions to be proposed are all in the best interests of the Company and its shareholders as a whole and accordingly recommend that you vote in favour of them. You will find enclosed a Form of Proxy which, to be effective, you should please complete in accordance with the instructions given and return so as to reach the Company's registrar as soon as possible but in any event not later than 48 hours before the time of the meeting. The completion of the form of proxy will not prevent you from attending the meeting in person if you wish to do so.

Yours sincerely,

**Alan Thomson**  
Chairman

**From the Chair of the Remuneration Committee, Ms. E. Lindqvist**

**Dear Shareholder,**

The Remuneration Committee has conducted an extensive review of the remuneration policy for the management of the Company taking into account the following factors:

**Background**

- a) a desire to increase the simplicity within our arrangements in order to improve transparency for our shareholders and line of sight for our management team;
- b) ensuring our remuneration policy delivers a market competitive package with the ability to achieve upper quartile reward for the delivery of upper quartile performance of the business;
- c) the need to ensure the plan structure is aligned with the strategy of the business and fit for future purpose in the coming years. In particular, the Committee has sought to ensure an appropriate balance of short vs long term reward across the package in totality, in the context of the target setting challenges faced with long term incentives at Bodycote. Because the business faces a high level of exposure to operational gearing, and in anticipation of market volatility in coming years the short vs long term spread in the package must be carefully considered; and
- d) the retention value within the plans. Bodycote has achieved significant growth over the last five years. Performance targets in the bonus, Bodycote Incentive Plan and Bodycote Co-Investment Plan have been correspondingly stretching to align with this growth profile. In particular, the increased baseline for growth combined with anticipated increases in tax rates and the softening of the energy market indicate that the current calibration will result in low levels of future vesting. This will impair the retention value in the package.

The Company currently operates the following incentive plans for the executives of the Company under the approved remuneration policy:

- a) the Bodycote Annual Performance Incentive Scheme;
- b) the Bodycote Co-Investment Plan (the "CIP"); and
- c) the Bodycote Incentive Plan (the "BIP").

It is proposed to change the incentive elements of the remuneration policy to operate only two plans:

- a) the Bodycote Deferred Bonus Plan 2016 (the "DBP") under which the deferred share element of the bonus will be provided; and
- b) the current Bodycote Incentive Plan which will be renewed (the "BIP").

**Policy**

The following table summarises the current remuneration policy and the proposed changes:

<b>Key term</b>	<b>Current arrangement</b>	<b>Proposed changes</b>
<b>1) Fixed Remuneration</b>		
<b>Base salary - Policy positioning</b>	Salary levels are set and reviewed taking into account a number of factors, including: <ul style="list-style-type: none"> <li>■ Role, experience and performance of the executive.</li> <li>■ The Group's guidelines for salaries for all employees in the Group for the forthcoming year.</li> <li>■ The competitiveness of total remuneration assessed against FTSE 250 companies and other companies of similar size and complexity, as appropriate.</li> </ul>	No changes proposed
<b>Benefits</b>	Policy set out in 2015 Remuneration Committee Report. The Group provides a range of cash benefits and benefits in kind to Executive Directors in line with market practice.	No changes proposed
<b>Pension</b>	The Group operates a defined contribution scheme. The policy for Executive Directors is to make 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.	No changes proposed
<b>2) Annual Bonus</b>		
<b>Maximum bonus opportunity</b>	130% of salary for the CEO 100% of salary for the CFO	200% of salary for the CEO 150% of salary for the CFO

Key term	Current arrangement	Proposed changes
<b>Level of deferral</b>	Nil	<p><b>2018 onward:</b> 35% of any bonus earned is deferred into shares for three years.</p> <p>Transition arrangements will be put in place for 2016 and 2017 as follows:</p> <p><b>2016:</b> Any bonus earned over 130% of salary is deferred into shares.</p> <p><b>2017:</b> 15% of any bonus paid up to a value of 130% of salary is deferred, with any payment 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.</p>
<b>Nature of deferral</b>	Nil	Deferred into shares for 3 years from bonus award date
<b>Malus/clawback</b>	Malus operated	Introduction of clawback in conjunction with existing malus provisions
<b>Performance conditions</b>	<p>The level of bonus paid each year is determined by the Committee, after the year end, based on performance against targets. At least 70% of the bonus will be based on the achievement of Group financial targets.</p> <p>On the basis of approval of the revised Annual Bonus Plan the weighting will be changed to:</p> <ul style="list-style-type: none"> <li>■ 77% of the bonus (154% of salary for the CEO) is determined by Group headline operating profit against set targets</li> <li>■ 10% of the bonus (20% of salary for the CEO) is determined by Group headline operating cashflow against set targets</li> <li>■ 13% of the bonus (26% of salary for the CEO) is determined by the achievement of personal objectives, which may vary year-on-year to ensure that objectives are aligned with the business plan but our policy is to set goals which relate to the achievement of business strategy.</li> </ul>	No change to the type of conditions but reweighting to reduce the absolute amount of bonus subject to personal objectives back to current levels for both the CEO and the FD
<b>3) Co-Investment Plan</b>		
<b>Maximum CIP opportunity</b>	<p>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.</p> <p>40% (1:1 match based on the gross investment made in deferred shares – maximum match is therefore circa 80% of salary).</p> <p>The deferred shares must be held for at least three years. The matching shares will be based on share price-related performance conditions as determined by the Committee.</p>	To be removed from the package from 2016
<b>4) Bodycote Incentive Plan</b>		
<b>Maximum BIP grant</b>	175% of salary	No changes proposed
<b>Performance conditions</b>	<p>The performance conditions for awards granted in 2016 are as follows:</p> <ul style="list-style-type: none"> <li>■ 50% of the award is subject to a ROCE performance condition</li> <li>■ 50% of the award is subject to a headline EPS performance condition.</li> <li>■ Headline EPS must not be below a defined hurdle level.</li> </ul>	
<b>Vesting/performance period</b>	3 years	
<b>Malus/clawback</b>	Malus operated	Introduction of clawback in conjunction with existing malus provisions
<b>5) Shareholding requirement</b>		
<b>Shareholding requirement</b>	100% of salary	Increase to 200% for the CEO and 150% for the CFO

## Reasons for change

The following table sets out the key reasons for the Committee's proposed changes to the remuneration policy:

<b>What is the rationale for the proposed changes?</b>	<ul style="list-style-type: none"><li>■ <b>Simplicity:</b> The Committee believes that the current structure, comprising two long term elements (CIP and BIP) is excessively complex, and that this reduces transparency for all stakeholders and line of sight for participants. We also recognise that simplicity is a key theme for investors (as reflected in the Investment Association's current review on simplification), many of whom state that best practice is the use of a single long term incentive plan.</li><li>■ <b>Alignment:</b> To rebalance the mix within the existing remuneration package to reflect the market and recognise the volatility in the business (as a result of the operational gearing) which makes the ability to set long term targets more challenging and to also reflect the significant pressures in place in the sector over the next periods.</li><li>■ <b>Competitive reward:</b> To allow the Committee to continue to deliver upper quartile reward for upper quartile performance.</li><li>■ <b>Consistency of structure:</b> To use the same structure across the senior management team internationally, especially in the US where the introduction of deferral provides an equivalent to the use of restricted stock. This provides the package with a competitive edge it did not have before in this location.</li><li>■ <b>Retention:</b> The introduction of deferral on the annual bonus provides a retention tool to lock management into the business.</li><li>■ <b>To align with corporate governance and best practice:</b> 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.</li></ul>
<b>Why increase the Bonus Maximum?</b>	<ul style="list-style-type: none"><li>■ The bonus maximum has been revised to ensure that the economic value in the package remains consistent with the historic levels following removal of the Co-Investment Plan.</li><li>■ Under the Co-Investment Plan participants invest 40% of salary into shares which are matched up to a 1:1 basis. To deliver an equivalent value under the annual bonus, accounting for the impact of tax, an additional opportunity of circa 80% would be delivered.</li><li>■ A 50% increase in bonus opportunity and a 25% in share incentive opportunity is proposed to reflect the difference between the two incentive approaches.</li></ul>
<b>Why introduce deferral?</b>	<ul style="list-style-type: none"><li>■ To ensure that the remuneration structure continues to be strongly aligned with shareholders and in line with best practice in the market.</li><li>■ In particular, as the policy changes increase the proportion of the executive package weighted on short term incentives, it is important to ensure executives continue to be exposed to the long term performance of the company through deferral of a proportion of any bonus earned into shares.</li></ul>
<b>Why is there a transitional deferral arrangement?</b>	<ul style="list-style-type: none"><li>■ This approach is intended to preserve cashflow to participants in the initial years of the new policy operating whilst reflecting shareholder sentiment for the introduction of bonus deferral and to balance the need to ensure the package remains attractive to participants in the short term (where there are particular pressures in the sector) but aligned with market best practice over the longer term.</li></ul>
<b>Why remove the CIP?</b>	<ul style="list-style-type: none"><li>■ The removal of the CIP reflects our broad desire to simplify the structure of the plan and to refine the structure so that only one vehicle is used to incentivise and reward over the long term.</li><li>■ Further, our continued exposure to high levels of operational gearing mean that long term targets are more challenging to set than they have historically been and that the anticipated payout volatility will increase the retention risk that we face as a business. By weighting the package to a greater extent towards the short term we are able to more robustly set our performance targets and increase the retention value in the plan.</li><li>■ We also seek to reflect a broad market shift away from the use of share matching arrangements and relatively low prevalence of co-investment plans.</li></ul>
<b>Why was the value of the CIP not added into the BIP?</b>	<ul style="list-style-type: none"><li>■ Adding the value of the CIP into the annual bonus was considered to be more appropriate than the BIP as it weights the mix of the package more in line with the market and increases the line of sight for participants over short term targets.</li></ul>
<b>Was a holding period under the BIP considered?</b>	<ul style="list-style-type: none"><li>■ The Committee, in line with the requirements of the Corporate Governance Code carefully considered whether it would be appropriate to include a post-vest holding period under the BIP.</li><li>■ It was felt that at this time the use of a post-vesting holding period (which carries a discount to the retention value in the package) would not be appropriate for Bodycote. It was further felt that the increased bonus deferral has strengthened the alignment of the plan with shareholders, mitigating the need to increase alignment through post-vest holding. The Committee intends to keep the emerging market practice in this area under review (and noted that at this time only 20% of companies in the FTSE 250 currently have post-vesting holding periods in place). It should be noted that the new rules of the BIP will have the facility for the Committee to add holding periods should it wish to in the future.</li></ul>

### **Shareholder Consultation**

The Remuneration Committee consulted with its top shareholders as well as the main shareholder representative bodies prior to finalising the proposed plans and corresponding amendments to the policy. The Remuneration Committee is grateful for the significant degree of engagement with the Company and its advisers shown by those shareholders consulted throughout the consultation process, and for their comments and feedback. At the end of this process the Remuneration Committee is pleased that the majority of shareholders consulted (both by number and percentage of issued share capital) have indicated they are supportive of the plans and corresponding change to the policy.

### **Board Recommendation**

The Board considers the plans and corresponding change to the policy to be in the best interests of the Company and Shareholders. Accordingly, the Board unanimously recommends that shareholders vote in favour of the ordinary resolutions set out in the Annual General Meeting Notice, as all the Directors intend to do in relation to their own individual holdings which amount in aggregate to 376,064 Shares, representing 0.2% of the Company's issued share capital as at the date of this letter.

Yours sincerely,

**Eva Lindqvist**

Chair of the Remuneration Committee

## Appendix

### The DBP

#### Status

The DBP is a discretionary executive share plan under which a proportion of a participant's bonus may be deferred into an award over Ordinary Shares. Under the DBP, the Board may, within certain limits, grant to eligible employees deferred awards over Ordinary Shares taking the form of (i) nil cost options over Ordinary Shares ("**DBP Options**") and/or (ii) conditional awards (i.e. a conditional right to acquire Ordinary Shares) ("**DBP Conditional Awards**") and, together with DBP Options and DBP Conditional Awards ("**Awards**"). No payment is required for the grant of an Award.

#### Eligibility

All employees (including Executive Directors) of the Group are eligible for selection to participate in the DBP at the discretion of the Committee.

#### Grant of Awards

The Committee may determine that a proportion of a participant's annual bonus will be deferred into an Award.

There is a maximum limit on the market value of Ordinary Shares granted to any employee under an Award of 35% of the total annual bonus for that individual. Grants will only be made when no dealing restrictions apply.

However, no Awards may be granted more than 10 years from the date when the DBP was adopted.

#### Holding period

At its discretion, the Board may grant Awards subject to a holding period of a maximum of up to two years following release.

#### Malus

The Committee may decide at the release of the Award or any time before that the number of Ordinary Shares subject to the Award shall be reduced (including to nil) on such basis that the Committee in its discretion considers to be fair and reasonable in the following circumstances:

- 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 in respect of an Award was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine the number of Ordinary Shares subject to an Award was based on error, or inaccurate or misleading information;
- action or conduct of a participant which amounts to fraud or gross misconduct.

#### Release

Awards will normally be released on the third anniversary of the date of grant of the Award to the extent permitted following any operation of malus or clawback. DBP Options will normally remain exercisable for a period determined by the Committee at grant which shall not exceed 10 years from the date of grant.

#### Clawback

The Committee may apply clawback to all or part of a participant's Award in substantially the same circumstances as apply to malus (as described above) during the period of three years following the determination of the bonus by reference to which the Award was granted. Clawback may be effected, among other means, by requiring the transfer of Ordinary Shares, payment of cash or reduction of awards or bonuses.

#### Cessation of employment

As prescribed in our remuneration policy for executive directors, except in certain circumstances set out below, an Award will lapse immediately upon a participant ceasing to be employed by or holding office with the Group.

However, if a participant so ceases because of his death, injury, illness, disability, redundancy, retirement with the agreement of his employer, the participant being employed by a company which ceases to be a Group company or being employed in an undertaking which is transferred to a person who is not a Group company or in other circumstances at the discretion of the Committee (each an "**DBP Good Leaver Reason**"), his Award will normally be released on the date when it would have been released if he had not so ceased to be a Group employee or director, subject to the operation of malus or clawback.

If a participant ceases to be a Group employee or director for a DBP Good Leaver Reason, the Committee can alternatively decide that his Award will be released early when he leaves. The extent to which an Award will be released in these situations will be determined by the Committee at its absolute discretion taking into account, among other factors, the period of time the Award has been held and the operation of malus or clawback.

It is the Committee's intention that in normal circumstances release will be pro-rated to reflect the reduced period of time between grant and the participant's cessation of employment as a proportion of the normal release period.

To the extent that DBP Options are released for a DBP Good Leaver Reason, they may be exercised for a period of 6 months following release (or such longer period as the Committee determines) and will otherwise lapse at the end of that period. To the extent that DBP Options are released following death of a participant, they may normally be exercised for a period of 12 months following death and will otherwise lapse at the end of that period.

## **Corporate events**

In the event of a takeover, scheme of arrangement or winding-up of the Company, Awards will be released early. The proportion of the Awards which are released shall be determined by the Board taking into account, among other factors, the period of time the Award has been held by the participant.

To the extent that DBP Options are released in the event of a takeover, scheme of arrangement or winding-up of the Company they may be exercised for a period of 6 months measured from the relevant event (or in the case of takeover such longer period as the Committee determines) and will otherwise lapse at the end of that period.

In the event of a demerger, distribution or any other corporate event, the Committee may determine that Awards shall be released. The proportion of the Awards which are released shall be determined by the Committee taking into account, among other factors, the period of time the Award has been held by the participant. DBP Options that vest in these circumstances may be exercised during such period as the Committee determines and will otherwise lapse at the end of that period.

If there is a corporate event resulting in a new person or company acquiring control of the Company, the Committee may (with the consent of the acquiring company) alternatively decide that Awards will not be released or lapse but will be replaced by equivalent new awards over shares in the new acquiring company.

## **The BIP**

### **Status**

The BIP is a discretionary executive share plan. Under the BIP, the Board may, within certain limits and subject to any applicable performance conditions, grant to eligible employees (i) nil cost options over Ordinary Shares ("**BIP Options**") and/or (ii) conditional awards (i.e. a conditional right to acquire Ordinary Shares) ("**BIP Conditional Awards**") and together with BIP Options and BIP Conditional Awards, ("**BIP Awards**").

### **Eligibility**

All employees (including Executive Directors) of the Group are eligible for selection to participate in the BIP at the discretion of the Committee.

### **Grant of BIP Awards**

The Committee may grant BIP Awards over Ordinary Shares to eligible employees with a maximum total market value in any financial year of up to 175% of the relevant individual's annual base salary.

Grants will only be made when no dealing restrictions apply.

However, no BIP Awards may be granted more than 10 years from the date when the BIP was adopted.

### **Holding period**

At its discretion, the Committee may grant BIP Awards subject to a holding period of a maximum of two years following vesting.

### **Performance and other conditions**

The Committee may impose performance conditions on the vesting of BIP Awards. Where performance conditions are specified for BIP Awards, the underlying measurement period for such conditions will ordinarily be three years.

Any performance conditions applying to BIP Awards may be varied, substituted or waived if the Committee considers it appropriate, provided the Committee considers that the new performance conditions are reasonable and are not materially less difficult to satisfy than the original conditions (except in the case of waiver).

The Committee may also impose other conditions on the vesting of BIP Awards.

### **Malus**

The Committee may decide, at the vesting of BIP Awards or at any time before, that the number of Ordinary Shares subject to an BIP Award shall be reduced (including to nil) on such basis that the Committee in its discretion considers to be fair and reasonable in the following circumstances:

- discovery of a material misstatement resulting an adjustment in the audited accounts of the Group or any Group company;
- the assessment of any performance condition or condition in respect of an BIP Award was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine the number of Ordinary Shares subject to an BIP Award was based on error, or inaccurate or misleading information;
- action or conduct of a participant which amounts to fraud or gross misconduct.

### **Vesting and exercise**

BIP Awards will normally vest, and BIP Options will normally become exercisable, on the third anniversary of the date of grant of the BIP Award to the extent that any applicable performance conditions have been satisfied and to the extent permitted following any operation of malus or clawback. BIP Options will normally remain exercisable for a period determined by the Committee at grant which shall not exceed 10 years from grant.

## **Clawback**

The Committee may apply clawback to all or part of a participant's BIP Award in substantially the same circumstances as apply to malus (as described above) during the period of two years following the vesting of an Award. Clawback may be effected, among other means, by requiring the transfer of Ordinary Shares, payment of cash or reduction of awards.

## **Cessation of employment**

As prescribed in our remuneration policy for executive directors, except in certain circumstances set out below, a BIP Award will lapse immediately upon a participant ceasing to be employed by or holding office with the Group.

However, if a participant so ceases because of his death, injury, illness, disability, redundancy, retirement with the agreement of his employer, the participant being employed by a company which ceases to be a Group company or being employed in an undertaking which is transferred to a person who is not a Group company or in other circumstances at the discretion of the Committee (each a "**BIP Good Leaver Reason**"), his BIP Award will normally vest on the date when it would have vested if he had not so ceased to be a Group employee or director, subject to the satisfaction of any applicable performance conditions measured over the original performance period and the operation of malus or clawback. In addition, vesting will normally be pro-rated to reflect the reduced period of time between grant and the participant's cessation of employment as a proportion of the normal vesting period.

The Committee may exercise the following elements of discretions where a participant ceases to be a Group employee or director for a BIP Good Leaver Reason:

- To determine the extent to which his BIP Award will vest through reference to the extent to which the applicable performance conditions have been satisfied either at the end of the normal performance period or at the date of cessation of employment.
- To decide that his BIP Award will vest early when he leaves. The extent to which an BIP Award will vest in these situations will be determined by the Committee at its absolute discretion taking into account, among other factors, the period of time the BIP Award has been held and the extent to which any applicable performance conditions have been satisfied at the date of cessation of employment and the operation of malus or clawback. In addition, unless the Committee decides otherwise, vesting will be pro-rated to reflect the reduced period of time between grant and the participant's cessation of employment as a proportion of the normal vesting period.

To the extent that BIP Options vest for a BIP Good Leaver Reason, they may be exercised for a period of 6 months following vesting (or such longer period as the Committee determines) and will otherwise lapse at the end of that period. To the extent that BIP Options vest following death of a participant, they may normally be exercised for a period of 12 months following death and will otherwise lapse at the end of that period.

## **Corporate events**

In the event of a takeover, scheme of arrangement, or winding-up of the Company, the BIP Awards will vest early. The proportion of the BIP Awards which vest shall be determined by the Committee taking into account, among other factors, the period of time the BIP Award has been held by the participant and the extent to which any applicable performance conditions have been satisfied at that time.

To the extent that BIP Options vest in the event of a takeover, scheme of arrangement, or winding-up of the Company they may be exercised for a period of six months measured from the relevant event (or in the case of takeover such longer period as the Committee determines) and will otherwise lapse at the end of that period.

In the event of a demerger, distribution or any other corporate event, the Committee may determine that BIP Awards shall vest. The proportion of the BIP Awards which vest shall be determined by the Committee taking into account, among other factors, the period of time the BIP Award has been held by the participant and the extent to which any applicable performance conditions have been satisfied at that time. BIP Options that vest in these circumstances may be exercised during such period as the Committee determines and will otherwise lapse at the end of that period.

If there is a corporate event resulting in a new person or company acquiring control of the Company, the Committee may (with the consent of the acquiring company) alternatively decide that BIP Awards will not vest or lapse but will be replaced by equivalent new awards over shares in the new acquiring company.

## **Provisions applying to the DBP and BIP (the "Discretionary Plans")**

### **Awards not transferable**

Awards granted under the Discretionary Plans are not transferable other than to the participant's personal representatives in the event of his death provided that awards and Ordinary Shares may be held by the trustees of an employee as nominee for the participants.

### **Limits**

The Discretionary Plans may operate over new issue Ordinary Shares, treasury Ordinary Shares or Ordinary Shares purchased in the market. The rules of each of the Discretionary Plans provide that, in any period of 10 calendar years, not more than 10% of the Company's issued ordinary share capital may be issued under the relevant plan and under any other employees' share scheme operated by the Company. In addition, the rules of each of the Discretionary Plans provide that, in any period of 10 calendar years, not more than 5% of the Company's issued ordinary share capital may be issued under the relevant plan and under any other executive share scheme adopted by the Company. Ordinary Shares issued out of treasury under the relevant Discretionary Plan will count towards these limits for so long as this is required under institutional shareholder guidelines. Awards which are renounced or lapsed shall be disregarded for the purposes of these limits.



### **Variation of capital**

If there is a variation of share capital of the Company or in the event of a demerger or other distribution, special dividend or distribution, the Committee may make such adjustments to awards granted under each of the Discretionary Plans, including the number of Ordinary Shares subject to awards and the option exercise price (if any), as it considers to be fair and reasonable.

### **Dividend equivalents**

In respect of any award granted under any of the Discretionary Plans, the Committee may decide that participants will receive a payment (in cash and/or additional Ordinary Shares) equal in value to any dividends that would have been paid on the Ordinary Shares which are released under that award by reference to the period between the time when the relevant award was granted and the time when the relevant award was released. This amount may assume the reinvestment of dividends and exclude or include special dividends or dividends in specie.

### **Alternative settlement**

At its discretion, the Committee may decide to satisfy awards granted under the Discretionary Plans with a payment in cash or Ordinary Shares equal to any gain that a participant would have made had the relevant award been satisfied with Ordinary Shares.

### **Rights attaching to Shares**

Except in relation to the award of Ordinary Shares subject to restrictions, Ordinary Shares issued and/or transferred under the Discretionary Plans will not confer any rights on any participant until the relevant award has vested or the relevant option has been exercised and the participant in question has received the underlying Shares. Any Ordinary Shares allotted when an option is exercised or an award is released will rank equally with Ordinary Shares then in issue (except for rights arising by reference to a record date prior to their issue). A participant awarded Ordinary Shares subject to restrictions shall have the same rights as a holder of Ordinary Shares in issue at the time that the participant acquires the Ordinary Shares, save to the extent set out in the agreement with the participant relating to those Ordinary Shares.

### **Amendments**

The Committee may, at any time, amend the provisions of any of the Discretionary Plans in any respect. The prior approval of the Company in general meeting must be obtained in the case of any amendment to the advantage of participants which is made to the provisions relating to eligibility, individual or overall limits, the price payable for Ordinary Shares, the persons to whom an award can be made under the relevant Discretionary Plan, the adjustments that may be made in the event of any variation to the share capital of the Company and/or the rule relating to such prior approval, save that there are exceptions for any minor amendment to benefit the administration of the relevant Discretionary Plan, to take account of the provisions of any proposed or existing legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, the Company and/or its other Group companies. Amendments may not normally adversely affect the rights of participants except where participants are notified of such amendment and the majority of participants approve such amendment.

### **Overseas plans**

The Committee may, at any time, establish further plans based on the Discretionary Plans for overseas territories. Any such plan shall be similar to the Discretionary Plans, as relevant, but modified to take account of local tax, exchange control or securities laws. Any Ordinary Shares made available under such further overseas plans must be treated as counting against the limits on individual and overall participation under the relevant plan.

### **Benefits not pensionable**

The benefits received under the Discretionary Plans are not pensionable.

**Note:** This Appendix to the letter from the Chairman of the Remuneration Committee summarises the main features of the Discretionary Plans, but does not form part of them, and should not be taken as affecting the interpretation of the detailed terms and conditions constituting the rules. Copies of the rules will be available for inspection at the Company's head office at Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF during usual office hours (Saturdays, Sundays and statutory holidays excepted) from the date of despatch of the AGM Notice up to and including the date of AGM, and at the meeting itself. The Directors reserve the right, up to the time of the AGM, to make such amendments and additions to the rules of the Plans as they consider necessary or desirable, provided that such amendments and additions do not conflict in any material respect with the summary set out in this Appendix.

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the 63rd annual general meeting of BODYCOTE PLC will be held at Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield, Cheshire SK10 2XF on Friday 27 May 2016, at 12:00 noon for the following purposes:

### As ordinary business

1. To receive and adopt the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2015.
2. To declare a final dividend of 10.3p per share for the year ended 31 December 2015.
3. To declare a special dividend of 10p per share for the year ended 31 December 2015.
4. To re-elect Mr A.M. Thomson as a Director of the Company.
5. To re-elect Mr S.C. Harris as a Director of the Company.
6. To re-elect Ms E. Lindqvist as a Director of the Company.
7. To re-elect Mr D.F. Landless as a Director of the Company.
8. To re-elect Mr I.B. Duncan as a Director of the Company.
9. To re-appoint Deloitte LLP as Auditors of the Company.
10. To authorise the Audit Committee to fix the remuneration of the Auditors.
11. To approve the annual report on remuneration for the period ending 31 December 2015 ("Remuneration Report").
12. To approve the Directors' remuneration policy ("Remuneration Policy")

### As special business

To consider and, if thought fit, to pass the following resolutions, of which resolution 13 will be proposed as an ordinary resolution and resolutions 14, 15, and 16 as special resolutions:

13. That in accordance with section 551 of the Companies Act 2006, the Directors be generally and unconditionally authorised to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company:
    - (a) comprising equity securities (as defined by section 560(1) of the Companies Act 2006) up to an aggregate nominal amount of £22,046,468 (two thirds) (such amount to be reduced by the nominal amount of any equity securities (within the meaning of section 560 of the said Act) allotted pursuant to the authority in paragraph (b) below) in connection with an offer by way of a rights issue:
      - (i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and
      - (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary but subject to exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and
    - (b) in any other case, up to a nominal amount of £11,023,234 (one third) (such amount to be reduced by the nominal amount of any equity securities allotted pursuant to the authority in paragraph (a) above in excess of £11,023,234.
- Such authorities shall apply until the close of business on 22 August 2017 or, if earlier, the end of the next Annual General Meeting of the Company, unless previously varied or revoked by the Company in general meeting, save that, in each case, the Company may make offers or agreements which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of any such offer or agreement as if the authority had not ended.
14. That, subject to the passing of resolution 13 as set out in the notice of this meeting, and in accordance with Article 17 of the Articles of Association of the Company, the Directors be empowered pursuant to section 570 of the Companies Act 2006 to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash pursuant to the general authority conferred by resolution 13 as set out in the notice of this meeting and be empowered pursuant to section 573 of the Companies Act 2006 to sell ordinary shares (as defined in section 560 of the Companies Act 2006) held by the Company as treasury shares (as defined in section 724 of the Companies Act 2006) for cash, as if section 561(1) of the Companies Act 2006 did not apply to such allotment or sale, provided that this power shall be limited to allotments of equity securities and the sale of treasury shares:
    - (a) in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive offer to the holders of shares in the Company and other persons entitled to participate therein in proportion (as nearly as practicable) to their respective holdings,

subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory or the regulations or requirements of any regulatory authority or any stock exchange in any territory;

- (b) up to an aggregate nominal amount of £1,653,485, pursuant to the terms of the Bodycote executive share incentive schemes; and
- (c) otherwise than pursuant to sub-paragraphs (a) and (b) above, up to an aggregate nominal amount of £1,653,485

and such power shall expire on the conclusion of the Annual General Meeting of the Company to be held in 2017 or on the date falling not more than 15 calendar months after the passing of this resolution, whichever is earlier, but so that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry, and the Directors may allot equity securities or sell treasury shares in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

15. That the Company be generally and unconditionally authorised, pursuant to Article 9 of the Articles of Association of the Company and pursuant to section 701 of the Companies Act 2006, to make market purchases (as defined in section 693(4) of the Companies Act 2006) of up to 19,145,617 ordinary shares in the capital of the Company (being approximately 10 per cent of the current issued ordinary share capital of the Company) on such terms and in such manner as the Directors of the Company may from time to time determine, provided that:
  - (a) the amount paid for each share (exclusive of expenses) shall not be more than the higher of (1) 105% of the average middle market quotation for ordinary shares as derived from the Daily Official List of London Stock Exchange plc for the five business days before the date on which the contract for the purchase is made, and (2) an amount equal to the higher of the price of the last independent trade and current independent bid as derived from the London Stock Exchange Trading system or less than the nominal value per share; and
  - (b) the authority herein contained shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2016 or on the date falling not more than 15 calendar months from the date of this resolution, whichever is earlier, provided that the Company may, before such expiry, make a contract to purchase its own shares which would or might be executed wholly or partly after such expiry, and the Company may make a purchase of its own shares in pursuance of such contract as if the authority hereby conferred had not expired.
16. That as permitted by section 307A of the Companies Act 2006 any general meeting of the Company (other than the Annual General Meeting of the Company) shall be called by notice of at least 14 clear days in accordance with the provisions of the Articles of Association of the Company provided that the authority of this resolution shall expire on the conclusion of the Annual General Meeting of the Company to be held in 2017.
17. That the Bodycote Deferred Bonus Plan, the main features of which are summarised in the Appendix to the Chair of Remuneration Committee's letter, and the rules of which are produced to the meeting in draft and signed by the Chairman for the purposes of identification, be approved and adopted.
18. That the Bodycote Incentive Plan, the main features of which are summarised in the Appendix to the Chair of Remuneration Committee's letter, and the rules of which are produced to the meeting in draft and signed by the Chairman for the purposes of identification, be approved and adopted.

By order of the Board:

**U.S. Ball**  
Group Company Secretary  
16 March 2016

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

## Explanation of Ordinary Business

### Special Dividend

In light of the continued strong financial performance, cash generation and the robustness of the Company's balance sheet, the Directors consider it appropriate to propose a one-off special dividend of 10 pence on each share, in addition to the dividend recommended under Resolution 2. The approval of this Resolution is not dependent on the approval of Resolution 2, nor vice versa. If this Resolution is approved, the recommended special dividend will be paid on the same basis as the dividend.

### Retirement of Directors

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 annual general meeting 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 will retire at this Annual General Meeting and stand for re-election by the shareholders if they wish to continue to serve as Directors of the Company. Accordingly, the Directors retiring and offering themselves for re-election are Mr A.M. Thomson, Mr S.C. Harris, Mr D.F. Landless, Ms E. Lindqvist and Mr I.B. Duncan.

### Remuneration Report (Resolution 11)

UK listed companies are required to put before shareholders in general meeting a resolution inviting shareholders to approve the Remuneration Report. This is an advisory vote.

The Remuneration Report gives details of the Directors' remuneration for the period ended 31 December 2015.

### Remuneration Policy (Resolution 12)

Following changes made under the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Enterprise & Regulatory Reform Act 2013, section 439 of the Companies Act 2006 (the "Act") requires UK listed companies to ask shareholders to vote on the Remuneration Policy. This vote is binding and a resolution must be put before shareholders at least every three years (or when the policy changes). The initial Remuneration Policy was put to vote in 2014, but due to the expiry of the share plan rules the remuneration package for executive directors has been reviewed and consequently shareholder approval is sought.

## Explanation of Special Business

### Renewal of authority to allot shares (Resolutions 13 and 14)

The Act provides that Directors shall only allot unissued shares with the authority of shareholders in general meeting. The authority given to the Directors at the last Annual General Meeting to allot (or issue) unissued shares expires on the date of this year's Annual General Meeting.

Resolution 13 will be proposed as an ordinary resolution for the renewal of the Directors' general authority to issue shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £11,023,234, representing approximately one third of the current issued share capital of the Company (excluding treasury shares). In addition, in accordance with the latest institutional guidelines issued by the Investment Management Association (renamed The Investment Association ("IA")), the resolution also seeks authority for the Directors to allot further of the Company's shares by way of a pre-emptive rights issue up to a maximum nominal amount of £22,046,468, (representing approximately two-thirds of the current issued share capital of the Company (excluding treasury shares)). The Directors have no present intention of exercising either of these authorities.

The Act also provides that any allotment of new shares for cash must be made pro rata to individual shareholders' holdings, unless such provisions are disapplied under section 570 of the Act. The authority given to the Directors at the last Annual General Meeting to allot shares for cash pursuant to section 560 of the Act expires on the date of this year's Annual General Meeting. Resolution 14 will be proposed as a special resolution for the renewal of the Directors' authority to allot equity securities for cash, without first offering them to shareholders pro rata to their holdings. This authority facilitates issues made by way of rights to shareholders which are not strictly in accordance with section 561(1) of the Act, and authorises other allotments of up to a maximum aggregate nominal amount of £1,653,485, representing approximately 5 per cent of the current issued ordinary share capital of the Company. The Directors do not intend to issue more than 7.5% of the issued share capital of the Company for cash on a non pre-emptive basis in any rolling three year period without prior consultation with the shareholders. This authority also allows the Directors, within the same aggregate limit, to sell for cash shares that may be held by the Company in treasury.

The authorities granted under resolutions 13 and 14 will expire at the earlier of the next Annual General Meeting or on 26 August 2017.

### Purchase of own Shares (Resolution 15)

Under Article 9 of the Articles of Association the Company is empowered to purchase its own shares. The Directors consider that the power to make purchases in the market of the Company's own shares should be maintained and accordingly recommend the approval of the special resolution set out as

resolution number 15. The Directors intend to exercise this authority only where, in the light of market conditions prevailing at that time, they believe that the effect of such purchases would be to increase earnings per share. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly, or held as treasury shares. The resolution specifies the maximum and minimum prices at which shares may be bought, and the maximum number of shares which may be bought, this being 10% of the Company's issued ordinary share capital at 31 December 2015. At that date there were no share options over unissued shares.

### Calling General Meetings on 14 clear days notice (Resolution 16)

Section 307A of the Act provides that a general meeting of a 'traded company' such as Bodycote plc must be called by at least 21 days notice, but may be called by at least 14 days notice if three conditions are met. The three conditions are:

- (a) that the meeting is not an annual general meeting;
- (b) that the company offers 'the facility for shareholders to vote by electronic means accessible to all shareholders'. A condition that is met if there is a facility to appoint a proxy by means of a website; and
- (c) that shareholders have approved the holding of general meetings on 14 clear days notice by passing a special resolution at the previous Annual General Meeting or at a general meeting held since the last Annual General Meeting.

The Directors consider it desirable that general meetings of the Company, other than the Annual General Meeting, can be called on at least 14 clear days notice. Resolution 16, which will be proposed as a special resolution, will authorise the Company to call general meetings other than Annual General Meetings on 14 days notice and the authority of this resolution will expire at the conclusion of the next Annual General Meeting.

### Approval of Share Plans (Resolutions 17 and 18)

See the Chair of Remuneration Committee's letter and Appendix for full details.

### Notes on Voting and Voting Rights:

1. Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and to vote instead of the member. Completion and return of a Form of Proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.
2. Any member attending the Annual General Meeting has the right to ask any question relating to the business being dealt with at the meeting. The Company will answer any such questions unless exempted by the provisions of section 319A of the Act.
3. From the date of this notice and for the following two years the following information will be available on the Company's website and can be accessed at [www.bodycote.com](http://www.bodycote.com):
  - (a) the matters set out in this notice of meeting;
  - (b) the total numbers of shares in the Company and shares of each class, in respect of which members are entitled to exercise voting rights at the meeting; and
  - (c) the totals of the voting rights that members are entitled to exercise at the meeting in respect of the shares of each class.

Any members' statements, members' resolutions and members' matters of business received by the Company after the date of this notice will be added to the information already available on the website as soon as reasonably practicable and will also be made available for the following two years.

4. A form to be used for appointing a proxy or proxies for this meeting to vote on your behalf can be found enclosed with this notice and the form of proxy provides details of how to cast a vote electronically.
5. In order to attend and vote at this meeting you must comply with the procedures set out on the front page of the notice of this meeting and any further instructions given to you prior to or during the course of the meeting itself.
6. Entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 6pm on the day which is two days before the day of the meeting or adjourned meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting. In order to be valid an appointment of proxy (together with any authority under which it is executed or a copy of the authority certified notari ally) must be returned by one of the following methods:
  - (a) in hard copy form by post, by courier or by hand to the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU;
  - (b) via [www.capitashareportal.com](http://www.capitashareportal.com) by logging in and selecting the 'Proxy Voting' link. If you have not previously registered for electronic communications, you will first be asked to register as a new user, for which you will require your investor code (which can

be found on the enclosed proxy form, your share certificate and tax voucher), family name and post code (if resident in the UK); or

- (c) in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below and in each case must be received by the Company not less than 48 hours before the time of the meeting. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment, or instruction, made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ('EUI') specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001. CREST members and where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy instructions. It is therefore the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

If you are a person with information rights under section 146 of the Act you do not have the right to appoint a proxy. Any such forms returned by such persons will be ineffective. You may however have specific rights to instruct the member who granted you information rights as to how such member exercises their right to appoint a proxy.

7. Biographical details of the Directors, including their membership of Board committees, are set out in the Annual Report and Accounts for the year ended 31 December 2015. There is no Director's service contract of more than one year's duration.
8. The total number of ordinary shares of 17 3/11ths pence in issue as at 24 February 2015, the last practicable day before printing this document and the total number of voting rights was 191,456,172. No shares were held in treasury.
9. Pursuant to Chapter 5 of Part 16 of the Act (sections 527 to 531), where requested by either a member or members having a right to vote at the meeting and holding at least 5% of total voting rights of the Company or at least 100 members having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital, the Company must publish on its website, a statement setting out any matter that such member or members propose to raise at the Annual General Meeting relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting. Where the Company is required to publish such a statement on its website it may not require the members making the request to pay any expenses incurred by the Company in complying with the request, it must forward the statement to the Company's auditors no later than the time the statement is made available on the Company's website, and the statement may be dealt with as part of the business of the Annual General Meeting. A member or members wishing to request publication of such a statement on the Company's website must send the request to the Company using one of the following methods:
- (a) in hard copy form to the Secretary at the Registered Office - the request must be signed by you;
- (b) by e-mail to [agm@bodycote.com](mailto:agm@bodycote.com);
- (c) by fax to +44(0)1625-505313 marked for the attention of the Group Company Secretary.

Whichever form of communication is chosen, the request must either set out the statement in full or, if supporting a statement sent by another member, clearly identify the statement which is being supported, and be received by the Company at least one week before the Annual General Meeting.

The addresses at paragraphs (b) and (c) above are, in accordance with Article 178 of the Company's Articles of Association, specified solely for the purpose of communications in respect of this meeting and for no other purpose.

10. Copies of the Executive Directors' service contracts and Non-executive Directors' letters of appointment will be available for inspection at the Company's registered office during normal business hours on each business day (Saturday, Sundays and public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting.