

The background of the top half of the page is a complex, organic marbled pattern. It features swirling, vein-like structures in shades of light grey, off-white, and dark charcoal, set against a deep blue background. The overall effect is reminiscent of traditional marbled paper or perhaps a microscopic view of a mineral or biological tissue.

annual report 2016

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
-  Rapid growth countries
-  Customer service
-  Automotive & General Industrial markets
-  Technology
-  Core values

Key Performance Indicators

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

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Cover image

This microstructure shows a plasma sprayed superalloy coating in developmental stage. These alloys have good mechanical properties at high temperatures and are typically used as a bond coat underneath ceramic thermal barrier coatings, in order to protect the base material from hot corrosive combustion gases.

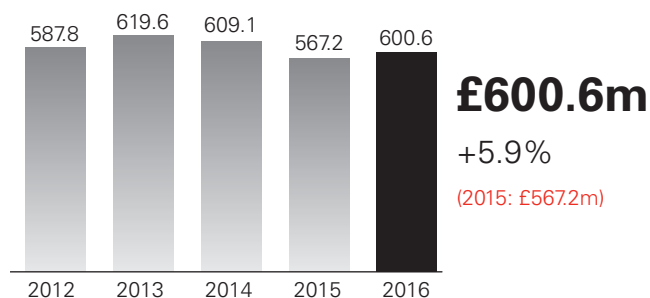
Financial highlights

	2016	2015
Revenue	£600.6m	£567.2m
Headline operating profit ¹	£99.6m	£102.1m
Return on sales ²	16.6%	18.0%
Operating profit	£94.5m	£77.9m
Headline profit before taxation ¹	£97.0m	£99.2m
Profit before taxation	£91.9m	£75.0m
Headline operating cash flow ³	£91.4m	£81.6m
Operating cash flow ⁴	£83.2m	£73.2m
Net cash	£1.1m	£12.3m
Basic headline earnings per share ⁵	37.0p	39.5p
Basic earnings per share	35.2p	29.6p
Ordinary dividend per share ⁶	15.8p	15.1p
Return on capital employed ⁷	17.1%	19.0%

- Headline operating profit and headline profit before taxation exclude amortisation of acquired intangibles of £4.5m (2015: £4.2m), reorganisation costs of £nil (2015: £20.0m) and acquisition costs of £0.6m (2015: £nil).
- Return on sales is defined as headline operating profit as a percentage of revenue.
- Headline operating cash flow is defined as operating cash flow stated before cash flow relating to restructuring of £7.6m (2015: £8.4m) and acquisition costs of £0.6m (2015: £nil).
- Operating cash flow is defined as cash generated by operations of £146.3m (2015: £134.5m) less net capital expenditure of £63.1m (2015: £61.3m).
- A detailed reconciliation is provided in note 10 on page 101.
- See note 9 on page 101.
- Return on capital employed is defined as headline operating profit of £99.6m (2015: £102.1m) divided by the average of opening and closing capital employed of £582.3m (2015: £538.4m) as adjusted for certain items of goodwill written off. Capital employed is defined as net assets adjusted for net cash/(debt).

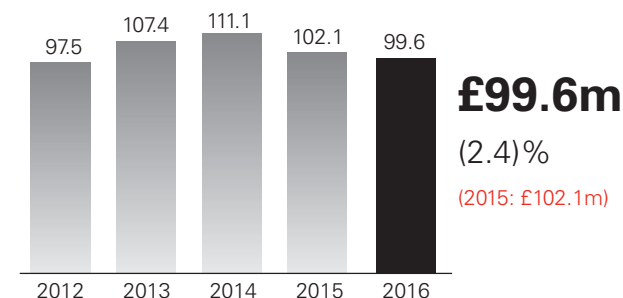
Revenue

£m



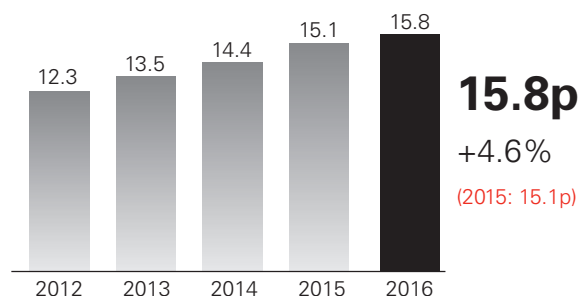
Headline operating profit

£m



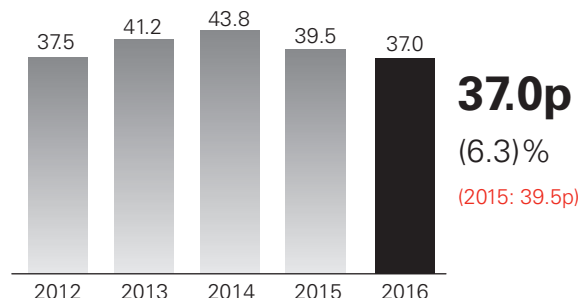
Dividend per share

pence



Headline earnings per share

pence



Chairman's statement



“We remain well placed to take advantage of our strong position, whichever way our markets develop, and the long-term prospects for the Group are excellent.”

A.M. Thomson | Chairman

Overview

2016 was another challenging year for the Group. The oil & gas and other resources' downturn persisted, with its knock-on impact on the capital goods market more generally. This resulted in a decline in revenue at constant exchange rates, partially offset by continued growth in Bodycote's automotive and aerospace business.

The Group, under the stewardship of Stephen Harris and his executive team, has once again 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 10.8p, an increase of 4.9%, which will be paid on 2 June 2017, subject to shareholder approval at the 2017 Annual General Meeting (AGM). This brings the total ordinary dividend for 2016 to 15.8p (2015: 15.1p) costing £20.5m which represents a year-on-year increase of 4.6%. The Board is not recommending a special dividend this year, noting that, on top of the bolt-on acquisitions completed in 2016, there is a pipeline of further potential transactions, as well as other investments to support growth, which the Board believes will deliver superior returns for shareholders.

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 23 countries in which the Group operates. In order 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 introduced a new Directors' Remuneration Policy, following approval at the Group's AGM in May 2016. Details of the arrangements for directors' remuneration can be found in the Board report on remuneration on pages 54 to 73 of this Annual Report.

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. 2016 marked a number of changes to our Board, testing and proving the efficacy of our planning.

It was with great sadness that we learned of Raj Rajagopal's passing in November 2016. Raj, our Senior Independent Director, served on the Board from September 2008 until his retirement after the 2016 AGM. He was succeeded as Senior Independent Director by Ian Duncan, who also chairs the Group's Audit Committee and is a member of the Board's other committees.

I was delighted to welcome Pat Larmon to our Board in September. Pat joins us with a strong background in packaging products, originally as a business owner, and more recently as President of Bunzl's North America business since 2003. His experience in running complex multi-site operations, as well as in completing and integrating multiple bolt-on acquisitions, will serve Bodycote very well.

David Landless, who demonstrated his dedication to Bodycote by agreeing to stay on as Group Finance Director in order to effect a smooth handover to his successor, retired from the business at the end of 2016. I would like to thank David for his service and dedication during his 17 years at the Group.

I was also pleased to welcome Dominique Yates to the Board in November as David's successor. Dominique joins us with ten years of experience as Chief Financial Officer, with quoted company experience at Symrise AG and, most recently, Regus plc. Dominique assumed the role of Chief Financial Officer at the beginning of January 2017.

People

Bodycote is a service business, but first class service is delivered by passionate and professional people, who understand their customers' needs and meet their demanding requirements time after time. We will continue to invest in training and developing our employees to ensure that our talented workforce remains one of our competitive advantages. As noted above, 2016 has not been an easy year for the Group and, once again, I would like to thank all of our employees for their dedication.

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. I also look forward to meeting as many shareholders as possible at this year's AGM in May 2017, 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 creditable in 2016 through another challenging year. Decisive cost actions and measured investments have helped mitigate the negative impacts of weak market conditions.

We have a strong, high-performance culture serving a wide range of international customers, with a committed workforce and absolute integrity in our operating procedures. We remain well placed to take advantage of our strong position, whichever way our markets develop, and the long-term prospects for the Group are excellent. 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

28 February 2017

Chief Executive's review



“Our outlook is positive and we remain optimistic that we are well placed to take advantage of an upturn in our markets.”

S.C. Harris | Group Chief Executive

Overview

Reported revenues for the Group were up 6% in 2016. However, the significant weakness in the oil & gas market and the knock-on effect on general industrial demand continued to exert considerable downward pressure on Group results. Group revenue on a like-for-like basis¹ was down 3.5%. Like-for-like sales to the energy markets were down 27%. Excluding the impact of these falling energy revenues, the Group had flat sales year on year. It should be noted that like-for-like revenues at the half year were down 6%. The improved performance for the full year was due to a notable pickup in activity in the fourth quarter.

Civil aerospace in Western Europe was strong, particularly in the second half, while the North American business was more mixed as the supply chains for this sector continue to go through adjustment associated with the changeover of aircraft and engine platforms.

In automotive, car and light trucks built on the strong start to 2016, accelerating through the year such that the second half growth rate was 6% on a like-for-like basis. While the background market demand in the car and light truck market has moderated over recent months, Group revenues continue to grow on the back of new programme wins.

Specialist Technologies performed well overall, increasing their contribution to Group headline operating profit to 42%. While two of these technologies, Surface Technology and HIP Product Fabrication, continue to be hard hit by low levels of activity in the oil & gas sector, the remaining technologies once again showed good growth. Margins continued to exceed 30% in Specialist Technologies.

The Group's headline operating margin² was resilient at 16.6%. Headline operating profit declined 2% from £102.1m to £99.6m (13% at constant exchange rates). The robust margin performance was partly helped by favourable currency translation. However, the Bodycote Margin Model is helping to drive improvements and this, together with the improved flexibility the Group now has in its cost base and the favourable impact on mix coming from Specialist Technologies, combined to deliver margin resilience that would not have been possible in past downturns.

We completed the acquisition of five plants in 2016, in line with our bolt-on strategy in Classical Heat Treatment. In some cases these acquisitions brought new capability into the Group, but in all cases they strengthened our network and enhanced our local cluster strength. They were all completed in the second half of the year with the majority in the final quarter and, correspondingly, had an immaterial impact on our Group result. They will, on the other hand, provide us with a small impetus as we enter 2017. Annualised sales from the acquisitions will be around £20m, with average Group margins expected to be achieved in 2017. We have a good acquisition pipeline and fully intend to continue to execute these acquisition opportunities provided we are confident that they will create further shareholder value.

Basic headline earnings per share were 37.0p, a decline of 6%, principally reflecting a higher tax rate in 2016. Cash generation has remained strong, with 92% of headline operating profit turned into cash³ (2015: 80%). Indeed, even after spending £30m on acquisitions, capital investment of £63m (corresponding to 1.1 times depreciation), restructuring costs and £48m of dividends, the Group's year end net cash position only reduced by £11.2m to £1.1m (2015: £12.3m). The Group continues to be in a strong financial position, with plenty of available financial headroom.

Strategic progress

We continued our strategy of investing in areas where we see high-growth potential but are always mindful of the Group's minimum 20% hurdle rate for return on capital employed. Expenditure in the year included new facilities in the USA, Mexico, Poland and France, as well as continued expansion of our Specialist Technologies' capacities and capabilities, and further deployment of the Group's ERP programme. The strategy of preferential investment in Specialist Technologies continues to benefit the Group.

The Group's strategy remains relevant and unaltered. The drive for operational efficiency in the more mature parts of the business, expansion of the Group's footprint in rapid-growth countries and the focus on growth in the higher value-added businesses, particularly Specialist Technologies, are all designed to increase the quality of the Group's earnings and create significant value. We have made further progress during this challenging year and remain readier than ever to respond to developments in our markets.

Summary and outlook

The Group delivered a robust performance in 2016 despite significant headwinds in some key business sectors. The speed and effectiveness of management's actions, in addition to the continued focus on improved mix, resulted in resilient margins.

While our business, by its nature, has limited forward visibility, we continue to demonstrate that we are capable of adapting with great agility to changes in market conditions. Our outlook is positive and we remain optimistic that we are well placed to take advantage of an upturn in our markets.

The Board is confident that management's continued focus on business improvements and execution of the Group strategy will generate good returns through the cycle.

S.C. Harris

Group Chief Executive
28 February 2017

1. Like-for-like year-on-year revenue growth rates are at constant exchange rates and exclude acquisitions, closed sites and the impact of the disposal of businesses.
2. Headline operating margin is defined as headline operating profit as a percentage of revenue.
3. 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 to 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.

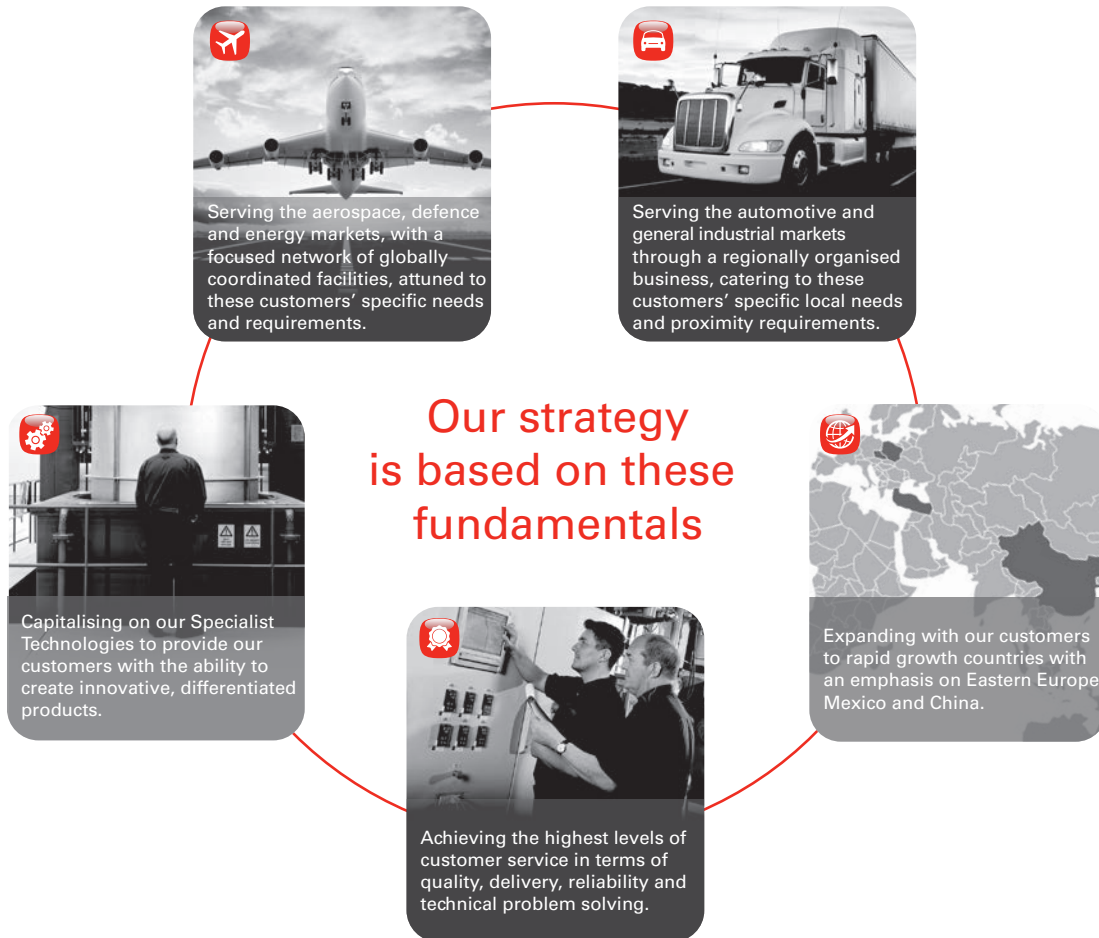
This Strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Bodycote plc and its subsidiary undertakings when viewed as a whole.

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
- Chief Financial Officer'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 with minimal environmental impact .



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, some of which are proprietary, offer unique solutions for a variety of applications.

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 189 market-focused facilities (see pages 12 and 13) in 23 countries brings economies of scale, particularly for logistics and equipment utilisation. This makes Bodycote's processing inherently more efficient than customers' in-house operations (see page 32) and competitors, thereby enhancing 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, wherever 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.

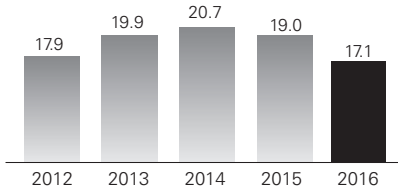
For investors

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

Measuring progress

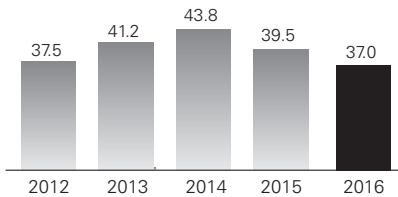
Return on capital employed

(%)



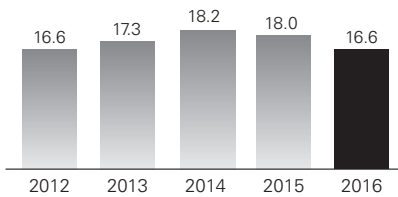
Headline earnings per share

(pence)



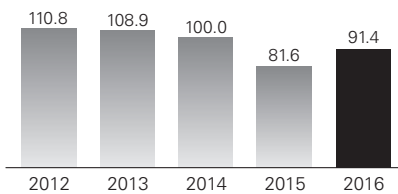
Return on sales

(%)



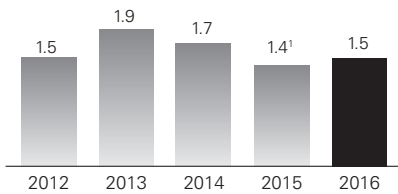
Headline operating cash flow

(£m)



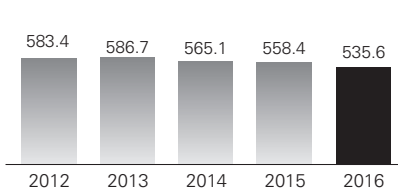
Accident frequency

(number)



Carbon footprint

(tonne CO₂e/£m sales)



1. The accident frequency rate for 2015 has reduced from 1.5, as previously reported, to 1.4, following a correction to hours worked for one region that had previously omitted overtime hours from submissions of total hours worked.

Performance

Return on capital employed decreased by 1.9 percentage points during the year, from 19.0% to 17.1%.

Headline operating profit decreased by 2.4% from £102.1m to £99.6m, while average capital employed increased by 8.2% to £582.3m.

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).

Performance

Headline earnings per share decreased by 2.5 pence (6.3%) during the year, from 39.5 pence to 37.0 pence.

Definition

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

Performance

Return on sales decreased by 1.4 percentage points during the year, from 18.0% to 16.6%. Headline operating profit decreased by 2.4% from £102.1m to £99.6m, while revenue increased by 5.9% from £567.2m to £600.6m.

Definition

Headline operating profit as a percentage of revenue.

Performance

Headline operating cash flow for the Group was £91.4m (2015: £81.6m). This was 92% of headline operating profit (2015: 80%).

Definition

Headline operating cash flow stated before cash flow relating to restructuring of £7.6m (2015: £8.4m) and acquisition costs of £0.6m (2015: £nil).

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 increased to 1.5 in the year (2015: 1.4). 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 x 200,000 hours (approximately 100 man years), divided by the total number of employee hours worked.

Performance

On a normalised basis, the carbon footprint decreased by 4.1% from 558.4 tonnes per £m sales to 535.6 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 CO₂ equivalent emissions divided by £m revenue. CO₂ equivalent emissions are calculated by taking electricity and gas usage in kilowatt hours and multiplying by country specific conversion factors provided by the International Energy Agency (IEA). Normalised emissions statistics restate prior year figures using current year country specific conversion (IEA) 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 are extremely sensitive to small amounts of porosity. Through the simultaneous application of heat and pressure, the HIP process eliminates internal porosity, improving fatigue strength, tensile ductility and fracture toughness.

HIP PF

Hot Isostatic Pressing Product Fabrication

This method 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

Specialty 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, High Velocity Oxygen Fuel (HVOF) and thermo-chemically formed coatings to improve wear resistance, hardness and durability, and is able to surface engineer components designed to operate in the most demanding of industrial applications.

I²P

Ion Implantation

This unique surface treatment uses macro level ion beams to improve the friction coefficient, adhesive wear and surface hardness; ideally for temperature sensitive materials such as thin metal parts and polymers.

Brake through – a component journey

BRAKE DISCS

Vehicles are exposed to environmental elements which cause corrosion, such as snow, ice, road salt, and acid rain. The Ferritic Nitrocarburising (FNC) process makes it easier to maintain clean brakes, important for safety critical components. Bodycote's FNC treatment strengthens the surface providing optimal corrosion protection and wear.



The brake rotors begin life as iron sand castings.

■ Brake rotors are treated in Bodycote's proprietary FNC furnaces. In a nitrogen enriched atmosphere, the rotor surfaces are hardened and strengthened.



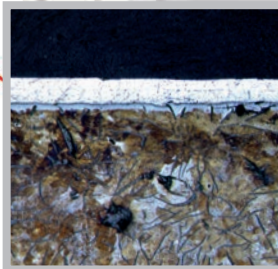
The braking surfaces are finish machined.



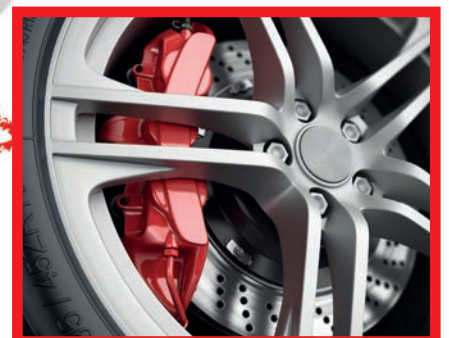
Courtesy of Brembo S.p.A.



■ The parts are stress relieved to eliminate stress introduced in the casting process.



■ The parts are inspected and tested for core hardness. After this, the parts are painted and assembled into the brake systems.



End application - Car or light truck.

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 189 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 189 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, 92% of the Group's revenue is derived outside the UK. With facilities in 23 countries, Bodycote is truly global.

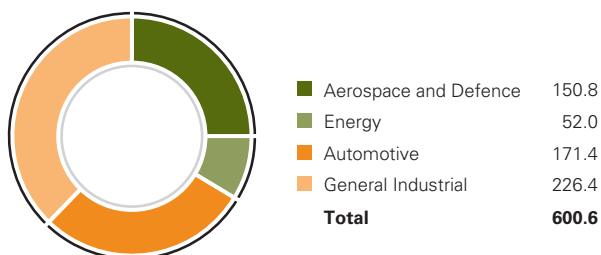
North America



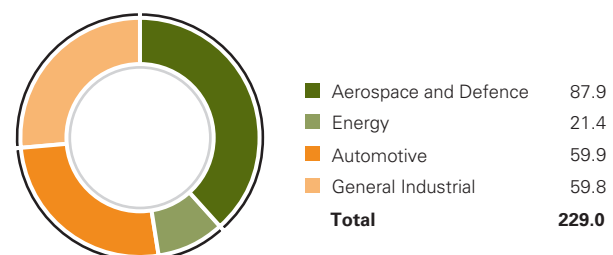
Bodycote is the largest provider of thermal processing services in North America by a significant margin, with a comprehensive network coverage. This network offers 61 locations convenient to customers in all areas where manufacturing and technical industries are concentrated.

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

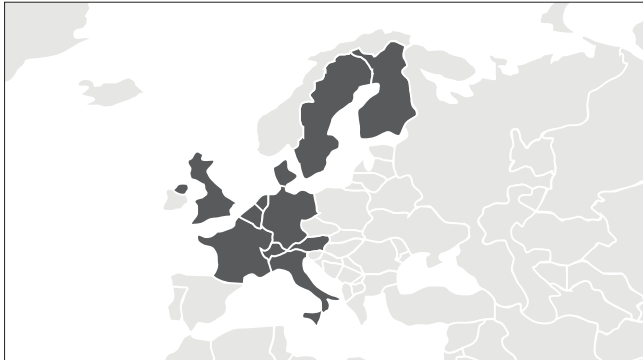


Revenue by market sector — North America
£m



Although Bodycote is headquartered in the UK, 92% of the Group's revenue is derived outside the UK. With facilities in 23 countries, Bodycote is truly global.

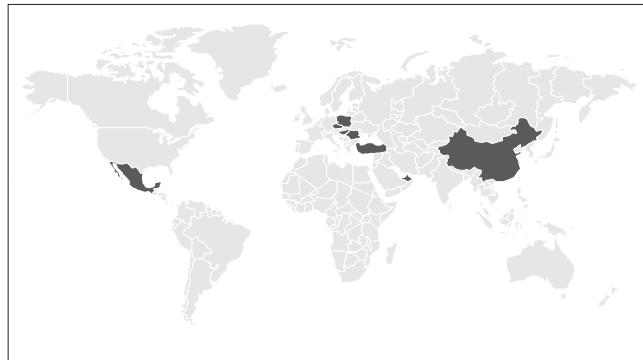
Western Europe



Bodycote operates from 102 locations in Western Europe and is the number one provider of thermal processing services, 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.

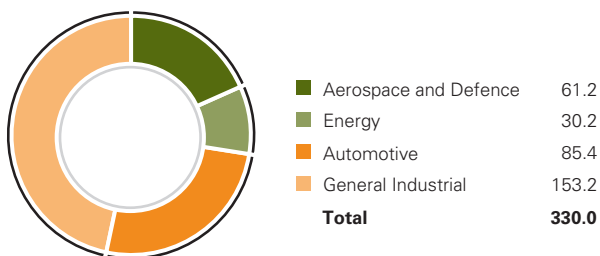
Emerging markets



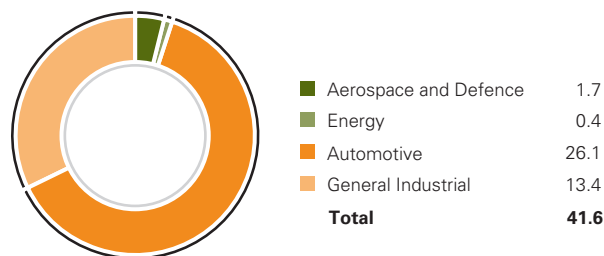
Bodycote has 26 facilities in emerging geographies covering Eastern Europe, China, Mexico and Dubai.

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



Revenue by market sector — Emerging markets £m



Markets

Aerospace, Defence & Energy markets



Civil aerospace revenues increased in 2016 by 2%¹ at constant exchange rates (12%¹ at actual exchange rates), with strong growth in Western Europe. Available seat kilometres grew globally again in 2016 by a further 6%, and prospects remain good, with a number of key development programmes expected to boost output in coming years once they are properly up and running. In the meantime, supply chain adjustments and the exact pace of the changeover of aircraft and engine platforms make this a difficult market to forecast.

Revenues in oil & gas were substantially lower again in 2016, falling by more than 40%¹ at constant exchange rates as a result of the knock-on impact from the fall in crude oil prices noted above. The Specialist Technologies of HIP Product Fabrication and Surface Technology were both affected as the commercial rationale for oil field projects remained difficult at current crude oil prices. While crude oil prices closed 2016 at their highest levels in over two years, they remain at less than half the prices seen through most of 2011 to 2014. It is too early to tell whether investment will pick up in the oil & gas sector in the near term.

Automotive & General Industrial markets



Automotive revenues increased year on year by 2%¹ at constant exchange rates (13%¹ at actual exchange rates), reflecting a strong performance in car and light truck, particularly in the second half. This was most notable in businesses served by our Western European plants, which benefited from the buoyant global market, as well as new contract wins. Car and light truck revenue growth of 3%¹ in the first half accelerated to 6%¹ in the second half. Heavy truck revenues, on the other hand, were weak, reflecting softness in the heavy truck market more generally.

Bodycote also provides services for a wide range of capital equipment customers in our General Industrial markets. In 2016, these customers suffered from the knock-on effect of lower demand from the oil & gas and other resources sectors. As a result, General Industrial revenues fell by 3%¹ at constant exchange rates (8%¹ increase at actual exchange rates).

1. Like-for-like year-on-year revenue growth rates exclude acquisitions, closed sites and the impact of the disposal of businesses.

Business performance

	2016 £m	2015 £m
Revenue	600.6	567.2
Operating profit	94.5	77.9
Acquisition costs	0.6	–
Reorganisation costs	–	20.0
Operating profit prior to exceptional items	95.1	97.9
Amortisation of acquired intangible fixed assets	4.5	4.2
Headline operating profit	99.6	102.1

Group revenue was £600.6m, a decrease of 4.7% at constant exchange rates and 3.5% on a like-for-like basis, with revenue at actual exchange rates up 5.9% as a result of the significant depreciation in the value of sterling following the UK's EU referendum in June.

Headline operating profit for the year decreased by 2.4% from £102.1m to £99.6m and headline operating margin was 16.6% (2015: 18.0%). While profitability and margins were negatively impacted by lower sales, the significant depreciation in sterling tempered the operating profit decline at actual exchange rates.



Cash flow is analysed as follows:

	2016 £m	2015 £m
Headline operating profit	99.6	102.1
Add back non-cash items:		
Depreciation and amortisation	55.2	49.6
Impairment of fixed assets	5.1	–
Share-based payments	0.5	(0.4)
Profit on disposal of property, plant and equipment	(4.5)	(2.1)
Headline EBITDA¹	155.9	149.2
Net capital expenditure	(63.1)	(61.3)
Net working capital movement	(1.4)	(6.3)
Headline operating cash flow	91.4	81.6
Cash cost of restructuring	(7.6)	(8.4)
Acquisition costs	(0.6)	–
Operating cash flow	83.2	73.2
Interest	(2.3)	(2.6)
Taxation	(20.4)	(23.2)
Free cash flow	60.5	47.4

Operating cash flow was £83.2m (2015: £73.2m) with the increase, compared to the prior year, mainly attributable to improved working capital flows. Group net cash at 31 December 2016 was £1.1m (2015: £12.3m).

Capital spend (net of asset sales) in 2016 was £63.1m (2015: £61.3m), being 1.1 times depreciation² (2015: 1.2 times). There was a working capital inflow in the year as the higher than average inventory levels present at the end of 2015 decreased to more normal levels. The increase in receivables was driven by increased activity in the final quarter of 2016.

- 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.
- Net capital expenditure to depreciation ratio is defined as capital expenditure less proceeds from asset disposals as a proportion of depreciation and amortisation.

Business review

Aerospace, Defence & Energy

Leading Edge

Nacelle lipskins

The forward section of the jet engine covering, or "nacelle", is contoured to direct air into the engine fan and compressor blades. The inlet leading edge of the nacelle is the "lipskin" which is subjected to hail in flight, airborne debris upon landing and potential damage from ground vehicles. The vast majority of lipskins are made from aluminium with a limited amount of stainless steel in business jets. The aluminium is solution treated followed by rapid quench, then ageing to strengthen the material and withstand the high temperatures of the anti-ice air.



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 63 facilities in total.

Results

Revenues for the ADE business were £250.9m in 2016 compared to £243.5m in 2015, an increase of 3.0% (6.7% decrease at constant exchange rates). Sales declined in the business' key geographies, with the weakness in the oil & gas market hitting both Western Europe and North America. On the positive side, Western Europe enjoyed strong aerospace sales in France throughout the year, as well as in the UK in the second half, and the IGT and power generation businesses also registered growth. North America had a tough year all round with lower aerospace revenues as the business jet market suffered and there was some Original Equipment Manufacturer (OEM) supply chain realignment.

Headline operating profit¹ for ADE was £55.6m (2015: £59.2m) and headline operating profit margin reduced from 24.3% to 22.2%, once again demonstrating good cost control in the face of reduced sales.

Net capital expenditure in 2016 was £19.9m (2015: £17.4m) which represents 1.0 times depreciation (2015: 0.9 times). The Group continued to invest in additional capacity, with investments in new facilities in Poland, France and the USA, as well as the relocation of a US facility. We will continue to add further capacity as we identify market opportunities and to support anticipated growth in the Group's Specialist Technologies and other high-value offerings.

Return on capital employed in 2016 was 19.7% (2015: 23.0%), reflecting the drop in ADE profitability noted above.

Achievements in 2016

The ADE business made further progress during the year as it continued to ramp up support for the new and growing civil aerospace programmes. The new facilities will ramp up in 2017, contributing to Group revenue. They will inevitably experience the normal start-up losses but will contribute to Group profitability beyond 2017.

Organisation and people

Total full-time equivalent headcount at 31 December 2016 was 1,706 (2015: 1,785), a decrease of 4.4% compared to the revenue decline in ADE of 6.7% (at constant exchange rates).

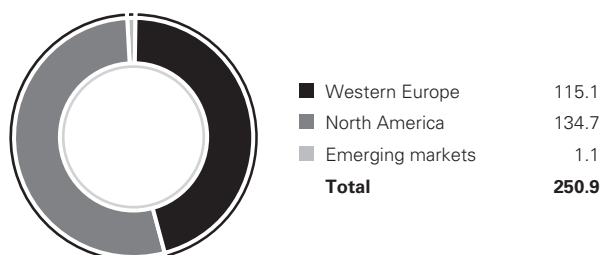
Looking ahead

We expect to see continued modest growth in our civil aerospace business and, depending on the actions of the new USA administration, we may see some pick up in our defence business. We anticipate no near-term improvement in the oil & gas sector and are likely to see continued negative year-on-year development as the business enters 2017 at a weaker level than a year ago. However, Bodycote believes it is well placed to respond to any developments in its markets and 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).

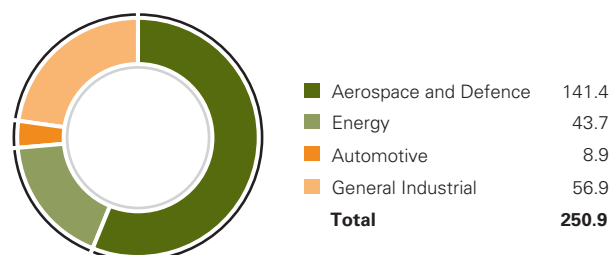
ADE revenue by geography

£m



ADE revenue by market sector

£m



Business review

Automotive & General Industrial

Smooth sailing

Diesel engine pistons

During the diesel engine cycle, combustion gases push the pistons downward generating power on the working stroke. Heat treatment gives the finished piston and its pin the ability to withstand high temperatures and extended runs, delivering high performance over sustained periods. Depending on the specific piston component, they undergo casehardening, induction hardening, tempering, stress relieving and nitriding.



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



Courtesy of Wärtsilä Corporation



Courtesy of Koncentra Pistons

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 extensive network of 126 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 £349.7m in 2016, compared to £323.7m in 2015, an increase of 8.0% (3.2% decrease at constant exchange rates).

AGI revenues saw a small benefit from the acquisitions made towards the end of the year. However, this was more than offset by the impact of plant closures from 2015. As a result, like-for-like AGI sales were down a modest 1.8% for the full year, with the second half revenues virtually flat against the same period in 2015. Weakness in the General Industrial business was more pronounced in North America than in Western Europe, but emerging markets registered good growth. While some OEM destocking held our business back in North America, car and light truck revenues were strong in Western Europe, with solid growth in the key French and German markets, as we won business building on the strengths of our Specialist Technologies. Strong car and light truck revenue growth was recorded in emerging markets, as the Group benefited from its investments in these markets. The depressed bus and heavy trucks market negatively impacted sales in the USA and Sweden.

Headline operating profit¹ in AGI was £58.5m compared to £53.4m in 2015. Headline operating margin increased to 16.7% (2015: 16.5%), 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 2016 was £37.4m (2015: £39.8m), which represents 1.1 times depreciation (2015: 1.3 times). This included further investments in China, Mexico, Czech Republic and Turkey. The Group also completed the acquisition of five plants for total consideration of £30.2m as part of its bolt-on acquisition strategy, adding sites in Germany, the USA and Canada.

Return on capital employed in 2016 decreased to 15.2% (2015: 16.0%), reflecting the lower profitability as a result of lower sales. It is worth noting that the acquisitions have impacted the average opening and closing capital employed figures significantly more than they have contributed in terms of profitability, given that they all completed towards the end of the year. Excluding acquisitions, return on capital employed would have been 15.5%.

Achievements in 2016

AGI has clearly had to contend with weak General Industrial demand across all of its territories. Nonetheless, the continued development of our emerging markets businesses in China, Mexico, Czech Republic and Poland has been pleasing. We continue to win good high-margin business, and our AGI focused Specialist Technologies of S³P, Low Pressure Carburising and Corr-I-Dur[®] all continue to be a key driver of the improved profitability in the AGI business.

Organisation and people

At 31 December 2016, the number of full-time equivalent employees in AGI was 3,502 (including 188 from acquired businesses) compared to 3,331 at the end of 2015 and its peak of 5,244 in July 2008.

Looking ahead

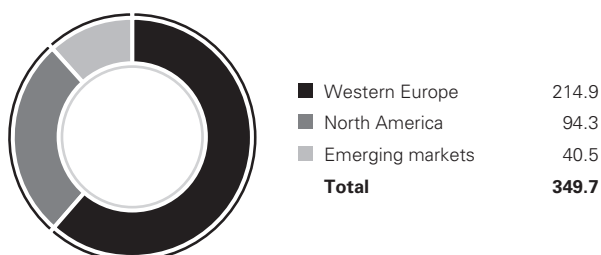
The decline in the General Industrial business has undoubtedly been largely driven by the knock-on impact on capital equipment demand from lower activity in the oil & gas and other resources sectors. We do not foresee further significant declines in these markets. As far as the Automotive business is concerned, any policy changes by the new USA administration towards the existing USA fuel efficiency targets (and on international trade agreements more generally) could have an impact on our business but the likely outcome is unpredictable at this stage.

The multinational nature of Bodycote's AGI businesses puts us in a great position to take advantage of market developments. In the meantime, we 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 when the right opportunities at the right price present.

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).

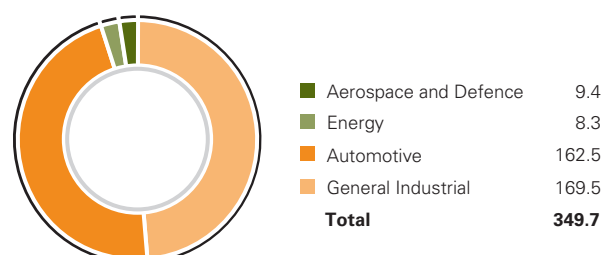
AGI revenue by geography

£m



AGI revenue by market sector

£m



Chief Financial Officer's report



Financial overview

	2016 £m	2015 £m
Revenue	600.6	567.2
Headline operating profit	99.6	102.1
Amortisation of acquired intangible fixed assets	(4.5)	(4.2)
Operating profit prior to exceptional items	95.1	97.9
Acquisition costs	(0.6)	–
Reorganisation costs	–	(20.0)
Operating profit	94.5	77.9
Net finance charge	(2.6)	(2.9)
Profit before taxation	91.9	75.0
Taxation	(24.9)	(18.8)
Profit for the year	67.0	56.2

Group revenue was £600.6m, an increase of 5.9%, with revenues at constant exchange rates down 4.7% and foreign exchange rate movements having a positive impact of 10.6%.

Headline operating profit for the year decreased by 2.4% from £102.1m to £99.6m, and headline operating margin was 16.6% (2015: 18.0%). Headline operating profit at constant exchange rates decreased by £13.7m, whilst favourable foreign exchange rate movements increased headline operating profit by £11.2m. The drop in headline operating profit as a proportion of the drop in revenue, both at constant exchange rates, was 51%. Given that most of the Group's costs are fixed in the very short term, this creditable result is testament to the Group's dedication to act quickly to adjust the cost base when weaker demand is experienced.

The amortisation of acquired intangible assets arises from acquisitions in the current and prior years. The charge has increased to £4.5m (2015: £4.2m).

Operating profit was £94.5m (2015: £77.9m) after charging £4.5m (2015: £4.2m) in respect of the amortisation of acquired intangible assets, £0.6m (2015: £nil) of acquisition costs and reorganisation costs of £nil (2015: £20.0m).

Headline operating cash flow¹ for the Group was £91.4m (2015: £81.6m). This was 92% of headline operating profit (2015: 80%), reflecting improved working capital flows compared with last year. Net working capital in the year benefited from higher than average inventory levels present at the end of 2015 decreasing to more normal levels. The increase in receivables was driven by increased activity in the final quarter of 2016. Net capital expenditure was 1.1 times depreciation (2015: 1.2 times). It is worth noting that only half of this capital expenditure was expended to maintain the Group's existing business. The other half was expended to help grow the business in the future, most notably in greenfield facilities and in expanding capacity in our high-margin Specialist Technologies businesses.

After deducting interest and tax, the Group recorded positive free cash flow¹ of £60.5m (2015: £47.4m).

Exceptional costs

Total exceptional costs charged to the income statement amounted to £0.6m (2015: £20.0m) and related to acquisition costs. In 2015 reorganisation costs amounting to £23.8m were incurred, offset by a profit on disposal of the Group's Brazilian and Indian operations of £3.8m.

Restructuring provisions outstanding at 31 December 2016 totalled £13.3m (2015: £14.7m), of which £9.7m is expected to be spent in 2017. All expenditure anticipated after the end of 2017 relates to ongoing environmental remediation, primarily in the USA.

1. Headline operating cash flow and free cash flow are reconciled on page 15.

Profit before taxation

Headline profit before taxation was £97.0m (2015: £99.2m). Profit before taxation was £91.9m (2015: £75.0m). These amounts are reconciled as follows:

	2016	2015
	£m	£m
Headline operating profit	99.6	102.1
Net finance charge	(2.6)	(2.9)
Headline profit before taxation	97.0	99.2
Amortisation of acquired intangible fixed assets	(4.5)	(4.2)
Profit before taxation prior to exceptional items	92.5	95.0
Acquisition costs	(0.6)	–
Reorganisation costs	–	(20.0)
Profit before taxation	91.9	75.0

Finance charge

The net finance charge was £2.6m compared to £2.9m in 2015. The net finance charge is lower as a result of lower interest rates and financing costs.

	2016	2015
	£m	£m
Net interest payable	0.2	0.3
Financing costs	1.3	1.5
Bank and other charges	0.8	0.8
Pension finance charge	0.3	0.3
Net finance charge	2.6	2.9

Taxation

The taxation charge was £24.9m for the year (2015: £18.8m).

The headline taxation rate for 2016 was 27.5% (2015: 24.4%), being stated before accounting for exceptional items and amortisation of goodwill and acquired intangible fixed assets. The rate in 2015 benefited from the recognition of some brought forward tax losses. A number of the Group's key markets have rates of corporation tax above the Group average. Future profitability growth in these markets, therefore, is likely to place some upward pressure on the Group's blended corporation tax rate.

Earnings per share

Basic headline earnings per share (as defined in note 10) decreased to 37.0p from 39.5p. Basic earnings per share for the year increased to 35.2p from 29.6p, with the prior year significantly impacted by reorganisation costs.

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 10.8p per share (2015: 10.3p) bringing the total ordinary dividend to 15.8p per share (2015: 15.1p). If approved by shareholders, the final ordinary dividend of 10.8p per share will be paid on 2 June 2017 to all shareholders on the register at the close of business on 21 April 2017.

Capital structure

The Group's balance sheet at 31 December 2016 is summarised below:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment	509.0	–	509.0
Goodwill and intangible fixed assets	206.7	–	206.7
Current assets and liabilities	163.8	(181.7)	(17.9)
Other non-current assets and liabilities	0.4	(13.2)	(12.8)
Retirement benefit obligations	–	(21.5)	(21.5)
Deferred tax	32.5	(68.8)	(36.3)
Total before net cash	912.4	(285.2)	627.2
Net cash	12.0	(10.9)	1.1
Net assets as at 31 December 2016	924.4	(296.1)	628.3
Net assets as at 31 December 2015	805.5	(255.9)	549.6

Net assets increased by £78.7m (14.3%) to £628.3m (2015: £549.6m), mainly as a result of the positive translation impact following the significant depreciation in the value of sterling after the UK's EU referendum. At constant exchange rates, net assets decreased by £22.5m (4.1%).

Net cash

Group net cash at 31 December 2016 was £1.1m (2015: £12.3m). 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.

Chief Financial Officer's report continued

Cash flow

The net decrease in cash and cash equivalents was £6.5m (2015: £23.6m), made up of net cash from operating activities of £125.9m (2015: £111.3m), less investing activities of £84.6m (2015: £59.9m) and less cash used in financing activities of £47.8m (2015: £75.0m).

The increase in net cash flow from operating activities from £111.3m to £125.9m was driven primarily by the increase in EBITDA¹ from £134.9m to £155.2m.

Net cash outflows from investing activities increased from £59.9m to £84.6m, primarily as a result of the acquisition of various businesses in the year. The level of net capital expenditure in 2016 was £63.1m (2015: £61.3m), consistent with plans to increase the Group's capacity in its Specialist Technologies and high-growth markets.

Net cash outflows used in financing activities decreased from £75.0m to £47.8m, primarily due to the decrease in dividend payments from £66.0m in 2015 to £48.1m in 2016.

Receivable days at 31 December 2016 increased by one day to 63 days (2015: 62 days).

Net interest payments for the year were £2.3m (2015: £2.6m). Tax payments were £20.4m (2015: £23.2m).

Capital expenditure

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £63.1m (2015: £61.3m). The multiple of net capital expenditure to depreciation was 1.1 times (2015: 1.2 times). The Group continues to invest in maintaining its assets to a high quality, as well as investing in the implementation of a new ERP system. Crucially, almost half of the Group's capital expenditure was expended to help grow the business in the future, most notably in greenfield facilities and in expanding capacity in our high-margin Specialist Technologies businesses. As a consequence of the timing of these key projects, the value of assets under construction has increased by £16.9m, from £51.6m in 2015 to £68.5m in 2016.

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 2016 was £225.0m (2015: £230.0m). At 31 December 2016, the Group had the following drawings and headroom under the committed facility:

Facility	Expiry date	Facility £m	Facility utilisation £m	Facility headroom £m
£230m				
Revolving Credit	3 July 2019	230.0	5.0	225.0

1. EBITDA is defined as 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 businesses and share-based payments.

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 2016 the gearing ratio is 0% (2015: 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:

	2016 £m	2015 £m
Funded:		
UK	3.6	2.7
Other Western Europe	1.9	2.0
North America	0.4	0.5
	5.9	5.2
Unfunded:		
Western Europe	15.5	12.6
Emerging markets	0.1	0.1
	15.6	12.7
Total deficit	21.5	17.9

The UK plan is closed to new entrants but the 45 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 increased by £26.7m to £126.6m (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 decreased from 3.5% in 2015 to 2.3% in 2016, which has resulted in an increase in the liabilities. UK scheme assets increased in the year by £21.6m to £123.0m (2015: £101.4m).

The deficit for the other European schemes increased by £2.8m, mainly due to a decrease in the discount rate assumptions.

Post balance sheet events

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

Alternative performance measures

Bodycote uses alternative performance measures such as headline operating profit, headline earnings per share, headline profit before taxation, headline operating cash flow and free cash flow, together with current measures restated at constant exchange rates, to allow the users of the financial statements to gain a clearer understanding of the underlying performance of the business, allowing the impact of restructuring and reorganisation activities and acquisition costs to be identified separately.

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 2016 were as follows:

- £230m Revolving Credit Facility maturing 3 July 2019

The December 2016 weighted average life of the committed facilities was 2.5 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. Yates

Chief Financial Officer
28 February 2017

Principal risks and uncertainties

The Board is responsible for the Group's risk management and the review of financial risk has been delegated to the Audit Committee. The Group's risk framework was last reviewed by the Board in 2015 when it was updated to ensure it continues to meet UK Corporate Governance requirements. 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 Group Head of Risk is supported by the Risk and SHE Committee, attended by senior managers from each of the operating divisions, which met three times during 2016. The Risk and SHE Committee assists the Group Head of Risk in identifying critical risks, embedding risk management and facilitating 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 to the Board in December. The Board concluded that a robust assessment of the Group's principal risks had been undertaken.

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 2015. 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. The Board recognises that 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.




In determining the principal risks, the Board has considered the result of the referendum on the future of the UK's membership in the European Union. While this result increases the level of market uncertainty, it is not expected to have a material impact on Bodycote as customers are served locally and cross-border trading is minimal. This risk is therefore included as an element of the existing market risk.

In September 2016, a fire occurred at the Huntington Park facility in California. Bodycote personnel responded safely and quickly to ensure continuity of service for customers. The Group's business continuity framework, utilising the local plant network, provided an interim back-up capability and this significantly mitigated the impact of this event and prevented a major disruption. The facility was operational again one month after the event.

Risk description	Impact	Mitigation and control	Relevance to strategy
Market and customer risks			
<p>Markets</p> <p>Bodycote operates in 23 countries and a substantial amount of sales are closely linked to the economic cycle and the general macro-economic environment. The result of the referendum on the future of the UK's membership in the European Union is not expected to have a material transactional impact as customers are typically served locally and cross-border trading is minimal.</p>	<p>The high proportion of short-term 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 (66% of the total Group) tend to develop in line with or ahead of the economic cycle, whereas aerospace and defence sales (25%) tend to track behind the economic cycle. Sales to the energy sectors (9%) are closely linked to energy prices, which in turn can be affected by general economic activity.</p>	<ul style="list-style-type: none"> Bodycote's presence in 23 countries across a wide variety of end-markets acts as a natural hedge to neutralise localised economic volatility. There is some short-term 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. 	  
<p>Loss of key customers</p> <p>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.</p>	<p>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.</p>	<ul style="list-style-type: none"> There is no significant customer dependency, with the Group's top ten customers accounting for less than 16% 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)			
<p>Competitor action</p> <p>The entry of competitors into one or more of the Group's Specialist Technologies.</p>	<p>The erosion of market share resulting in loss of revenue and profit.</p>	<ul style="list-style-type: none"> ■ 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			
<p>Safety and health</p> <p>The nature of Bodycote's activities presents safety and health risks.</p>	<p>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.</p>	<ul style="list-style-type: none"> ■ 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 Risk and SHE Committee. 	
Operational risks			
<p>Service quality</p> <p>The Bodycote brand is reliant on the repeatable delivery of parts to agreed specification to an agreed time.</p>	<p>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.</p>	<ul style="list-style-type: none"> ■ 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
Operational risks continued			
<p>Major disruption at a facility</p> <p>Bodycote's business processes are inherently risky and there is a possibility that a major fire such as that suffered in 2016 at the Huntington Park facility (USA) 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.</p>	<p>Any significant incident at a site could result in the service to Bodycote's customers from the affected site being disrupted.</p>	<ul style="list-style-type: none"> ■ As demonstrated with the fire at Huntington Park, disruption was substantially mitigated by Bodycote's global network of 189 facilities. These facilities create a framework to provide back-up capability for affected facilities. ■ Business continuity plans are in place for all plants. These are updated and tested annually. ■ Independent insurer inspections to assess hazard and business interruption risks. ■ Insurance cover, including business interruption cover. ■ Scheduled equipment maintenance and inspections. 	
<p>Information technology projects</p> <p>The efficient operation of the Group relies on the proper development and operation of its IT systems. Bodycote is currently undergoing a Group-wide implementation of a new ERP system.</p>	<p>Failure to manage the implementation of the ERP programme successfully could result in cost overruns and, potentially, disruption to the business.</p>	<ul style="list-style-type: none"> ■ Project approval and progress subject to regular Executive Committee and 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			
<p>Regulatory and legislative compliance</p> <p>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.</p>	<p>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.</p>	<ul style="list-style-type: none"> ■ 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 2016 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 2016, with net cash of £1.1m, available committed facility headroom of £225.0m and a history of strong cash generation.

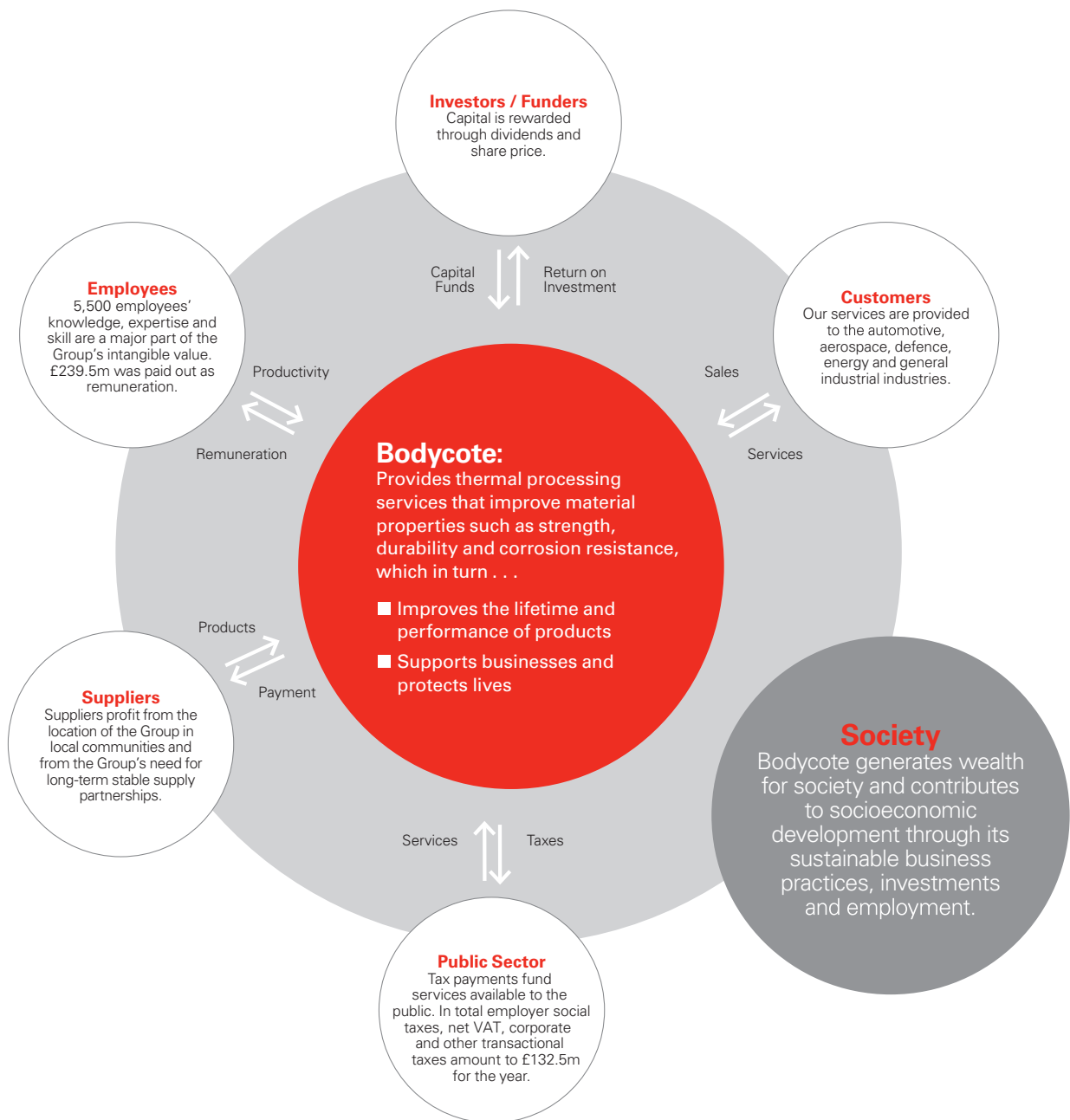
The directors have assessed the viability of the Group and, based on the procedures outlined above in addition to activities undertaken by the Board in its normal course of business, confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2019.

Corporate responsibility and sustainability



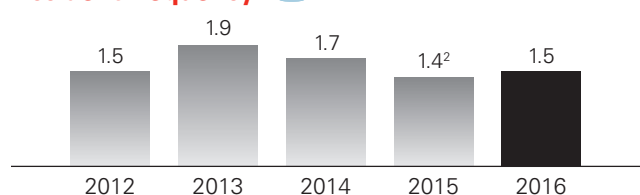
As a Group, Bodycote is committed to acting responsibly as a good corporate citizen, to reducing the environmental impact of the Group's activities and to providing our employees with a safe working environment.

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.



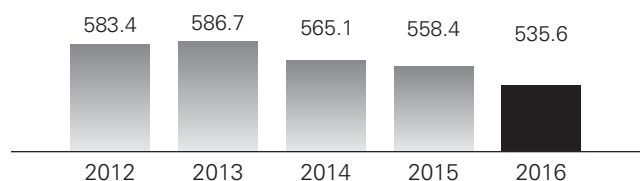
Corporate responsibility and sustainability continued

Accident frequency¹



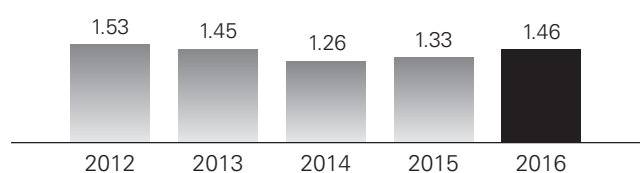
Carbon footprint³

(tonne CO₂e/£m sales normalised⁴)



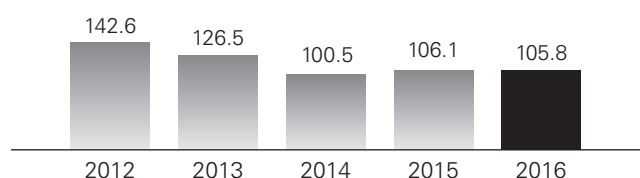
Water consumption

(thousand m³/£m sales normalised⁴)



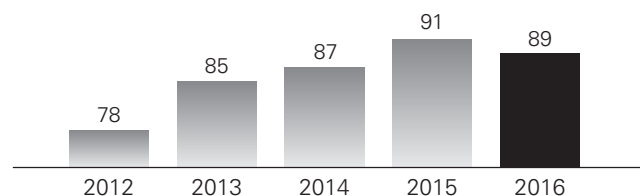
Chlorinated solvents

(kg/£m sales normalised⁴)



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. The accident frequency rate for 2015 has reduced from 1.5, as previously reported, to 1.4, following a correction to hours worked for one region that had previously omitted overtime hours from submissions of total hours worked.
3. CO₂e is carbon dioxide equivalent, which represents the CO₂ release due to our energy usage.
4. Normalised statistics restate prior year figures using current year IEA 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. We aim 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% (2015: 17%) and at manager level it is 25% (2015: 24%). Females represent 18% (2015: 18%) 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	54	18	72	75%	25%	100%
Other staff	4,423	972	5,395	82%	18%	100%
	4,482	991	5,473	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.

The Modern Slavery Act

Bodycote has conducted a risk assessment on our supply chain using the UK Government's published guidance entitled "Transparency in Supply Chains". Suppliers, in those countries identified in Walk Free Foundation's 2016 Global Slavery Index as being the most vulnerable to human rights issues in the supply chain, have been identified for further review and audit. Such suppliers are mainly based in Turkey, Poland, Romania, Czech Republic, UAE and China.

We have a Code of Conduct which sets out our policy on compliance with legislation, child labour, anti-slavery and human trafficking, and conditions of employment, health and safety and the environment.

The Anti-Slavery and Human Trafficking statement was approved by our Board of Directors in September 2016 and was published on our website. The statement will be reviewed on an annual basis.

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, the share dealing code.

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 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 confidentially, verbally or in writing, to an independent third party provider, ensuring anonymity. Reports are transcribed and sent to the Group Head of Risk, who then determines the appropriate steps for the matter 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.

Corporate responsibility and sustainability continued

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 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 2016, the LTI rate increased from 1.4 to 1.5. Note that the LTI rate was stated as 1.5 in the 2015 Annual Report. Due to a correction in the hours worked for one region, the 2015 LTI has been recalculated as 1.4. Given the effort and resource put into improving safety in 2016, the increase of 0.1 is disappointing although, on a positive note, the number of serious or high potential incidents declined by 11.5%. Accidents, though regrettable and unacceptable, represent learning opportunities. This is the reason that accurate reporting is an essential part of building a robust safety management system.

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 well since the introduction of the new global incident reporting system in 2013 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. The treated parts often last up to 20 times longer than the original.

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

Greenhouse gas emissions

	2016		2015		2015 (normalised [†])	
	CO ₂ e emissions (ktCO ₂ e)	Intensity ratio [‡] (tCO ₂ e/£m)	CO ₂ e emissions (ktCO ₂ e)	Intensity ratio [‡] (tCO ₂ e/£m)	CO ₂ e emissions (ktCO ₂ e)	Intensity ratio [‡] (tCO ₂ e/£m)
Scope 1	137.5	229.1	147.8	260.5	147.8	234.6
Scope 2	184.0	306.5	204.5	360.5	204.0	323.8
Statutory total*	321.5	535.6	352.3	621.0	351.8	558.4

* Statutory carbon reporting disclosures required by the Companies Act 2006.

[†] Normalised statistics restate prior year emissions using current year IEA carbon conversion factors and current year average exchange rates.

[‡] Emissions per £m of turnover.

Stacking up the benefits

Modern thermal processing techniques have allowed engineers and manufacturers to significantly extend component lifetimes. Through the effective use of thermal processing, parts can be consolidated and component performance enhanced leading to reduced downtime and maintenance costs.

longer life

in alloy steels for tooling undergo carburising to gain superior wear and fatigue resistance

115%

higher yield strength for steel in upstream applications achieved with Bodycote's CiD process

vital enabler

with heat treatment processes by Bodycote, oil & gas components can perform in some of the Earth's harshest environments

80%

the reduction in welding using Bodycote's Powdermet® technology for highly integrated, complex subsea manifold systems

5x

longer downhole life for mud rotors using Bodycote Surface Technology

increased corrosion resistance

for critical offshore drilling components with Bodycote's plasma or gas nitriding thermochemical case hardening process

Corporate responsibility and sustainability continued

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 CO₂e produced. Group operational management actively monitors their monthly CO₂e emissions reported and the Group's Executive Committee reviews the level of CO₂e 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 CO₂e 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 sites. At the end of 2016, 89% of our operating facilities had achieved ISO 14001 accreditation (2015: 91%). The slight reduction is due to the closure of a number of existing certified sites and the acquisition and construction of new sites which have yet to attain ISO 14001. Operational plants which have not yet received accreditation to the standard are working towards it.

Carbon footprint and water consumption

The absolute energy usage decreased by 8.7%. At constant exchange rates, it decreased by 8.6%.

The total CO₂e emissions per £m sales in 2016 were 535.6 Te (2015: as previously reported 535.4 Te; normalised† 558.4 Te).

The Group's total CO₂e 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. In previous years this has been supplied by DEFRA directly. However, as of January 2017 DEFRA no longer supplies these conversion factors for non-UK companies. This has now been sourced by the Group directly from the International Energy Agency (IEA). There are some significant differences in these conversion factors. As a result, all previous years have now been restated using IEA conversion factors to ensure that year-on-year comparisons are consistent.

On a normalised† basis, water usage per £m sales increased by 9.8%. On a non-normalised basis, water usage per £m showed a small decrease of 1.4%.

In 2015 our EU-based operational sites reviewed their operations to ensure 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.

Bodycote uses established systems to develop best practice at specific sites and across the wider Group. Examples of 2016 projects undertaken across Bodycote sites are discussed below.

In France, an engineering project group was established to determine energy and water saving opportunities from water cooling systems. Data was compared across all French sites and trials were undertaken at two sites – Beaugency and Billy Berclau – using the latest generation of closed loop water cooling systems. Beaugency and Billy Berclau both achieved a reduction in electricity consumption of 32% and 48% respectively, as well as a reduction in water usage by 58% and 68% respectively.

In Germany, the Essen site introduced a similar technology and a process gas optimisation project has identified a CO₂e saving of an impressive 308 Te CO₂e. Other energy saving projects in Germany include an investment in a heat recovery system at Ludenscheid, which saved 43.6 Te CO₂e.

At the Coventry site, a project to install vacuum pumps reduced annual CO₂e by 39.7 Te. Similarly, replacement compressors at the Kitchener plant in Canada achieved an estimated 21 Te CO₂e reduction.

Since 2013 Bodycote has submitted data on CO₂e usage to the Carbon Disclosure Project, one of the leading carbon reporting and verification bodies. Each year the Company has improved its standing in the league tables and is now a "C" relative to general business groups and is rated significantly higher on verification of data.

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 2016, the normalised† solvent use showed a slight decrease of 0.3% compared with the previous year.

Cautionary statement

The Strategic report has been prepared solely to provide information to shareholders to assess how the directors have performed their duty to promote the success of the Group.

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
28 February 2017

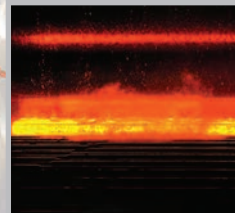
† Normalised statistics restate prior year emissions using current year IEA carbon conversion factors and current year average exchange rates.

Rock solid – a component journey

DRILL BITS

Erosion in drill bits presents a serious challenge in mining when productivity is crucial. Rotary blasthole drills operate in variable ground formations. Bodycote's carburising treatment increases the wear resistance of the drill bit parts, thus extending product life and operating efficiencies.

The drill bit components begin life as casehardening steel forgings.



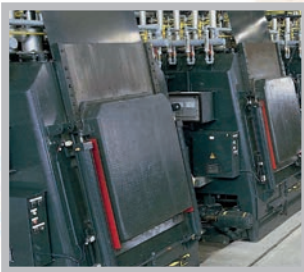
The bit legs and rollers are machined to achieve the design required for best performance through difficult terrain.



■ The parts undergo painting operation to prevent hardening the sections which require better ductility.



■ Carburising increases the surface hardness, or wear resistance, in the drill bit. Oil quench immediately follows.



■ A 3D printed insert is applied as masking to ensure that only the unpainted areas will be treated in the carburising process.



■ Before returning the parts, Bodycote inspects and performs quality checks for hardness.

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
Background and end application images courtesy of Sandvik AB



End application - rotary blasthole drilling rigs.

Board of Directors



Dominique Yates



Stephen Harris



Alan Thomson

Executive Directors

S.C. Harris, 58 | 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. Yates, 49 | Chief Financial Officer

Appointed: November 2016

Committees: Executive

Qualifications: Chartered Accountant, graduated from Bristol University in Economics and Accounting.

Experience: Held various senior positions in Imperial Tobacco Group plc followed by Chief Financial Officer positions at Symrise AG, LM Windpower and most recently at Regus plc from 2011 to 2015.

Non-Executive Directors

A.M. Thomson, 70 | 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, Johnson Matthey Plc from 2002 to 2011 and Alstom from 2007 to 2016. Past President of the Institute of Chartered Accountants of Scotland.

External appointments: Chairman of Hays PLC and Oxford Instruments plc.

I.B. Duncan, 55 | Non-Executive Director and Senior Independent Director

Appointed: November 2014

Committees: Remuneration, Nomination and Audit (Chair, appointed in 2015)

Qualifications: Chartered Accountant, qualified with Deloitte & Touche after graduating from University of Oxford.

Experience: Worked on a variety of audits with Deloitte & Touche, followed by four years with Dresdner Kleinwort Wasserstein. From 1990 to 1992 he worked for Lloyds Bank plc and then switched 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 in 2013, Mouchel Group from 2013 to 2015 and WANdisco from 2012 to 2016.

External appointments: Appointed Non-Executive Director and Chairman of the Audit Committees of Babcock International Group plc in 2010 and Non-Executive Director of SIG plc in 2017.



Ian Duncan

Eva Lindqvist

Pat Larmon

Ute Ball

E. Lindqvist, 59 | Non-Executive Director

Appointed: June 2012

Committees: Remuneration (Chair, appointed 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 in 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 before moving to Xelerated, initially as Chairperson and later as Chief Executive from 2007 to 2011. Non-Executive Director of Transmode Holdings AB from 2007 to 2013, Blekinge Institute of Technology from 2010 to 2013, Tieto Corporation from 2010 to 2016 and Micronic Mydata AB from 2013 to 2016.

External appointments: Non-Executive Director of Assa Abloy AB since 2008 and of Sweco AB, Caverion Oy since 2013, ComHem Holding AB from 2014, Alimak Holding since 2015 and Kährs Holding AB and Mr Green & Co AB since 2016.

P. Larmon, 64 | Non-Executive Director

Appointed: September 2016

Committees: Audit, Remuneration and Nomination.

Qualifications: Graduated from Illinois Benedictine University (major Economics & Business Economics) followed by achieving Certified Public Accountant, followed by an MBA from Loyola University of Chicago and a masters of International Business from St. Louis University.

Experience: Having joined Bunzl in 1990 when Packaging Products Corporation, of which he was an owner, was acquired, he held various senior management positions for over 13 years before becoming President of Bunzl's North America business in 2003, Chief Executive Officer in 2004 and joining the Bunzl plc board in 2005.

External appointments: Non-Executive Director of Huttig Building Products Inc., a NASDAQ listed international distributor of construction products, since 2015.

Secretary and registered office

U. S. Ball | Group Company Secretary

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

Tel: +44(0)1625 505 300 Fax: +44(0)1625 505 313

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. The Corporate governance statement provides an insight into how the Board operated during the year and the key issues considered. We are committed to conducting business responsibly whilst maintaining high standards of corporate governance to enhance performance underpinned by our business model. Our approach to governance is set by the Board and our Executive Committee ensures that the approach is effectively implemented across the business.

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. Risk processes are embedded and reviewed on an ongoing basis across the business. The important governance developments at Bodycote over the last year are detailed in the governance reporting section below.

The Board is actively engaged in succession planning for both executive and non-executive directors. This ensures that the Board composition continues to be appropriate and, therefore, effective.

I encourage all shareholders to attend the AGM, which will be held at our Macclesfield head office on 17 May 2017. This event provides an excellent opportunity to meet the executive and independent non-executive directors.

A.M. Thomson

Chairman

Board performance

2016 key actions	2016 achievements	Priorities for 2017
<ul style="list-style-type: none">■ Implement actions from the 2016 strategy review	<ul style="list-style-type: none">■ Accelerated growth from Specialist Technologies and enhanced business processes	<ul style="list-style-type: none">■ Undertake 2017 strategy review
<ul style="list-style-type: none">■ Continued focus on management development and succession planning	<ul style="list-style-type: none">■ The Board and management reviewed management resources during the year	<ul style="list-style-type: none">■ Continue with the refreshment of the Board and succession planning
<ul style="list-style-type: none">■ Appointment of a new Non-Executive Director, a new Senior Independent Director and a new Chief Financial Officer	<ul style="list-style-type: none">■ P. Larmon was appointed as Non-Executive Director and I.B. Duncan as Senior Independent Director. D. Yates was appointed as Chief Financial Officer	<ul style="list-style-type: none">■ Smooth transition following handover of the Chief Financial Officer role from D. Landless to D. Yates
<ul style="list-style-type: none">■ Continued emphasis on external Board training and development	<ul style="list-style-type: none">■ The Board visited plants in the Czech Republic and Belgium during the year and developed the directors' understanding of these businesses and the markets they serve	<ul style="list-style-type: none">■ Use Board visits to meet the French and American teams to promote understanding of markets and the opportunities they offer
<ul style="list-style-type: none">■ Continued review of the risk register, including major programme risks	<ul style="list-style-type: none">■ During the year the Board reviewed the different elements of the Group's risk management framework and how it discharged its responsibilities	<ul style="list-style-type: none">■ 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 23 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. The Nomination Committee considers capability and capacity to commit the necessary time to the role in its recommendation to the Board. The intention is to appoint the most suitable qualified candidate to complement and balance the current skills, knowledge and experience of the Board and who will be best able to help lead the Company in its long-term strategy. The Nomination Committee is advised by international search companies, who have been briefed on our diversity policy and are required to reflect the policy in the long list submitted to the Committee.

We appointed P. Larmon on 13 September 2016 as part of our Board refreshment. D. Yates was appointed Chief Financial Officer on 2 January 2017, replacing D. Landless, who retired on 1 January 2017. We will address this issue further 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.

Female representation on our Board is currently 17% (2015: 17%) and at manager level it is 25% (2015: 24%). Females represent 18% (2015: 18%) of our total workforce. We believe it is difficult to set targets or timescales for increasing the proportion of women, or any other minority group, on our Board and do not propose to do so. 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

Following the external Board Evaluation in 2015, the Board agreed to undertake an internal evaluation in 2016. To ensure that all aspects of good governance are covered by the review, the Group Company Secretary distributed a tailored questionnaire to each member of the Board. Questions were framed under the following seven topics:

- Remit and objectives;
- Composition, training and resources;
- Corporate governance/risk management;
- Stakeholder engagement;
- Board meetings and visits;
- Board procedures and administration; and
- Evaluation and effectiveness.

At a meeting of the Nomination Committee in September 2016, the directors assessed the conclusions reached and are in the process of implementing a number of recommendations. Additional emphasis will be placed on risk management, strategy and operational matters. The Board evaluation covered the activities of the Board and each of its Committees. The Board is considered to be functional and working well. Arising from the exercise, the Board 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. The Executive Committee is 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.

E. Lindqvist has several other non-executive director appointments, all with Swedish or Finnish companies. The Board noted that typically board meetings in Nordic companies are no more than four to six times per annum and hence felt that these appointments had no impact on E. Lindqvist's time commitment to Bodycote.

The Executive Directors Messrs S.C. Harris and D. Yates were also appraised in February 2017.

Led by the Senior Independent Director, the directors carried out an evaluation of the Chairman's performance in September 2016. The Board is satisfied with the Chairman's commitment and performance.

Corporate governance statement continued

Induction

All new directors are subject to a tailored induction programme covering a diverse range of topics including trading, investor relations, organisational and legal matters as well as visits to operational sites. They also meet all other directors and senior executives. This facilitates their understanding of the Group and the key drivers of business performance.

Training

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 and during the year the directors received training on international employment law developments, focusing in particular on the main countries in which we operate. Other opportunities for ongoing development and support are:

- a programme of plant/site visits throughout the year;
- reviews with the Chairman to identify any training and development needs;
- advice on governance, relevant legislative changes affecting the business or their duties from the Group Company Secretary;
- access to independent professional advice at the Company's expense; and
- participation at the training and guidance programme for boards and directors offered at the Deloitte Academy.

Succession planning

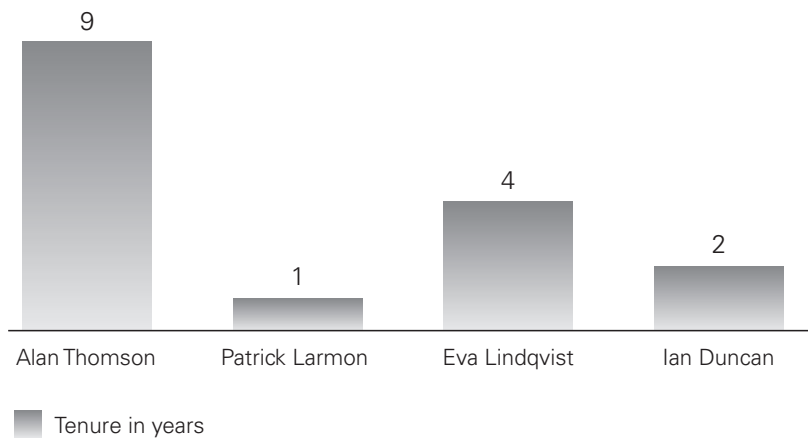
Succession planning ensures that appropriate senior executive leadership resources are in place to achieve Bodycote's strategic objectives. The plans are reviewed annually by the Nomination Committee.

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)



Individual roles of the Board

Chairman	Group Chief Executive	Chief Financial Officer
<ul style="list-style-type: none"> ■ operates 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 ■ ensures effective communication with shareholders 	<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ 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	Non-Executive Directors	Group Company Secretary
<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ 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.

Corporate governance statement continued

Compliance reporting

In respect of the financial year 2016, 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"). The 2016 UK Corporate Governance Code was issued in April 2016 and applies to accounting periods beginning on or after 17 June 2016.

In respect of the year ended 31 December 2016, Bodycote has complied with the provisions of the Code with the exception of provisions E.1.1 and B.1.2. Regarding E.1.1, the Board has, in recent years, taken the view that generally it is the responsibility of the Group Chief Executive and the Chief Financial Officer 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. During the year there existed a short period where the Group did not comply with provision B.1.2. as R. Rajagopal retired from the Board at the AGM on 27 May 2016 and P. Larmon was appointed as Non-Executive Director on 13 September 2016.

Apart from these distinct areas, Bodycote was in compliance with the provisions of the 2014 and 2016 Code throughout 2016.

Operation of the Code

Taken together with the Report of the Nomination Committee, the Report of the Audit 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 2016, 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 I.B. Duncan, who also chairs the Audit Committee. E. Lindqvist is Chair of the Remuneration Committee. Brief biographical details of all directors are given on pages 36 to 37. During the year the Board visited a number of UK and overseas facilities, including sites in the Czech Republic and Belgium. Such events involved meetings with local management and the unit workforce to understand more clearly technical and operational performance in countries where Bodycote has a significant presence.

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:

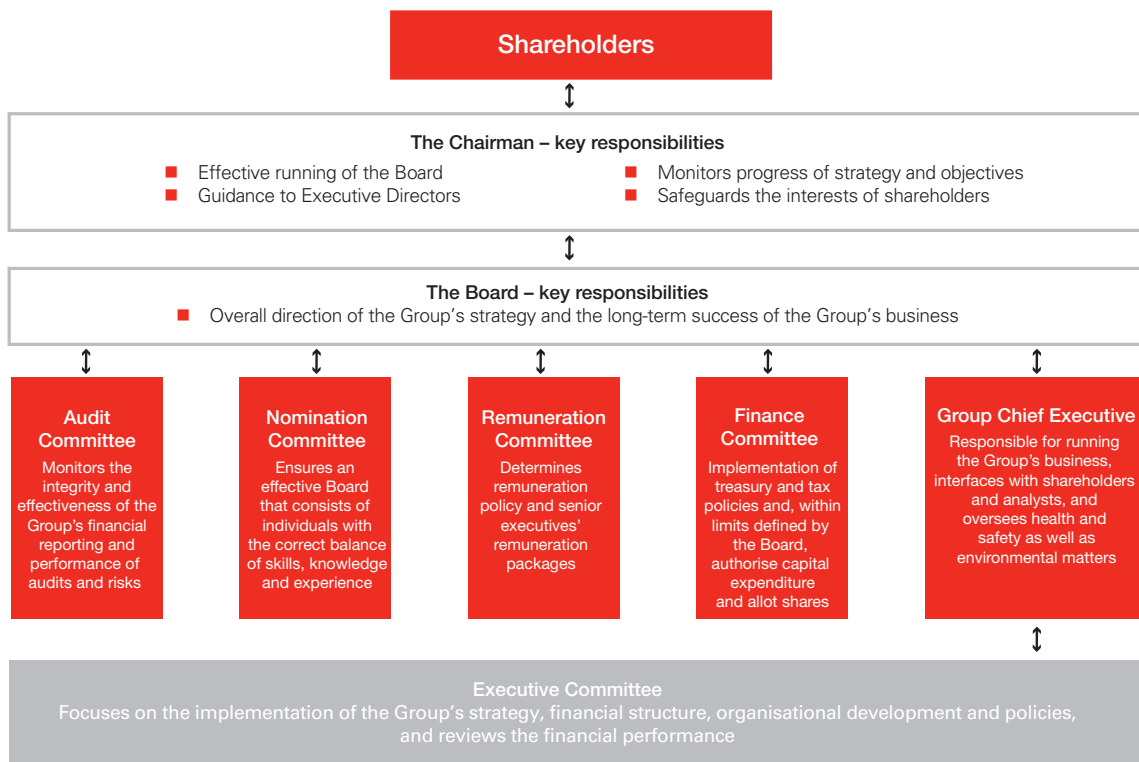
- Strategy;
- Approval of financial statements and circulars;
- Capital projects, acquisitions and disposals;
- Annual budgets;
- Directors' appointments, service agreements, remuneration and succession planning;
- Policies for financial statements, treasury, safety, health and environment, donations;
- 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 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 Committee.

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 Chief Financial Officer 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.



Corporate governance statement continued

Independence of non-executive directors

The Board considers that P. Larmon, 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:

Director	Full Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
A.M. Thomson	8	8	–	–	7	7	7	7
S.C. Harris	8	8	–	–	–	–	7	7
R. Rajagopal ¹	3	3	2	1	5	5	3	1
E. Lindqvist	8	8	4	4	7	7	7	7
D.F. Landless	8	8	–	–	–	–	–	–
I.B. Duncan	8	8	4	4	7	7	7	7
P. Larmon ²	3	3	1	1	2	2	2	2
D. Yates ²	1	1	–	–	–	–	–	–

1. R. Rajagopal retired after the AGM in May 2016.

2. P. Larmon was appointed on 13 September 2016 and D. Yates on 1 November 2016.

All directors, with the exception of R. Rajagopal, attended the maximum number of Audit, Remuneration and Nomination Committee meetings that they were scheduled to attend. R. Rajagopal's non-attendance was due to ill health. 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, E. Lindqvist and I.B. Duncan will stand for re-election at the AGM in May 2017. Having been appointed since the last AGM, P. Larmon and D. Yates will stand for election.

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'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.

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 2016 and continues to operate up to the date of the approval of this report. Key elements of the Group's system of internal control are as follows:

- 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 E&Y, who provide Internal Audit services, monitors the Group's internal financial control system. Internal audit reviews are conducted on the basis of a risk-based plan approved annually by the Audit Committee. The findings and recommendations from internal audit are reported on a regular basis to the Executive and Audit Committees.
- An annual internal control self-assessment, with management certification, is undertaken by every Bodycote site. The assessment covers the effectiveness of key financial and compliance controls. The results are validated by internal audit through spot checks and are reported to the Executive and Audit Committees.
- Group policies (including the Code of Conduct, Group authority matrix and finance policies) are documented and are available to all employees via the Group's intranet system.
- The Chief Financial Officer, Group Financial Controller, President and Vice President of Finance for each division sign a letter of representation annually. This is 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.
- A Group-wide risk register is maintained throughout the year to identify the Group's key strategic and operational risks. Any changes to these risks during the year are promptly reported to the Executive Committee and the Board.

During 2016, 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 and 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 27. 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 Chief Financial Officer 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 and operating performance. 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 Chief Financial Officer. The Chairman and SID are available to discuss any issues not resolved by the Group Chief Executive and Chief Financial Officer. 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
28 February 2017

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 2016.

The Chairman's statement, the Chief Executive's review, the Chief Financial Officer's report and all the information contained on pages 36 to 73 together comprise the Directors' report for the year ended 31 December 2016.

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 2016, key performance indicators and a description of the principal risks and uncertainties facing the Group. 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 dividend of 10.8p per share (2015: 10.3p) bringing the total ordinary dividend to 15.8p per share (2015: 15.1p). If approved by shareholders, the final dividend of 10.8p per share will be paid on 2 June 2017 to all shareholders on the register at the close of business on 21 April 2017.

Share capital

The Company's issued ordinary share capital as at 31 December 2016 was £33.1m. No shares were issued during the year. At the AGM on 27 May 2016 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 17 May 2017, 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 29 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 pages 36 and 37 and all served throughout the year, with the exception of P. Larmon, who was appointed on 13 September 2016, and D. Yates, who was appointed on 1 November 2016. 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 2016 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 2017 AGM are A.M. Thomson, S.C. Harris, I.B. Duncan and E. Lindqvist. Since P. Larmon and D. Yates were appointed after the AGM in 2016, both will stand for election at the AGM in May 2017. The service agreements for Messrs S.C. Harris and D. Yates 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 2016. 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 2016 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 up until September 2017 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 2015 or 2016.

Shareholders

An analysis of the Company's shareholders and the shares in issue at 17 February 2017 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 138.

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 himself 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 2017 Annual General Meeting will be held on 17 May 2017 in accordance with the notice being sent to shareholders with this report.

By order of the Board:

U.S. Ball

Group Company Secretary
28 February 2017

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

Report of the Nomination Committee

Committee membership	No. of meetings 2016: 7	Main committee responsibilities
Director	Attendance	
A.M. Thomson	7	<ul style="list-style-type: none"> 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.
S.C. Harris	7	
I.B. Duncan	7	
E. Lindqvist	7	<ul style="list-style-type: none"> Give full consideration to succession planning for directors and other senior executives in the course of its work.
P. Larmon (appointed 13 September 2016)	2	
R. Rajagopal (retired 27 May 2016)	3	<ul style="list-style-type: none"> Be responsible for identifying and nominating candidates, for the approval of the Board, to fill Board vacancies as and when they arise.

Dear Shareholders

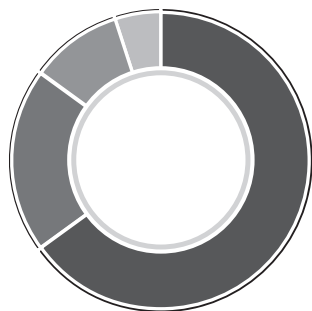
I am pleased to introduce the Nomination Committee report for 2016. The Committee's key objective is to support the Board in fulfilling its responsibilities to ensure there is a formal, rigorous and transparent process for the appointment of new directors to the Board and to ensure that effective succession planning processes are in place across the Group.

This was a busy year for the Committee. In addition to its main responsibilities, the Committee oversaw the process of appointing a new Non-Executive Director and a new Chief Financial Officer. Raj Rajagopal, Senior Independent Director (SID), stood down at the 2016 AGM. Pat Larmon was appointed Non-executive director on 13 September 2016 and Ian Duncan took over as Senior Independent Director after the AGM on 27 May 2016. Dominique Yates joined as Group Finance Director designate on 1 November 2016 and was appointed Chief Financial Officer on 2 January 2017 following David Landless' retirement from the business on 1 January 2017 after 17 years of service. 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

Nomination Committee – allocation of agenda time



Board composition and succession planning	65%
Performance of Chairman and Group Chief Executive	20%
Governance and reporting	10%
Independence and re-election	5%

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.

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 R. Rajagopal at the 2016 AGM, he was replaced as Senior Independent Director by I.B. Duncan. P. Larmon joined the Board in September 2016 as Non-Executive Director. After 17 years of service D. Landless, Group Finance Director, retired on 1 January 2017. D. Yates was appointed Group Finance Director designate on 1 November 2016 and became Chief Financial Officer on 2 January 2017. The Committee was advised by an international search consultancy, Zygos, in the process of identifying suitably qualified individuals. Zygos has no other connections to Bodycote plc.

Main activities of the Nomination Committee

In 2016 the Committee formally met seven 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 has sought to ensure that appointments are of the best candidates to promote the success of the Company and are based on merit, with due regard for the benefits of diversity on the Board. Further information concerning Board diversity can be found on page 39 as part of the Corporate governance statement.

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.

Following the external Board evaluation in 2015, the Board agreed to undertake an internal evaluation during 2016. Further details of the review can be found in the Corporate Governance section of the Annual Report. Recommendations arising from the 2016 Board evaluation are in the process of being addressed.

In December 2016 the Nomination Committee reviewed the Board's size and composition, the frequency of the process for Board and Committee meetings, and best practice for dealing with Board issues including drawing up a training and/or induction 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. The Committee, having reviewed their independence and contribution to Board matters, confirms that the performance of each of the directors standing for re-election at this year's 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 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 AGM in May 2017 to answer questions relating to the work of the Committee.

On behalf of the Nomination Committee:

A.M. Thomson

Chairman of the Nomination Committee
28 February 2017

Report of the Audit Committee

Committee membership	No. of meetings 2016: 4	Main committee responsibilities
Director	Attendance	
I.B. Duncan	4	■ Encourage and safeguard the highest standards of integrity, financial reporting, financial risk management and internal controls.
E. Lindqvist	4	■ 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.
R. Rajagopal (retired 27 May 2016)	1	■ 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.
P. Larmon (appointed 13 September 2016)	1	■ 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, setting policy for the provision of non-audit services to make recommendations to the Board, subject to the approval by shareholders, on the appointment, reappointment or removal of the external auditor.
		■ 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 56. The Group Company Secretary is the secretary to the Audit Committee.

I.B. Duncan is Chairman of the Audit Committee. The Board considers that I.B. Duncan has recent and relevant financial experience. He qualified as a Chartered Accountant with Deloitte & Touche, served as Finance Director of Royal Mail Holdings plc from 2006 to 2010, and has chaired the audit committees of several other publicly listed companies.

Other members of the Committee have significant and widespread experience in both executive and non-executive capacities in multinational industrial companies. Accordingly, all members of the Audit Committee are considered to have competence relevant to their duties.

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 2016 and in February 2017 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 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.

Areas of focus

The areas of focus considered by the Committee in relation to the 2016 Annual Report included the following:

- Impairment of goodwill. The Committee challenged the future forecast underlying the value in use calculation, and 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. Details of sensitivity analysis applied to key assumptions used in the impairment review are set out in note 11 to the financial statements on page 102. The Committee has concluded that no impairment charge is required in the year.
- 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 Annual Report. The Committee discussed with management the key judgements behind provisions, taking note of the range of possible outcomes, and agreed with their recommendations.
- Taxation. A number of judgements are involved in calculating tax provisions and the level of deferred tax assets to be recognised. The Committee reviewed 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 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. 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 2017 was presented to the Committee in October 2016 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.

Report of the Audit Committee continued

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. 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 2016 Annual Report and was specifically tasked by the Board to advise it on whether the 2016 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 reappointment 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 2016, the Committee has decided to recommend to the Board that Deloitte be reappointed for the 2017 audit and a resolution to this effect will be put to the 2017 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 has been lead partner since 2015.

Deloitte has been the Group's auditor for 15 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, as the Committee believes that the audit partner's knowledge of the business contributes to the quality of the audit process.

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 2017. The Committee considered Deloitte's presentation and confirmed that it considered the auditor to be independent.

Significant controls surrounding the financial reporting process

The Group operates under a system of internal controls which have been developed and refined over time to meet its needs and the risks to which it is exposed. This includes:

- preparation of the Strategic Plan;
- comprehensive budgeting process with an annual budget which is approved by the Board;
- quarterly review and revision of financial forecasts for the year;
- monthly monitoring of financial performance;
- recruitment of suitably qualified staff for the Group's administrative offices, shared service centres and regional accounting centres;
- provision of appropriate IT and reporting systems; and
- appropriate delegation of authority to operational management.

Delegations and other Group corporate and financial policies are maintained on the Group intranet. An annual representation letter from all business unit Presidents and Vice Presidents of Finance, with regard to the financial reporting process and the veracity of the information they have submitted, is provided to the Committee.

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 was completed by each member of the Committee, 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 2016. 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. Financial due diligence, taxation, internal audit, and actuarial services are not typically contracted to the external auditor. 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 98 and amounted to 11% of the audit fee.

The review of the Group's Interim Report was the only significant non-audit engagement undertaken by the external auditor. Given the external auditor's detailed knowledge of the Group, the Audit Committee believes that it is in the interests of the Group that the external auditor performs this review.

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. An assessment questionnaire was completed by each member of the Committee, the Group Finance Director and other senior finance executives. The views of senior operational management have also been canvassed. 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. On the appointment of a new engagement partner the Committee assesses the experience and expertise of the partner and other senior staff members. Audit quality is assured through a detailed review of each report being carried out by the Group Head of Risk, and a summary of each report's findings being reviewed by the Audit Committee. 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 internal review of Board effectiveness which was undertaken in July 2016. There were no material deficiencies noted in the review and directors indicated a high level of satisfaction with the work of the Committee. 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

28 February 2017

Board report on remuneration

Committee membership	No. of meetings 2016: 7	Main committee responsibilities
Director	Attendance	
E. Lindqvist	7	■ Responsibility for setting the remuneration policy for all executive directors and the Company's Chairman.
A.M. Thomson	7	■ Recommend and monitor the level and structure of remuneration for senior management.
I.B. Duncan	7	■ Review the ongoing appropriateness and relevance of the remuneration policy.
R. Rajagopal (retired 27 May 2016)	5	■ Appoint remuneration consultants.
P. Larmon (appointed 13 September 2016)	2	■ 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.

Chair's letter

As Chair of the Remuneration Committee ("the Committee") and on behalf of the Board of Directors, I am pleased to present our Board report on remuneration for the 2016 financial year, in line with the requirements of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

This report comprises two sections. The first part (Section A) describes how the existing policy, approved at the 2016 AGM, was implemented in 2016. The second part (Section B) summarises the policy of the Board with regard to the remuneration of the directors. The full Remuneration Policy, as approved by shareholders at the AGM in 2016, is available on our website.

I would like to thank our shareholders for their support in approving the Remuneration Policy at the AGM in 2016. Our approach is based on simple, competitive reward that closely aligns the pay of our senior executives with our Company's strategy. It is designed to incentivise and motivate the behaviours and actions that will deliver strong returns to shareholders. The new Remuneration Policy was developed to help better achieve these goals, creating a simpler framework aligned with best practice, new corporate governance requirements, and to reflect the changing nature of our business in the coming years.

I would also like to welcome Patrick Larmon, who was appointed on 13 September 2016, to the Board and Committee.

Context and key Committee decisions on remuneration

2016 has seen the business respond to challenging market conditions linked to a subdued demand for industrial machinery and a reduction in oil & gas activity. However, the business has a robust balance sheet with minimal leverage and cash generation has remained strong over the period. This has allowed continued investment in areas where we believe there will be sustainable value creation for shareholders, particularly in Specialist Technologies and focusing on high added value services in Classical Heat Treatment. In 2016, the weakness in trading experienced by the business has been largely offset by the positive currency translation impact resulting from exchange rate movements.

In the context of the above, the decisions made by the Committee in respect of the remuneration of the executives are set out below and reflect the achievement against the relevant performance conditions. The Committee also considers the conditions and pay of the wider workforce when making decisions on remuneration of the executives. All the decisions made by the Committee are in line with the approved Remuneration Policy.

- The annual bonus paid out at 19% of maximum bonus for the Group Chief Executive, and at 14% of maximum bonus for the Group Finance Director, David Landless, due to partial achievement of cash flow targets and personal objectives.
- The 2014 BIP (Bodycote Incentive Plan) did not vest as performance conditions were not met.
- The 2013 CIP (Co-Investment Plan) vested at 93.3% of maximum due to achieving absolute TSR growth of 9.9% during the performance period.

The Committee also reviewed the base salary of the Group Chief Executive and determined that an inflationary salary increase of 3% will be made effective from 1 January 2017. The 2016 average salary increase for the wider UK workforce was 2.1%. As David Landless retired on 1 January 2017, he is not eligible for a salary review or increase. The salary of Dominique Yates, who commenced on 1 November 2016, will be reviewed next in January 2018.

Executive director changes

Dominique Yates joined as Group Finance Director designate and executive director of Bodycote plc on 1 November 2016. Dominique took up his new role as Chief Financial Officer on 2 January 2017, succeeding David Landless who announced his intention to retire from the Board on 25 February 2016 after serving 17 years with Bodycote.

Dominique Yates' remuneration on appointment is in line with the approved Remuneration Policy and full details are set out in Section A of this report. On his appointment, Dominique's base salary was set at £380,000 to reflect his experience and the skills he will bring to the role. Under normal circumstances it would not be envisaged that Dominique will receive higher than normal salary increases in the coming years. From 2017, Dominique is eligible to participate in Bodycote's annual bonus and Bodycote Incentive Plan and has not received any buyout or additional awards.

David Landless' remuneration will be treated in line with the approved Remuneration Policy on his departure. David will not receive any additional payments as a result of his departure. Full details are set out in Section A of this remuneration report.

Finally, I would 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. I would welcome your views on the content of this report or any other items you would like to discuss.

E. Lindqvist

Chair of the Remuneration Committee
28 February 2017

Board report on remuneration continued

Section A: Annual report on remuneration

Auditable section

Total single figure table

Incumbent	Financial year	Total salary/ fees £000	Total pension £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 equivalent for BIP+CIP	Total variable pay £000	Total £000
Executive directors												
S.C. Harris	2016	511	128	23	662	191	–	19	19	3	213	875
	2015	499	–	142	641	130	–	–	–	–	130	771
D.F. Landless ⁴	2016	326	110	23	459	66	–	32	32	5	103	562
	2015	319	–	72	391	64	–	61	61	–	125	516
D. Yates ⁵	2016	63	16	2	81	–	–	–	–	–	–	81
Non-executive directors												
A.M. Thomson	2016	169	–	–	169	–	–	–	–	–	–	169
	2015	165	–	–	165	–	–	–	–	–	–	165
R. Rajagopal ⁶	2016	26	–	–	26	–	–	–	–	–	–	26
	2015	52	–	–	52	–	–	–	–	–	–	52
E. Lindqvist	2016	62	–	–	62	–	–	–	–	–	–	62
	2015	60	–	–	60	–	–	–	–	–	–	60
I.B. Duncan ⁷	2016	67	–	–	67	–	–	–	–	–	–	67
	2015	60	–	–	60	–	–	–	–	–	–	60
P. Larmon ⁸	2016	15	–	–	15	–	–	–	–	–	–	15

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 2016 figures relate to BIP awards made in 2014 with performance periods ending on 31 December 2016. No shares vested as the targets were not achieved.

3. The 2016 figures relate to CIP awards made in 2013 with performance periods ending 30 April 2016. The shares vested in May 2016 at a share price of 599.5p.

4. D.F. Landless resigned on 1 January 2017 as Group Finance Director.

5. D. Yates was appointed on 1 November 2016 as Group Finance Director designate.

6. R. Rajagopal resigned on 27 May 2016 at the AGM.

7. I.B. Duncan took over as Senior Independent Director from R. Rajagopal on 27 May 2016.

8. P. Larmon was appointed on 13 September 2016 as Non-Executive Director.

Payments to past directors and for loss of office

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

Remuneration for 2016

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 B: 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 2016 base salary increases and comparative figures can be found in the Remuneration Committee Chair's letter.

Base salaries are reviewed in January every year.

Name	Position	Salary from 1 January 2016*	Salary from 1 January 2017
S.C. Harris	Group Chief Executive	£511,309	£526,650
D.F. Landless (retired on 1 January 2017)	Group Finance Director	£326,556	n/a
D. Yates (appointed 1 November 2016)	Chief Financial Officer	£380,000	£380,000

* The 2016 increase of 2.5% compares to the average 2016 salary increase across the Group of 2.9%.

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 £89,292. 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 £58,117. The taxable value of restricted stock units that vested during 2016 was £4,277 and the taxable value of options exercised was £27,396. D.F. Landless has also been appointed as a non-executive director of Innospec Inc. with effect from 1 January 2016 and retained fees for the year of £71,229.

Pension

S.C. Harris and D. Yates are 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 £51,082 was waived during the year. As of 1 April 2016 D.F. Landless received a salary supplement in lieu of pension of £58,456 for the remainder of the year. In addition, a death in service benefit of eight times basic salary was 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
S.C. Harris	£17,726	£2,400	£1,401
D.F. Landless	£19,133	£1,200	£1,751
D. Yates (appointed 1 November 2016)	£2,046	£200	–

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. 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. The plan was terminated in November 2016 and no further contributions will be made.

Annual performance related bonus

2016 Annual bonus

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 2016 financial year.

The annual bonus potential for the period to 31 December 2016 for executive directors was split 77% in respect of Group headline operating profit, 10% on Group headline operating cash flow and 13% 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 £88.4m at constant exchange rates (13% decrease on prior year) and headline operating cash flow of £79.3m at constant exchange rates (3% decrease on prior year). No bonus is payable on headline operating profit since the threshold was not met.

The Committee also assessed the performance of the Group Chief Executive and Group Finance Director, David Landless, against their personal objectives, which included targets relating to safety, focus on driving growth, implementation of sales strategy, succession planning, as well as implementation of major projects. The Committee concluded that personal strategic objectives were achieved at a level of 80% of the maximum award for the Group Chief Executive. The Group Finance Director, David Landless, achieved 40% of maximum.

	Threshold	Target	Maximum	% of award	Actual performance achieved	Actual payout (% of award)	
						CEO	FD
Group headline operating profit	£96.0m	£100.0m	£105.0m	70%	£88.4m	0%	0%
Group headline operating cash flow	£76.6m	£79.8m	£79.8m	10%	£79.3m	8.3%	8.3%
Personal scorecard			✓	20%		10.4%	5.2%
Total						18.7%	13.5%

Board report on remuneration continued

Bodycote Incentive Plan (BIP) and Bodycote Co-Investment Plan (CIP) awards

BIP awards consisting of conditional shares were granted to both executive directors, equivalent in value to 175% of their base salaries on 10 June 2016, 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 below.

No awards were made under the CIP scheme.

Directors' interests under the BIP

	Interests as at 1 January 2016	Awarded in year ¹	Vested in year ²	Lapsed in year	At 31 December 2016	Market price at award date	Market value at date of vesting	Vesting date
S.C. Harris	366,762	–	–	146,776	–	£5.45	–	7 March 2016
	–	151,767	–	–	371,753	£5.77	–	March 2019
D.F. Landless	234,241	–	–	93,745	–	£5.45	–	7 March 2016
	–	96,927	–	–	237,423	£5.77	–	March 2019
D. Yates	–	–	–	–	–	–	–	–

1. Mid-market closing price of a share on the day before grant was £6.02. The face value of the award to S.C. Harris was £875,696. The face value of the award to D.F. Landless was £559,269.

2. No award vested during the year as performance conditions were not met.

Directors' interests under the CIP

	Interests as at 1 January 2016	Awarded in year ¹	Vested in year ²	Lapsed in year	At 31 December 2016	Market price at award date	Market value at date of vesting	Vesting date
S.C. Harris	16,563	–	3,174	229	13,160	£5.55	£5.99	26 May 2016
D.F. Landless	20,225	–	5,389	388	14,448	£5.55	£5.99	26 May 2016

1. No award was made in 2016.

2. Subject to satisfaction of the relevant performance conditions (details of which are set out on page 59). The awards that vested during the year vested at 93.3%.

Bodycote Incentive Plan

Awards with performance periods ending in the year

BIP awards made in 2014 had a three-year performance period ending on 31 December 2016, with 50% of the award subject to satisfaction of a ROCE target and 50% subject to the headline earnings per share (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%	45.0p	0%
Maximum performance	23.0%	100%	61.3p	100%
Performance achieved	17.1%	0%	37.0p	0%

If headline EPS at the end of the performance period was below 40.2p, then no awards will vest. Over the period, ROCE was 17.1% and the headline EPS figure for the year was 37.0p. As the targets were not achieved, the Committee concluded that the 2014 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 June 2016 and will vest in March 2019, subject to the achievement of ROCE and headline EPS growth performance targets. The performance period will end on 31 December 2018. 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	15.5%	0%	31.7p	0%
Maximum performance	23.0%	100%	52.0p	100%

If headline EPS at the end of the performance period is below 27p, 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 58.

Co-Investment Plan (CIP)

Awards with performance periods ending in the year

As described in Section B: Directors' Remuneration Policy, CIP awards are subject to an absolute TSR target. The CIP awards made in 2013 had a three-year performance period ending on 30 April 2016. 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 9.9%. This performance resulted in the TSR targets being achieved at a level of 93.3%. The number and value of shares which vested to each of the executive directors is set out on page 58.

No awards were made in the year.

Implementation of policy in 2017

Base salary is reviewed on an annual basis. The 2017 base salary increases from 1 January 2017 were 3% for the Group Chief Executive and 0% for the Chief Financial Officer, having recently been appointed. As 2016 base salary increases for the Group are applied after the publication of this report, the comparative figure for 2017 can only be provided in next year's report. The comparative figure for 2016 is disclosed in the base salary section on page 56.

The new Chief Financial Officer, Dominique Yates, replaced David Landless as of 2 January 2017. His salary on appointment was £380,000. This reflects his significant and valuable experience in international multi-site businesses, and the need to ensure his reward package was appropriate in the context of that in his previous role to facilitate his recruitment. Dominique's company pension contribution is 25% of salary. As of 2017, Dominique was invited to participate in the annual bonus plan at 150% of base salary with deferral of bonus in line with the Remuneration Policy. Dominique will also be invited to participate in the Bodycote Incentive Plan at 175% of salary as of 2017. Benefits provided include the provision of company car (or allowance), private medical insurance, short- and long-term sick pay and death in service cover. Taxable work-related expenses such as travel and relocation are also provided.

David Landless resigned as an executive director as of 1 January 2017. The Remuneration Committee has decided that as a good leaver, David's 2014 and 2015 Bodycote Incentive Plan (BIP) and Co-Investment Plan (CIP) awards will be pro-rated to his leaving date and are subject to achievement of performance conditions at the end of the three-year performance period. The 2016 BIP award will lapse. No CIP awards were made in 2016.

For 2017, 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. In line with prior years, the 2017 annual bonus targets will be disclosed in the 2017 Annual Report.

The Committee has determined to set the targets for the 2017 BIP awards as disclosed below. The targets below were set in the context of significant pressures in the sector and to ensure that the Committee is able to deliver upper quartile reward for upper quartile performance.

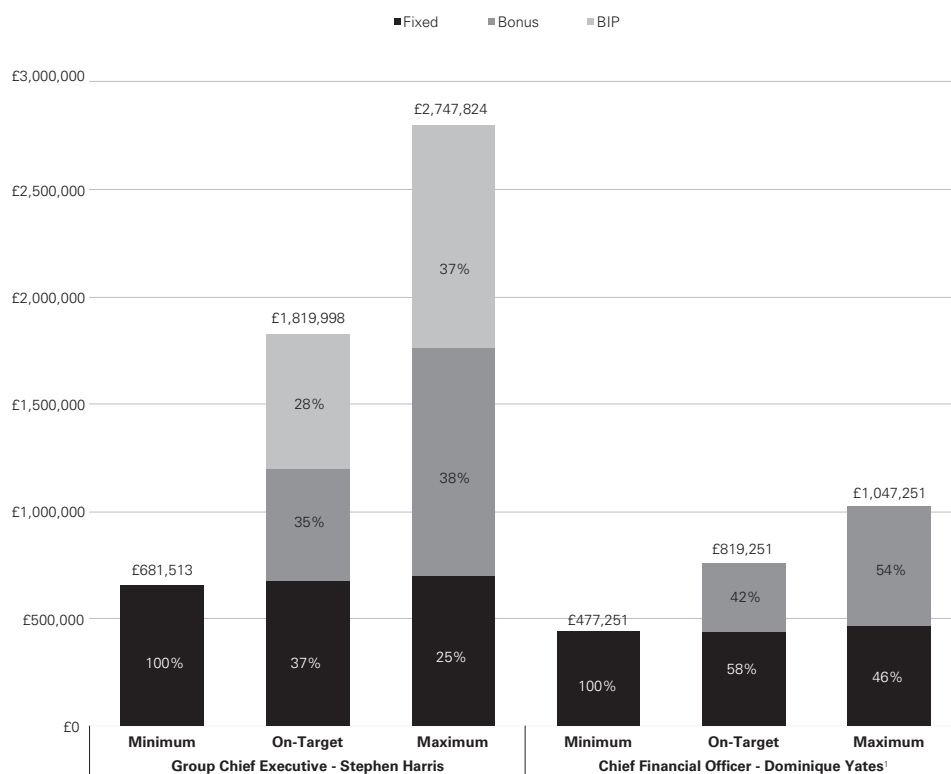
	BIP Targets for 2017 Award	
	EPS	ROCE
Weighting (% of total award)	50%	50%
Performance period	3 years	3 years
Threshold performance	31.7p	15.5%
Vesting level	0%	0%
Maximum performance	52.0p	23%
Vesting level	Full vesting	Full vesting
EPS underpin	27.0p	

Board report on remuneration continued

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. This is reviewed on an annual basis.

The composition and value of each executive director's remuneration package, should they achieve below, at or above target performance, are set out in the charts below.



1. For Dominique Yates, the first BIP grant will be in 2017 and therefore no vesting will occur until early 2020.

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 2017.
 - Benefits reflect benefits received in 2016.
- For on-target performance, an assumption of 60% of annual bonus is applied and vesting of 50% of the maximum of the BIP.
- No share price increase or dividend reinvestment has been assumed.
- Fixed elements are salary, benefits and pension.
- Annual variable element is the annual bonus including both cash and deferred shares.
- Long-term variable element is the BIP award and dividend equivalents.

Directors' shareholdings

The interests in ordinary shares of directors and their connected persons as at 31 December 2016, including any interests awarded under the CIP or BIP, are presented below.

As at 25 February 2017, the interests of the directors were unchanged from those at 31 December 2016.

	Beneficial	Shares subject to performance conditions BIP ¹	Shares subject to performance conditions CIP ¹
Executive Directors			
S.C. Harris	177,422	371,753	13,160
D.F. Landless (retired 1 January 2017)	10,720	237,423	14,448
D. Yates (appointed 1 November 2016)	200,000	–	–
Non-Executive Directors			
A.M. Thomson	52,294	–	–
R. Rajagopal ² (retired 27 May 2016)	22,368	–	–
E. Lindqvist	12,200	–	–
I.B. Duncan	–	–	–
P. Larmon (appointed 13 September 2016)	–	–	–

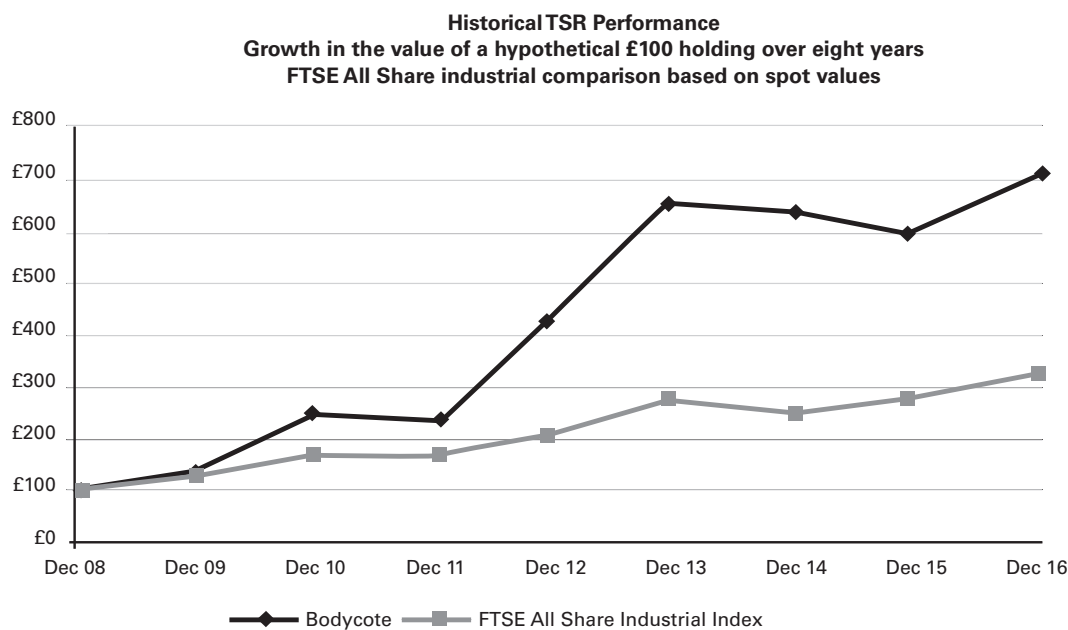
1. Figures relate to awards not vested under the BIP and CIP schemes.

2. Number of shares held on date of retirement.

As described in Section B: 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. 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 Chief Financial Officer. The new shareholding requirement will not need to be achieved until five years after the adoption of the new requirement. As at 31 December 2016, the Committee is satisfied that executive directors have fulfilled this requirement. At the 31 December 2016 share price, S.C. Harris held 224% of salary and D. Yates will only need to have achieved 150% within five years of his appointment but already holds 340% of salary. D.F. Landless retired on 1 January 2017.

Comparison of overall performance and pay

The chart below shows the values at each financial year end for the last nine 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.



Board report on remuneration continued

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

	2009	2010	2011	2012	2013	2014	2015	2016
Single figure of remuneration £'000	531	906	3,252	3,840	3,089	1,803	771	875
Annual variable element award (as a % of maximum) opportunity	5%	98%	95%	73%	46%	73%	20%	19%
Long-term incentive vesting (as a % of maximum)	0%	0%	100%	100%	99%	44%	0%	0%

Percentage change in remuneration of Group Chief Executive

The total value of salary, non-pension benefits and bonus increased by 12% for the Group Chief Executive in 2016 compared to the previous financial year (2015: £646,132; 2016: £725,739). The equivalent average percentage change for the senior management population as a whole was a 3.1% increase in 2016. 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 2016 compared to the previous financial year was 2.5% (2015: £498,838; 2016: £511,309). Non-pension benefits increased by 32% for the Group Chief Executive in 2016 compared to 2015 (2015: £17,596; 2016: £23,200), mainly due to calculation differences in the switch from a company car allowance to a company car. Bonus payable to the Group Chief Executive increased by 47% in 2016 compared to 2015 (2015: £129,698; 2016: £191,230). The equivalent average percentage change in 2016 for the senior management population was 2.4% for salary and a 4.4% increase for bonus.

Relative importance of pay spend

The table below shows the total expenditure in relation to staff and employee costs and distributions to shareholders in 2015 and 2016.

	2016 £m	2015 £m	% change
Staff and employee costs	239.5	220.3	8.7%
Distributions to shareholders	48.1	66.0	(27.1)%

Committee membership

During 2016 the Committee was chaired by E. Lindqvist. The Committee also comprised A.M. Thomson, R. Rajagopal (retired 27 May 2016), I.B. Duncan and P. Larmon (appointed 13 September 2016).

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 2016 the Committee met seven times and once in February 2017 to consider, amongst other matters:

Theme	Agenda items
Best practice	<ul style="list-style-type: none"> ■ The Group's Remuneration Policy, discussions and feedback from the Group's AGM in 2016 and the 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	<ul style="list-style-type: none"> ■ Consideration and approval of the revised Remuneration Policy put to shareholders at the AGM on 27 May 2016 and as summarised in Section B of the Board report on remuneration
Implementation Report	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ Basic salaries payable to each of the executive directors ■ The annual bonus and payments for the year ended 31 December 2016 ■ The annual bonus structure and performance targets for the year ended 31 December 2017 ■ The 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	<ul style="list-style-type: none"> ■ Consideration and approval of the Board report on remuneration

Advisers to the Committee

The Committee was advised by PwC during 2016 on remuneration matters including providing advice on matters under consideration by the Committee, updates on good practice, legislative requirements and market practice. PwC's fees for the year, based on the quantity and complexity of the work undertaken, amounted to £141,900. PwC also undertakes tax and accounting work for the Company. Legal advice was provided by Eversheds and fees amounted to £376. 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. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting each year. PwC has 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 as well as the result of the Remuneration Policy at the 2016 AGM:

	2016 Board report on remuneration (% votes)	2016 Directors' Remuneration Policy (% votes)
Votes cast	83%	83%
For	97%	85%
Against	3%	15%
Number of abstentions	1,243,471	596,122

After shareholder consultations and implementation of shareholders' views, the new Remuneration Policy was successfully approved at the 2016 AGM.

E. Lindqvist

Chair of the Remuneration Committee
28 February 2017

Board report on remuneration continued

Section B: 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, a revised policy was put to our shareholders at the AGM in May 2016 and approved. This policy, applicable from the date of the 2016 AGM, is set out below.

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.

Current Remuneration Policy table

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Base salary <i>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.</i>	<p>Base salaries for executive directors are typically reviewed annually (or more frequently if specific circumstances necessitate this) by the Committee in December each year.</p> <p>Salary levels are set and reviewed taking into account a number of factors including:</p> <ul style="list-style-type: none">■ 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.	<p>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.</p> <p>Increases may be above this level in certain exceptional circumstances, which may, for example, include:</p> <ul style="list-style-type: none">■ Increase in scope or responsibility.■ A new executive director who is being moved to market positioning over time.	None

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Benefits <i>Provides market-competitive benefits at an appropriate cost.</i>	<p>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 a 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.</p> <p>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.</p> <p>The Company provides a long-term savings vehicle into which the executive directors may elect to waive a proportion of pension allowance.</p> <p>In the case of non-UK executives, the Committee may consider providing additional allowances in line with relevant market practice.</p>	<p>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.</p>	None
Pension <i>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.</i>	<p>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.</p> <p>The same general approach applies to all employees, although contribution levels vary by seniority.</p>	<p>Company contribution (or cash equivalent) of up to 30% of salary.</p>	None

Board report on remuneration continued

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
<p>Annual bonus <i>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.</i></p>	<p>The level of bonus paid each year is determined by the Committee after the year end based on performance against targets.</p> <p>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).</p> <p>Dividend equivalents are payable in respect of the shares which vest.</p> <p>From 2018 onwards, 35% of any bonus earned is deferred into shares for three years, conditional on continued employment until vesting date.</p> <p>Transitional treatment applies to deferral for 2016 and 2017. For 2016, any bonus earned over 130% of base salary is deferred into shares.</p> <p>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.</p> <p>Malus provisions apply for the duration of the performance period and to shares held under deferral.</p> <p>Clawback provisions apply to cash amounts paid for three years following payment.</p> <p>Malus and/or clawback may be applied in the following scenarios:</p> <ul style="list-style-type: none"> ■ 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. <p>The Committee believes that the rules of the Plan provide sufficient powers to enforce malus and clawback where required.</p>	<p>The maximum potential is 200% of base salary for the CEO and 150% of base salary for the CFO and other executive directors.</p> <p>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.</p>	<p>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.</p> <p>The weighting of the measures and specific targets are reviewed on an annual basis to ensure alignment with 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.</p> <p>At least 70% of the bonus will be based on the achievement of Group financial targets.</p> <p>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.</p> <p>Discretion may also be exercised in cases where the Committee believes 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.</p> <p>Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's remuneration report.</p> <p>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 shareholders' 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.</p>

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
<p>Bodycote Incentive Plan (BIP) 2016 <i>To incentivise delivery of long-term strategic goals and shareholder value and aid retention of senior management.</i></p>	<p>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.</p> <p>Dividend equivalents are payable in respect of the shares which vest.</p> <p>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.</p> <p>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.</p> <p>Malus provisions apply for the duration of the performance period.</p> <p>Clawback provisions apply to amounts for two years following vest.</p> <p>Malus and/or clawback may be applied in the following scenarios:</p> <ul style="list-style-type: none"> ■ 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. <p>The Committee believes that the rules of the Plan provide sufficient powers to enforce malus and clawback where required.</p>	<p>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.</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> ■ 50% ROCE ■ 50% headline EPS <p>In addition, the vesting of awards may only occur if headline EPS is above a defined hurdle level.</p> <p>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 considers 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 58 of the Annual Report.</p> <p>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.</p> <p>A significant change to the measures used would only be adopted following consultation with major shareholders.</p> <p>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.</p>

Board report on remuneration continued

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Shareholding requirement <i>To provide alignment of interest between participants and shareholders.</i>	<p>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.</p>	<p>The CEO and CFO (and other executive directors) are required to build up a holding of 200% and 150% of base salary respectively.</p>	<p>None</p>
Legacy awards – Co-Investment Plan (CIP) <i>To provide a link between short- and long-term incentive arrangements and to provide further alignment with shareholders.</i> <i>Final award made in 2015.</i>	<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. 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.</p> <p>Dividend equivalents are payable in respect of the matching shares which vest.</p>	<p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> ■ Threshold performance results in a 0.5:1 match ■ Maximum performance results in a 1:1 match.
Legacy awards - Bodycote Incentive Plan (BIP) 2006 <i>To incentivise delivery of long-term shareholder value.</i> <i>Aids retention of senior management.</i> <i>Final award made in 2015.</i>	<p>Awards are granted annually under the Bodycote Incentive Plan subject to a three-year vesting period and stretching performance conditions measured over three years.</p> <p>Shares delivered following the vest of an award attract additional dividend shares calculated on the basis of the reinvestment back into shares of the dividend that would have been received had the shares been beneficially held.</p> <p>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.</p> <p>Malus provisions apply for the duration of the performance period and to shares held under deferral.</p>	<p>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.</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> ■ 50% ROCE ■ 50% headline EPS <p>In addition, the vesting of awards may only occur if headline EPS is above a defined hurdle level.</p>

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 64 to 73 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.

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
<p>Fees for non-executive directors</p> <p><i>To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.</i></p>	<p>The fees for the non-executives are determined by the Chairman and the Group Chief Executive.</p> <p>The fee for the Chairman is reviewed by the Board in the absence of the Chairman.</p> <p>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.</p> <p>The fees for the Chairman and non-executives are set at 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.</p> <p>The Chairman and non-executive directors are not entitled to any pension or other employment benefits or to participate in any incentive scheme.</p> <p>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.</p>	<p>Fees for non-executive directors are set out in the statement of implementation of policy in the following financial year section on page 56.</p> <p>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).</p> <p>In line with the Articles of Association, accumulative total fees for non-executive directors are capped at £500,000 p.a.</p>	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.

Board report on remuneration continued

Statement of consideration of shareholders' 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 below. 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	<p>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.</p> <p>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.</p>
Base salary	<p>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.</p>
Other benefits	<p>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.</p>
Pension	<p>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.</p>
Annual bonus	<p>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.</p>
Long-term incentives	<p>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.</p> <p>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.</p>
Replacement awards	<p>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.</p>
Internal promotions	<p>For internal promotions any commitments made prior to appointment may continue to be honoured as the executive is transitioned to the new remuneration arrangements.</p>

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 page 69.

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 – retired 1 January 2017	D. Yates, Group Finance Director designate – appointed Chief Financial Officer on 2 January 2017
Date of service contract	6 October 2008	26 September 2001	1 November 2016
Notice period	12 months	12 months	12 months
Remuneration	<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ 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
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	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	During employment and for 12 months thereafter

Board report on remuneration continued

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
P. Larmon	13 September 2016	6 months
R. Rajagopal (retired 27 May 2016)	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	<p>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:</p> <ul style="list-style-type: none"> one year 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	<p>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:</p> <ul style="list-style-type: none"> 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. <p>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).</p>
Treatment of unvested deferred bonus awards under Plan rules	<p>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.</p> <p>Under all other circumstances unvested awards will lapse on cessation of employment.</p> <p>The Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> 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	<p>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.</p> <p>The Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> 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	<p>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.</p> <p>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.</p>
Change of control	<p>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 had been 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.</p> <p>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.</p>

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 (IFRS) as adopted by the European Union and Article 4 of the International Accounting Standard (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 judgements 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, IAS 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 28 February 2017 and is signed on its behalf by:

By order of the Board:

S.C. Harris
Group Chief Executive
28 February 2017

D. Yates
Chief Financial Officer
28 February 2017

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 2016 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 that we have audited comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Statement of Financial Position;
- the Consolidated Cash Flow Statement;
- the Consolidated and Parent Company Statement of Changes in Equity;
- the Group and Company Accounting Policies;
- the related notes 1 to 31 to the Group financial statements; and
- the related notes 1 to 12 to the Parent Company financial statements.

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.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: <ul style="list-style-type: none">■ Impairment of tangible and intangible fixed assets■ Completeness and accuracy of environmental remediation provisions■ Taxation accounting – adequacy of tax provisions■ Pensions – defined benefit UK scheme liability assumptions
Materiality	The materiality that we used in the current year was £4.6m which was determined on the basis of 5% of pre-tax profit.
Scoping	As a consequence of the audit scope determined, we achieved coverage of approximately 86% (2015: 86%) of revenue, 92% (2015: 99%) of profit before tax and 90% (2015: 91%) of net assets.
Significant changes in our approach	Our approach is consistent with the previous year with the exception of the removal of restructuring provisions as a key risk for the 2016 audit report, and refinements made to the remaining risks as described in more detail below.

Independent auditor's report continued

To the Members of Bodycote plc

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 to the financial statements and the directors' statement on the longer-term viability of the Group on page 27.

We are required to state whether we have anything 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 to the financial statements 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 12 months from the date of approval of the financial statements; and
- the directors' 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 confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any 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 confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

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.




In 2015 we identified a risk relating to restructuring provisions as a result of a significant global restructuring programme in the year. As no such programme has been initiated in the current year, we have not identified a key risk in this area in our 2016 audit report.

We have also refined our key risk regarding taxation accounting to focus on the adequacy of tax provisions in place at the year-end, whereas we identified a further risk in the prior year in relation to deferred tax assets. We have also refined our risk in relation to environmental remediation provisions to focus primarily on the provisions held in the US as this is from where the majority of the balance emanates. All risks below are also referred to in the Report of the Audit Committee as areas of focus as shown on page 51.




Impairment of tangible and intangible fixed assets

Risk description 	<p>The Group has a significant non-current asset base including tangible fixed assets of £509.0m and intangible assets (including goodwill) of £206.7m as shown in notes 11, 12 and 13. Current macro-economic uncertainties result in a risk regarding the carrying value of these assets. Performing an impairment review of these non-current assets requires the exercise of judgement regarding future growth rates, discount rates and sensitivity assumptions, as described in note 11, and represents a key source of estimation uncertainty for the Group as described in the Group's accounting policies.</p>
How the scope of our audit responded to the risk 	<p>We challenged the assumptions used in the impairment model for intangible and tangible assets. As part of our procedures we:</p> <ul style="list-style-type: none"> ■ 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; ■ considered the impact of the sensitivities performed by management in assessing whether it reflects a reasonable possible change; ■ 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 13.4% and 14.4% applied; 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.
Key observations 	<p>Based on the procedures performed, no impairments were noted and we have concluded that the assumptions in the impairment model were appropriate.</p>

Completeness and accuracy of environmental remediation provisions

Risk description 	<p>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 £13.8m environmental remediation provisions as described in note 23. The risk specifically applies to the level of judgement involved in calculating the provisions required and to the likely period of utilisation. As the majority of the balance resides in the US, we have focused our work on the provisions held in the US businesses.</p>
How the scope of our audit responded to the risk 	<p>We evaluated the environmental provisions by undertaking the following testing:</p> <ul style="list-style-type: none"> ■ assessing the completion and accuracy of the provision recognised; and ■ challenging the status and utilisation of provisions. <p>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.</p> <p>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.</p>
Key observations 	<p>Based on the results of work carried out we concur that the provision recognised by management is appropriate.</p>

Taxation accounting – adequacy of tax provisions

Risk description 	<p>The tax risk concerns the judgements and estimates applied in the determination of provisions for liabilities attributed to specific uncertain tax positions linked to the Group's corporate arrangements as described in note 8.</p>
How the scope of our audit responded to the risk 	<p>In conjunction with our taxation audit specialists, we have 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.</p>
Key observations 	<p>From the work performed above we are satisfied that the assumptions applied in respect of the carrying value of amounts held on the balance sheet for uncertain tax positions are reasonable.</p>

Independent auditor's report continued

To the Members of Bodycote plc

Pensions – defined benefit UK scheme liability assumptions

Risk description This risk concerns the appropriateness of the actuarial assumptions applied in calculating the Group's UK scheme defined benefit liability of £126.6m (2015: £99.9m) within the net UK defined benefit liability of £3.6m (2015: £2.7m) as shown in note 31. The valuation of the Group's IAS 19 liability involves significant judgement in the choice of discount rate used and in the key sources of estimation uncertainty, in particular in relation to the inflation assumptions, as described in the Group's accounting policies.

How the scope of our audit responded to the risk 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.

Key observations 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. We consider the assumptions to be towards the prudent end of our benchmarked range.

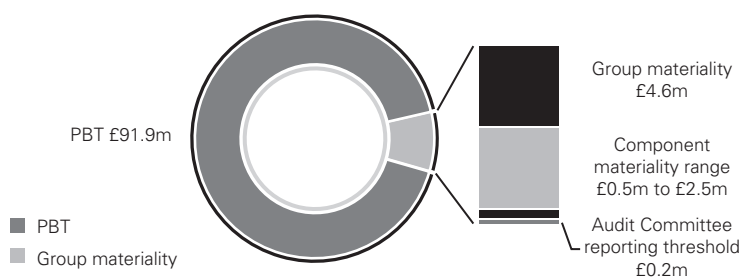
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£4.6m (2015: £4.8m)
Basis for determining materiality	5% of pre-tax profit (2015: 5% pre-tax profit adjusted for the add-back of £20.0m of exceptional restructuring costs).
Rationale for the benchmark applied	Pre-tax profit is determined to be the most stable basis of underlying business performance.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.2m (2015: £0.15m), 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

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 12 countries, being USA, UK, France, Italy, Germany, Poland, Sweden, Netherlands, Czech Republic, Turkey, China and Mexico. Consistent with the prior year and as agreed with the Audit Committee. Singapore has been removed from audit scope following its disposal in 2016.

In 2016 we 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.

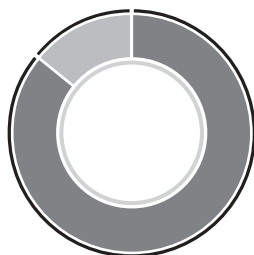
As a consequence of the audit scope determined, we achieved coverage of approximately 86% (2015: 86%) of revenue, 92% (2015: 99%) of profit before tax and 90% (2015: 91%) of net assets. Our audit work at each location was executed at levels of materiality applicable to each individual entity which was lower than Group materiality. Component materiality ranged from £0.5m to £2.5m (2015: £0.5m to £2.5m).

The Group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the Group audit team visits each of the significant locations included as full scope for the Group audit at least once every three years. During the year, senior members of the Group audit team have visited the US, UK, France and the Prague Shared Service Centre.

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.

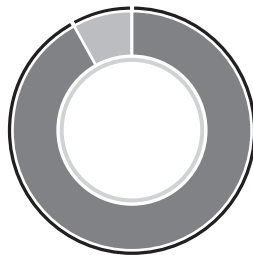
At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified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

Revenue



■ Full audit scope 86%
■ Review at Group level 14%

Profit before tax



■ Full audit scope 92%
■ Review at Group level 8%

Net assets



■ Full audit scope 90%
■ Review at Group level 10%

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report and the Directors' report.

Independent auditor's report continued

To the Members of Bodycote plc

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 Directors' Remuneration Report 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.

We confirm that we have not identified any such inconsistencies or misleading statements.

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.

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.

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
28 February 2017

Consolidated income statement

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Revenue	1	600.6	567.2
Cost of sales and overheads		(505.5)	(469.3)
Operating profit prior to exceptional items		95.1	97.9
Acquisition costs	5	(0.6)	–
Reorganisation costs	5	–	(20.0)
Operating profit	3	94.5	77.9
Investment revenue	6	–	0.1
Finance costs	7	(2.6)	(3.0)
Profit before taxation		91.9	75.0
Taxation	8	(24.9)	(18.8)
Profit for the year		67.0	56.2
Attributable to:			
Equity holders of the parent		67.0	56.2
Non-controlling interests		–	–
		67.0	56.2
Earnings per share	10	Pence	Pence
Basic		35.2	29.6
Diluted		35.2	29.6

All activities have arisen from continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	2016 £m	2015 £m
Profit for the year	67.0	56.2
Items that will not be reclassified to profit or loss:		
Actuarial losses on defined benefit pension schemes	(5.0)	(1.7)
Tax on items not reclassified	1.0	0.2
Total items that will not be reclassified to profit or loss	(4.0)	(1.5)
Items that may be reclassified subsequently to profit or loss:		
Exchange gains on translation of foreign operations	65.5	0.4
Cumulative exchange differences recycled to profit or loss on disposal of businesses/Group reorganisation	(2.2)	(3.3)
Total items that may be reclassified subsequently to profit or loss	63.3	(2.9)
Other comprehensive income/(expense) for the year	59.3	(4.4)
Total comprehensive income for the year	126.3	51.8
Attributable to:		
Equity holders of the parent	126.3	51.9
Non-controlling interests	–	(0.1)
	126.3	51.8

Consolidated balance sheet

At 31 December 2016

	Note	2016 £m	2015 £m
Non-current assets			
Goodwill	11	160.9	140.0
Other intangible assets	12	45.8	35.2
Property, plant and equipment	13	509.0	429.6
Other investments	14	–	0.2
Deferred tax assets	20	32.5	31.2
Trade and other receivables	16	0.4	0.4
		748.6	636.6
Current assets			
Inventories	15	16.6	19.5
Derivative financial instruments	19	0.1	–
Current tax assets		19.0	26.3
Trade and other receivables	16	126.3	105.7
Cash and bank balances	16	12.0	16.2
Assets held for sale	17	1.8	1.2
		175.8	168.9
Total assets		924.4	805.5
Current liabilities			
Trade and other payables	22	133.5	111.1
Current tax liabilities		36.5	37.3
Obligations under finance leases	21	0.1	0.1
Borrowings	18	5.8	3.8
Provisions	23	11.7	12.5
		187.6	164.8
Net current (liabilities)/assets		(11.8)	4.1
Non-current liabilities			
Borrowings	18	5.0	–
Retirement benefit obligations	31	21.5	17.9
Deferred tax liabilities	20	68.8	61.9
Provisions	23	8.8	8.8
Other payables	22	4.4	2.5
		108.5	91.1
Total liabilities		296.1	255.9
Net assets		628.3	549.6
Equity			
Share capital	24	33.1	33.1
Share premium account		177.1	177.1
Own shares		(8.0)	(9.3)
Other reserves		133.9	134.1
Translation reserves		57.5	(5.8)
Retained earnings		234.3	220.0
Equity attributable to equity holders of the parent		627.9	549.2
Non-controlling interests		0.4	0.4
Total equity		628.3	549.6

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 28 February 2017.

They were signed on its behalf by:

S.C. Harris
Director

D. Yates
Director

Consolidated cash flow statement

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Net cash from operating activities	27	125.9	111.3
Investing activities			
Purchases of property, plant and equipment		(64.7)	(61.1)
Proceeds on disposal of property, plant and equipment and intangible assets		7.6	5.4
Purchases of intangible fixed assets		(6.0)	(5.6)
Acquisition of businesses		(23.7)	–
Purchase of sundry investments		–	(0.2)
Disposal of sundry investments		0.3	–
Disposal of businesses		1.9	1.6
Net cash used in investing activities		(84.6)	(59.9)
Financing activities			
Interest received		–	0.1
Interest paid		(2.3)	(2.7)
Dividends paid		(48.1)	(66.0)
Repayments of bank loans		(2.3)	–
Payments of obligations under finance leases		(0.1)	(0.2)
New bank loans raised		5.0	0.5
Own shares purchased/settlement of share options		–	(6.7)
Net cash used in financing activities		(47.8)	(75.0)
Net decrease in cash and cash equivalents		(6.5)	(23.6)
Cash and cash equivalents at beginning of year		12.4	36.0
Effect of foreign exchange rate changes		0.3	–
Cash and cash equivalents at end of year	27	6.2	12.4

Consolidated statement of changes in equity

For the year ended 31 December 2016

	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 2015	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 businesses	–	–	–	–	(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
Net profit for the year	–	–	–	–	–	67.0	67.0	–	67.0
Exchange differences on translation of overseas operations	–	–	–	–	65.5	–	65.5	–	65.5
Cumulative exchange differences recycled to profit or loss on disposal of businesses/ Group reorganisation	–	–	–	–	(2.2)	–	(2.2)	–	(2.2)
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(4.0)	(4.0)	–	(4.0)
Total comprehensive income for the year	–	–	–	–	63.3	63.0	126.3	–	126.3
Acquired in the year/settlement of share options	–	–	1.3	(0.7)	–	(0.6)	–	–	–
Share-based payments	–	–	–	0.5	–	–	0.5	–	0.5
Dividends paid	–	–	–	–	–	(48.1)	(48.1)	–	(48.1)
31 December 2016	33.1	177.1	(8.0)	133.9	57.5	234.3	627.9	0.4	628.3

Included in other reserves is the capital redemption reserve of £129.8m (2015: £129.8m) and the share-based payments reserve of £3.3m (2015: £3.5m).

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2016 1,289,378 (2015: 1,464,515) ordinary shares of 17³/₁₁p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes (see note 29).

Group accounting policies

Year ended 31 December 2016

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 Chief Financial Officer'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 in 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.

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.

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. The choice of discount rate applied in the calculation of scheme liabilities is a key judgement in applying the Group's accounting policy. Details of the accounting policies applied in respect of retirement benefit schemes are set out on page 88.

Group accounting policies continued

Year ended 31 December 2016

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

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 £160.9m (2015: £140.0m), with further details given in note 11. Details of the accounting policies applied in respect of impairment are set out on page 89.

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. The future inflation assumptions applied in the calculation of scheme liabilities, which are set out in note 31, represent a key source of estimation uncertainty for the Group. Details of the accounting policies applied in respect of retirement benefit schemes are set out on page 88.

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.

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 91); 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 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, acquisition costs, impairment charges, reorganisation costs and profits and losses on disposal of subsidiaries and other one off items which meet this definition.

Group accounting policies continued

Year ended 31 December 2016

Retirement benefit costs

Payments to defined contribution 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 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 or tax assessment adjustments made to prior years. 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.

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

Software	10%–33%
Non-compete agreements	20%–33%
Customer relationships	7%–10%

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.

Group accounting policies continued

Year ended 31 December 2016

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 any 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.

Group accounting policies continued

Year ended 31 December 2016

General information

Bodycote plc is a company incorporated in the United Kingdom under the Companies Act. 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.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in pounds sterling, which is the functional and presentation currency of the Parent. Foreign operations are included in accordance with the policies set out in the foreign currencies accounting policy on page 87.

Adoption of new and revised standards

In the current year, the following new and revised standards and interpretations have been adopted:

- | | |
|-----------------------------------|--|
| ■ Amendments to IAS 1 | Disclosure initiative |
| ■ 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 (September 2014) |

The above interpretations and revised standards 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 endorsed by the EU):

- | | |
|--------------------------------|--|
| ■ IFRS 9 | Financial Instruments |
| ■ IFRS 15 | Revenue from contracts with customers |
| ■ Clarifications to IFRS 15 | Clarifications to IFRS 15 Revenue from contracts with customers |
| ■ IFRS 16 | Leases |
| ■ Amendments to IFRS 2 | Classification and measurement of share-based payment transactions |
| ■ Amendments to IAS 7 | Disclosure initiative |
| ■ Amendments to IAS 12 | Recognition of deferred tax assets for unrealised losses |
| ■ IFRIC 22 | Foreign currency transactions and advance consideration |
| ■ Annual improvements to IFRSs | 2014-2016 cycle (December 2016) |

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 is effective for annual periods beginning 1 January 2018 and will replace IAS 39 Financial Instruments. This standard covers the classification, measurement, impairment and de-recognition of financial assets and financial liabilities, together with the new hedge accounting model. The Group does not expect the transition to the standard to have a material impact on the financial statements.
- IFRS 15 is effective for annual periods beginning 1 January 2018 and will replace IAS 11 Construction Contracts and IAS 18 Revenue. This standard requires the separation of performance obligations within contracts with customers, and the contractual value to be allocated to each of the performance obligations. Revenue is then recognised as each performance obligation is satisfied. Retrospective application in the comparative year ending 31 December 2017 is optional, however the Group does not expect to undertake this option. An initial assessment has been performed and it is not anticipated that transition to IFRS 15 will have a material impact on the Group.
- IFRS 16 is effective for annual periods beginning 1 January 2019, subject to EU endorsement, and will replace IAS 17 Leases. This standard requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value. As at 31 December 2016, the Group holds a significant number of operating leases, which currently, under IAS 17, are expensed on a straight line basis over the lease term. Retrospective application in the comparative year ending 31 December 2018 is optional, however the Group does not expect to undertake this option. An initial assessment has been performed and it is anticipated that transition to IFRS 16 will have a material impact on the value of lease assets and liabilities recognised in the consolidated balance sheet. The Group will continue to monitor the impact until the transition date, providing further quantitative and qualitative measures as progress is made on implementation planning.

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.

Notes to the consolidated financial statements

Year ended 31 December 2016

1. Revenue

	2016 £m	2015 £m
Heat treatment and metal joining, hot isostatic pressing and surface technology services	600.6	567.2
Other operating income (see note 3)	4.4	4.1
Investment revenue (see note 6)	–	0.1
Total revenue (as defined in IAS 18 Revenue)	605.0	571.4

2. Business and geographical segments

The Group has 189 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 2016 £m	AGI 2016 £m	Central costs and eliminations 2016 £m	Consolidated 2016 £m
Revenue				
Total revenue	250.9	349.7	–	600.6
Result				
Headline operating profit prior to share-based payments and unallocated central costs	56.3	57.9	–	114.2
Share-based payments (including social charges)	(0.7)	0.6	(0.6)	(0.7)
Unallocated central costs	–	–	(13.9)	(13.9)
Headline operating profit/(loss)	55.6	58.5	(14.5)	99.6
Amortisation of acquired intangible fixed assets	(1.5)	(3.0)	–	(4.5)
Operating profit/(loss) prior to exceptional items	54.1	55.5	(14.5)	95.1
Acquisition costs	–	(0.6)	–	(0.6)
Segment result	54.1	54.9	(14.5)	94.5
Finance costs				(2.6)
Profit before taxation				91.9
Taxation				(24.9)
Profit for the year				67.0

Inter-segment sales are not material in either year.

The Group does not rely on any individual major customers.

Notes to the consolidated financial statements continued

Year ended 31 December 2016

2. Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2016 £m	North America 2016 £m	Emerging markets 2016 £m	Total ADE 2016 £m
Revenue				
Total revenue	115.1	134.7	1.1	250.9
Result				
Headline operating profit/(loss) prior to share-based payments	24.0	32.7	(0.4)	56.3
Share-based payments (including social charges)	(0.2)	(0.5)	–	(0.7)
Headline operating profit/(loss)	23.8	32.2	(0.4)	55.6
Amortisation of acquired intangible fixed assets	(0.3)	(1.2)	–	(1.5)
Segment result	23.5	31.0	(0.4)	54.1
Automotive & General Industrial	Western Europe 2016 £m	North America 2016 £m	Emerging markets 2016 £m	Total AGI 2016 £m
Revenue				
Total revenue	214.9	94.3	40.5	349.7
Result				
Headline operating profit prior to share-based payments	36.8	10.7	10.4	57.9
Share-based payments (including social charges)	0.4	0.1	0.1	0.6
Headline operating profit	37.2	10.8	10.5	58.5
Amortisation of acquired intangible fixed assets	(0.4)	(2.6)	–	(3.0)
Operating profit prior to exceptional items	36.8	8.2	10.5	55.5
Acquisition costs	(0.4)	(0.2)	–	(0.6)
Segment result	36.4	8.0	10.5	54.9
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

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
Other information			Central costs and eliminations	Consolidated
Group	ADE	AGI	2016	2016
	2016	2016	2016	2016
	£m	£m	£m	£m
Gross capital additions	25.8	39.0	5.9	70.7
Depreciation and amortisation	22.2	36.5	1.0	59.7
Balance sheet				
Assets:				
Segment assets	343.1	514.8	66.5	924.4
Liabilities:				
Segment liabilities	(67.8)	(122.4)	(105.9)	(296.1)
	275.3	392.4	(39.4)	628.3
Allocation of head office net liabilities	(16.2)	(23.2)	39.4	–
Adjusted segment net assets	259.1	369.2	–	628.3

Notes to the consolidated financial statements continued

Year ended 31 December 2016

2. Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2016 £m	North America 2016 £m	Emerging markets 2016 £m	Total ADE 2016 £m
Gross capital additions	10.5	13.0	2.3	25.8
Depreciation and amortisation	9.3	12.7	0.2	22.2
Balance sheet				
Assets:				
Segment assets	142.7	196.9	3.5	343.1
Liabilities:				
Segment liabilities	(29.7)	(36.3)	(1.8)	(67.8)
Segment net assets	113.0	160.6	1.7	275.3
Automotive & General Industrial	Western Europe 2016 £m	North America 2016 £m	Emerging markets 2016 £m	Total AGI 2016 £m
Gross capital additions	20.2	10.6	8.2	39.0
Depreciation and amortisation	21.7	10.5	4.3	36.5
Balance sheet				
Assets:				
Segment assets	279.8	163.3	71.7	514.8
Liabilities:				
Segment liabilities	(91.8)	(21.0)	(9.6)	(122.4)
Segment net assets	188.0	142.3	62.1	392.4
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)
Allocation of head office net liabilities	240.2	310.4	(1.0)	549.6
Adjusted segment net assets	(0.4)	(0.6)	1.0	–
	239.8	309.8	–	549.6

2. Business and geographical segments (continued)

	Western Europe 2015 £m	North America 2015 £m	Emerging markets 2015 £m	Total ADE 2015 £m
Aerospace, Defence & Energy				
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				
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

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	
	2016 £m	2015 £m	2016 £m	2015 £m
USA	219.0	211.5	298.9	257.3
France	97.6	82.2	73.8	60.4
Germany	69.9	59.8	85.4	58.5
UK	48.5	50.9	76.4	74.6
Sweden	36.1	41.9	37.5	35.8
Netherlands	25.3	23.2	22.6	20.9
Others	104.2	97.7	121.1	97.5
	600.6	567.2	715.7	605.0

Notes to the consolidated financial statements continued

Year ended 31 December 2016

3. Operating profit

	2016 £m	2015 £m
Revenue	600.6	567.2
Cost of sales	(378.4)	(359.0)
Gross profit	222.2	208.2
Other operating income	4.4	4.1
Distribution costs	(20.9)	(18.5)
Administration expenses*	(101.7)	(93.8)
Other operating (expenses)/income	(4.4)	2.1
Headline operating profit	99.6	102.1
Amortisation of acquired intangible fixed assets*	(4.5)	(4.2)
Operating profit prior to exceptional items	95.1	97.9
Exceptional items*	(0.6)	(20.0)
Operating profit	94.5	77.9

* Administration and exceptional expenses total £106.8m (2015: £118.0m).

Exceptional items comprise:

	2016 £m	2015 £m
Acquisition costs	0.6	–
Reorganisation costs	–	20.0
	0.6	20.0

Further details of acquisition and reorganisation costs are included in the Chief Financial Officer's report on page 20.

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

	2016 £m	2015 £m
Net foreign exchange (gains)/losses	(0.5)	0.4
Inventory expensed	48.2	44.5
Depreciation of property, plant and equipment	54.1	48.8
Amortisation of intangible fixed assets	5.6	5.0
Gain on disposal of property, plant and equipment	(4.5)	(2.1)
Staff costs (see note 4)	239.5	220.3
Acquisition costs	0.6	–
Impairment loss on trade receivables	1.2	1.3
Impairment of fixed assets – recognised in exceptional items	–	9.0
Impairment of fixed assets – recognised in operating profit	5.1	–
Impairment of other assets – recognised in exceptional items	–	0.5

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

	2016 £m	2015 £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	0.7	0.6
Total audit fees	0.8	0.7
Audit related assurance services*	0.1	0.1
Taxation compliance services	–	0.1
Total non-audit fees	0.1	0.2
	0.9	0.9

In addition to the amounts shown above, the auditor received fees of £6,800 (2015: £5,900) 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 (2015: £0.1m) for the review of the half year report.

4. Staff costs

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

	2016 Number	2015 Number
ADE:		
Western Europe	902	940
North America	812	884
Emerging markets	18	27
AGI:		
Western Europe	1,825	1,895
North America	923	912
Emerging markets	616	773
Shared services	242	209
Head office	29	29
	5,367	5,669
	2016	2015
	£m	£m
Their aggregate remuneration comprised:		
Wages and salaries	203.4	185.9
Social security costs	29.6	27.1
Other pension costs	6.5	7.3
	239.5	220.3

Included in wages and salaries are share-based payments resulting in a charge of £0.5m (2015: credit of £0.4m).

Included in other pension costs are £6.2m relating to defined contribution schemes (2015: £6.0m) and £0.3m relating to defined benefit schemes (2015: £1.3m).

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

	2016 £m	2015 £m
Reorganisation costs	–	23.8
Profit on disposal of businesses	–	(3.8)
Acquisition costs	0.6	–
	0.6	20.0

Reorganisation costs of £nil (2015: £23.8m) relate to restructuring initiatives in Europe, Brazil, USA and India. These charges have 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 in 2015 include £11.9m of net restructuring charges and £2.4m of net restructuring environmental charges, together with asset impairments amounting to £9.5m (see note 3).

Bodycote Brazil was sold on 25 September 2015 and Bodycote India was sold on 11 September 2015. Further details are disclosed in note 26.

Acquisition costs of £0.6m (2015: £nil) were expensed in the year.

Notes to the consolidated financial statements continued

Year ended 31 December 2016

6. Investment revenue

	2016 £m	2015 £m
Interest on bank deposits	–	0.1
Total interest and investment revenue	–	0.1

All investment revenue relates to bank balances and other receivables.

7. Finance costs

	2016 £m	2015 £m
Interest on bank overdrafts and loans*	0.2	0.4
Total interest expense	0.2	0.4
Net interest on the defined benefit pension liability	0.3	0.3
Other finance charges*	2.1	2.3
Total finance costs	2.6	3.0

* Amounts arising on financial liabilities measured at amortised cost.

8. Taxation

	2016 £m	2015 £m
Current taxation – charge for the year	24.9	22.3
Current taxation – adjustments in respect of previous years	2.2	(0.1)
Deferred tax (see note 20)	(2.2)	(3.4)
	24.9	18.8

The Group has chosen to use a weighted average country tax rate rather than the UK tax rate for the reconciliation of the charge for the year to the profit before taxation per the consolidated income statement. The Group operates in several jurisdictions, many of which have a tax rate in excess of the UK tax rate. As such, a weighted average country tax rate is believed to provide the most meaningful information to the users of the financial statements. The appropriate tax rate for this comparison is 32.36% (2015: 35.75%).

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

	2016 £m	2015 £m
Profit before taxation	91.9	75.0
Tax at the weighted average country tax rate of 32.36% (2015: 35.75%)	29.7	26.8
Tax effect of expenses not deductible in determining taxable profit ¹	(0.2)	(0.8)
Non-recognition of current year timing differences ²	0.5	0.2
Effect of long-term capital financing ³	(1.0)	(1.5)
Tax effect of other adjustments in respect of previous years:		
Current tax	2.2	–
Deferred tax	(0.6)	0.2
Deferred tax impact of derecognising assets, including losses ²	1.6	(1.8)
Effect of financing activities between jurisdictions ³	(7.2)	(5.4)
Impact of trade and minimum corporate taxes	1.1	1.0
Effect of changes in statutory tax rates on deferred tax assets and liabilities	(1.2)	0.1
Tax expense for the year	24.9	18.8

Tax on items taken directly to equity is a credit of £1.0m (2015: £0.2m).

Tax on exceptional items and amortisation of acquired intangible fixed assets is £1.8m (2015: £5.4m).

- Those costs in various territories not deductible in calculating taxable profits.
- The most significant item relates to the non-recognition of tax losses on the balance sheet.
- The Group is externally financed by a mix of cash flows from operations, short-term borrowings, long-term loans and finance leases. Internally, operating subsidiaries are predominantly financed via intercompany loans.

9. Dividends

	2016 £m	2015 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2015 of 10.3p (2014: 9.8p) per share	19.6	18.7
Special dividend for the year ended 31 December 2015 of 10.0p (2014: 20.0p) per share	19.0	38.2
Interim dividend for the year ended 31 December 2016 of 5.0p (2015: 4.8p) per share	9.5	9.1
	48.1	66.0
Proposed final dividend for the year ended 31 December 2016 of 10.8p (2015: 10.3p) per share	20.5	19.6

The proposed final dividend is 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:

	2016 £m	2015 £m
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	67.0	56.2
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	190,166,794	189,991,657
Effect of dilutive potential ordinary shares:		
Share options	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	190,166,794	189,991,657
	Pence	Pence
Earnings per share:		
Basic	35.2	29.6
Diluted	35.2	29.6
	£m	£m
Headline earnings		
Net profit attributable to equity holders of the parent	67.0	56.2
Add back:		
Amortisation of acquired intangible fixed assets (net of tax)	2.8	3.2
Acquisition costs (net of tax)	0.5	-
Reorganisation costs (net of tax)	-	15.6
Headline earnings	70.3	75.0
	Pence	Pence
Headline earnings per share:		
Basic	37.0	39.5
Diluted	37.0	39.5

Notes to the consolidated financial statements continued

Year ended 31 December 2016

11. Goodwill

	2016 £m	2015 £m
Cost		
At 1 January	200.6	207.4
Exchange differences	11.5	(0.6)
Recognised on acquisition of businesses	10.4	–
Derecognised on disposal of businesses	–	(6.2)
At 31 December	222.5	200.6
Accumulated impairment		
At 1 January	60.6	69.0
Exchange differences	1.0	(2.2)
Derecognised on disposal of businesses	–	(6.2)
At 31 December	61.6	60.6
Carrying amount	160.9	140.0

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 cash generating units, which are summarised in the following operating segments:

	2016 £m	2015 £m
ADE:		
Western Europe	26.8	26.4
North America	49.0	46.2
AGI:		
Western Europe	23.1	18.1
North America	55.9	43.7
Emerging markets	6.1	5.6
	160.9	140.0

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 13.4% (2015: 12.4%) and 14.4% (2015: 13.4%). 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 2.8% (2015: 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 2.5% to 5.3%. This rate does not exceed the average long-term growth rate for the relevant markets.

The Group has conducted sensitivity analysis on the key assumptions applied to the value in use calculations for each cash generating unit. A decline in sales of 4.2% 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.

11. Goodwill (continued)

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 this 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	46.4	2.9	13.4
North America AGI Heat Treatment	56.0	2.9	13.4

Declines in long-term growth rate of 8.5 percentage points and 3.9 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 2016.

12. Other intangible assets

	Software £m	Non- compete agreements £m	Customer relationships £m	Total £m
Cost				
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 businesses	–	–	(1.0)	(1.0)
At 1 January 2016	28.8	2.9	35.0	66.7
Exchange differences	1.4	–	6.8	8.2
Additions	6.0	–	–	6.0
Acquired on acquisition of businesses (see note 25)	–	0.2	7.3	7.5
Disposals	(1.1)	–	–	(1.1)
At 31 December 2016	35.1	3.1	49.1	87.3
Amortisation				
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 businesses	–	–	(1.0)	(1.0)
At 1 January 2016	13.3	2.3	15.9	31.5
Exchange differences	1.2	–	3.5	4.7
Charge for the year	1.1	0.7	3.8	5.6
Impairment loss	0.1	–	–	0.1
Disposals	(0.4)	–	–	(0.4)
At 31 December 2016	15.3	3.0	23.2	41.5
Carrying amount				
At 31 December 2016	19.8	0.1	25.9	45.8
At 31 December 2015	15.5	0.6	19.1	35.2

Notes to the consolidated financial statements continued

Year ended 31 December 2016

13. Property, plant and equipment

	Land and buildings			Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m				
Cost or valuation							
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 businesses	(1.8)	(0.7)	(0.3)	(12.1)	(0.9)	–	(15.8)
At 1 January 2016	213.9	9.5	8.9	752.8	25.1	51.6	1,061.8
Additions	1.8	0.7	0.1	17.3	0.8	44.0	64.7
Acquisition of businesses	5.1	–	–	11.4	0.2	–	16.7
Exchange differences	32.7	0.5	1.4	108.7	3.8	7.8	154.9
Transfer to assets held for sale	(1.1)	–	–	–	–	–	(1.1)
Recategorisation	5.0	0.4	1.0	27.6	0.8	(34.8)	–
Disposals	(1.7)	–	(0.8)	(13.9)	(1.1)	(0.1)	(17.6)
Disposal of businesses	(2.9)	–	–	(2.6)	–	–	(5.5)
At 31 December 2016	252.8	11.1	10.6	901.3	29.6	68.5	1,273.9
Accumulated depreciation and impairment							
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 businesses	(1.8)	(0.5)	(0.3)	(11.3)	(0.9)	–	(14.8)
At 1 January 2016	92.0	4.7	6.1	509.5	19.9	–	632.2
Charge for the year	6.7	0.5	0.6	44.6	1.7	–	54.1
Impairment losses incurred	–	–	0.2	4.7	0.1	–	5.0
Exchange differences	14.7	0.1	0.9	74.6	3.0	–	93.3
Transfer to assets held for sale	(0.7)	–	–	–	–	–	(0.7)
Eliminated on disposals	(1.0)	(0.4)	(0.7)	(12.0)	(1.1)	–	(15.2)
Eliminated on disposal of businesses	(0.9)	–	–	(2.9)	–	–	(3.8)
At 31 December 2016	110.8	4.9	7.1	618.5	23.6	–	764.9
Carrying amount							
At 31 December 2016	142.0	6.2	3.5	282.8	6.0	68.5	509.0
At 31 December 2015	121.9	4.8	2.8	243.3	5.2	51.6	429.6

The carrying amount of leased assets is £nil (2015: £nil).

At 31 December 2016 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.7m (2015: £1.5m).

In addition to the above, property, plant and equipment amounting to £1.8m (2015: £1.2m) 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 £5.0m (2015: £9.0m) of asset impairments. Asset impairments broken down by business segment are as follows:

	2016 £m	2015 £m
ADE:		
Western Europe	–	0.4
North America	0.5	–
Emerging markets	0.2	–
AGI:		
Western Europe	0.3	2.4
North America	3.8	0.3
Emerging markets	0.2	5.9
	5.0	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 133 to 136.

	2016 £m	2015 £m
Sundry investments	–	0.2

The 2015 sundry investments relate to the Bodycote Investment Incentive Plan, as explained in the Board report on remuneration.

15. Inventories

	2016 £m	2015 £m
Raw materials	12.4	11.4
Work-in-progress	3.9	7.8
Finished goods and goods for resale	0.3	0.3
	16.6	19.5

16. Other financial assets

Trade and other receivables

	2016 £m	2015 £m
Amounts falling due within one year:		
Amounts receivable for the supply of services	106.4	90.6
Other debtors and prepayments*	19.9	15.1
	126.3	105.7
Amounts falling due after more than one year:		
Other debtors and prepayments*	0.4	0.4

* Other financial assets include prepayments of £8.0m (2015: £6.7m), 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 2016 is 63 days (2015: 62 days). An allowance has been made for estimated irrecoverable amounts from the supply of services of £7.2m (2015: £5.9m). 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.

Notes to the consolidated financial statements continued

Year ended 31 December 2016

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 £21.9m (2015: £19.4m) 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 38 days, with a range from 14 days to 67 days.

Ageing of past due but not impaired receivables:

	2016 £m	2015 £m
31–60 days	12.6	11.5
61–90 days	5.6	5.5
91–120 days	1.2	0.9
Greater than 120 days	2.5	1.5
	21.9	19.4

Movement in the allowance for doubtful debts:

	2016 £m	2015 £m
At 1 January	5.9	5.5
Impairment losses recognised	1.9	2.4
Allowance acquired with businesses	0.1	–
Amounts written off as uncollectable	(0.9)	(0.4)
Impairment losses reversed	(0.7)	(1.1)
Allowance disposed with businesses	–	(0.2)
Exchange differences	0.8	(0.3)
At 31 December	7.1	5.9

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 £10.2m (2015: £8.6m). 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:

	2016 £m	2015 £m
Less than 3 months	1.6	0.9
3–12 months	2.9	3.4
Over 12 months	5.7	4.3
	10.2	8.6

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:

	2016 £m	2015 £m
Sterling	3.3	5.2
Euro	2.2	4.0
US Dollar	3.7	3.8
Swedish Krona	1.0	1.3
Other	1.8	1.9
Total cash and bank balances	12.0	16.2

17. Assets held for sale

Assets held for sale comprise the following:

	2016 £m	2015 £m
Property, plant and equipment	1.8	1.2

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 2017. The assets held for sale are analysed between operating segments as follows:

	2016 £m	2015 £m
ADE:		
North America	1.3	0.7
AGI:		
Western Europe	0.5	0.5
	1.8	1.2

18. Borrowings

	2016 £m	2015 £m
Borrowings at amortised cost:		
Bank overdrafts	5.8	3.8
Loans	5.0	–
	10.8	3.8
The borrowings are repayable as follows:		
On demand or within one year	5.8	3.8
In the third to fifth years	5.0	–
	10.8	3.8
Less: Amount due for settlement within 12 months (shown under current liabilities)	(5.8)	(3.8)
Amount due for settlement after 12 months	5.0	–

Notes to the consolidated financial statements continued

Year ended 31 December 2016

18. Borrowings (continued)

Analysis of borrowings by currency:

	Sterling £m	Euro £m	US Dollar £m	Other currencies £m	Total £m
At 31 December 2016					
Bank overdrafts	–	3.4	1.0	1.4	5.8
Loans	5.0	–	–	–	5.0
	5.0	3.4	1.0	1.4	10.8

At 31 December 2015

Bank overdrafts	–	0.1	1.5	2.2	3.8
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The weighted average interest rates paid were as follows:

	2016 %	2015 %
Bank overdrafts and loans	1.7	2.2

The directors estimate the fair value of the Group's borrowings as follows:

	2016 £m	2015 £m
Bank overdrafts	5.8	3.8
Loans	5.0	–

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 2016 the Group's principal borrowing facility had drawings of £5.0m (2015: £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 2016 was 1.05%).

At 31 December 2016 the Group had available £225.0m (2015: £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 2016 £m	Fair value 2016 £m	Notional amount 2015 £m	Fair value 2015 £m
Current				
Forward foreign exchange contracts	4.4	0.1	3.8	–
Total				
Forward foreign exchange contracts	4.4	0.1	3.8	–

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 2016 or 2015.

In accordance with IFRS 7 Financial Instrument: Disclosures, 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).

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.

	Sterling 2016 £m	Euro 2016 £m	US Dollar 2016 £m	Swedish Krona 2016 £m	Other currencies 2016 £m	Total fair value 2016 £m
Asset/(liability)						
Forward foreign exchange contracts	(1.2)	(0.1)	0.8	2.0	(1.4)	0.1
On demand or within one year	(1.2)	(0.1)	0.8	2.0	(1.4)	0.1

	Sterling 2015 £m	Euro 2015 £m	US Dollar 2015 £m	Swedish Krona 2015 £m	Other currencies 2015 £m	Total fair value 2015 £m
Asset/(liability)						
Forward foreign exchange contracts	(1.1)	0.1	2.5	–	(1.5)	–
On demand or within one year	(1.1)	0.1	2.5	–	(1.5)	–

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 2016, the Group had a revolving credit committed borrowing facility of £230.0m (2015: £230.0m) which, together with net cash of £1.1m (2015: £12.3m), resulted in available funds of £231.1m (2015: £242.3m). 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 2016 the Group's principal committed bank facility of £230.0m had a maturity date of 3 July 2019 (2.5 years to maturity) and had drawings of £5.0m (2015: £nil).

Cash management pooling, netting and concentration techniques are used to minimise borrowings. As at 31 December 2016, the Group had gross cash of £12.0m (2015: £16.2m).

Notes to the consolidated financial statements continued

Year ended 31 December 2016

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 2016, 0% of gross debt and 0% of gross cash were at fixed rates (2015: 4% of gross debt, 0% of gross cash). The average tenure of the fixed rate debt was 0.2 years (2015: 1.2 years).

Currency risk

Bodycote has operations in 23 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.

92% of the Group's sales are in currencies other than sterling (EUR 38%, USD 36% and SEK 6%). Cumulatively over the year, sterling rates moved such that the sales for the year were £60.8m higher than if sales had been translated at the rates prevailing in 2015.

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 has been 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 92% 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 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 2016, 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 2016 would reduce or increase profit before tax by approximately £0.1m (2015: £0.1m). There is no significant impact on equity in the current or previous year.

Currency sensitivity

Taking the 2016 sales by currency, a 10% weakening/strengthening in the 2016 cumulative average rates for all currencies versus sterling would have given rise to a +£61.3m/-£50.2m 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 2016 operating profit mix, a 10% weakening/strengthening in 2016 cumulative average rates for all currencies would have given rise to a +£11.2m/-£9.2m 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 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 1 January 2016	49.3	(3.1)	(5.3)	(10.2)	30.7
Charge/(credit) to income	1.1	–	1.2	(3.3)	(1.0)
Credit to equity	–	–	(1.4)	–	(1.4)
Acquisition of businesses	1.7	–	–	1.1	2.8
Transfers	(0.5)	(0.1)	0.3	0.3	–
Exchange differences	8.8	(0.1)	(0.7)	(2.0)	6.0
Effect of change in tax rate:					
Income statement	(1.6)	0.1	0.2	0.1	(1.2)
Equity	–	–	0.4	–	0.4
At 31 December 2016	58.8	(3.2)	(5.3)	(14.0)	36.3

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016 £m	2015 £m
Deferred tax liabilities	68.8	61.9
Deferred tax assets	(32.5)	(31.2)
	36.3	30.7

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 £46.3m (2015: £40.1m) available for offset against future profits. A deferred tax asset has been recognised in respect of £14.0m (2015: £14.1m) 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 £32.3m (2015: £26.0m) 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 (2015: £nil) 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.

Notes to the consolidated financial statements continued

Year ended 31 December 2016

21. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts payable under finance leases:				
Within one year	0.1	0.1	0.1	0.1
Less: future finance charges	–	–		
Present value of lease obligations	0.1	0.1		

Analysed as:

Amount due for settlement within 12 months (shown under current liabilities)			0.1	0.1
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The present value of minimum lease payments is denominated in the following currencies:

Sterling			0.1	0.1
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The Group's average lease term is 0.2 years. For the year ended 31 December 2016, the average effective borrowing rate was 8.0% (2015: 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

	2016 £m	2015 £m
Amounts falling due within one year:		
Trade creditors	377	36.0
Other taxes and social security*	16.8	13.9
Other creditors	23.0	10.6
Accruals and deferred income	56.0	50.6
	133.5	111.1

Amounts falling due after more than one year:

Other creditors	4.4	2.5
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* 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 2016 is 40 days (2015: 41 days).

The directors consider that the carrying amount of trade payables approximates to their fair value.

22. Other financial liabilities (continued)

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.

	Less than 1 year 2016 £m	1–2 years 2016 £m	2–5 years 2016 £m	5+ years 2016 £m	Total 2016 £m
Non-interest bearing*	145.2	4.7	3.8	4.7	158.4
Finance lease liability	0.1	–	–	–	0.1
Bank loans and overdrafts	5.8	–	5.0	–	10.8
Derivative financial instruments	4.3	–	–	–	4.3
	155.4	4.7	8.8	4.7	173.6

	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

* 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 £10.8m (2015: £3.8m) bank loans and overdrafts outflows disclosed above, £5.0m (2015: £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 £4.3m (2015: £3.8m) derivative financial instruments outflows disclosed above, £4.4m (2015: £3.8m) are matched by derivative cash inflows, therefore the net impact on the balance sheet is £0.1m (2015: £nil).

23. Provisions

	Restructuring £m	Restructuring environmental £m	Environmental £m	Total £m
At 1 January 2016	8.1	6.6	6.6	21.3
Increase in provision	5.0	1.0	–	6.0
Release of provision	(0.6)	(0.8)	(0.2)	(1.6)
Utilisation of provision	(6.3)	(1.3)	(0.4)	(8.0)
Exchange difference	0.5	1.1	1.2	2.8
At 31 December 2016	6.7	6.6	7.2	20.5
Included in current liabilities				11.7
Included in non-current liabilities				8.8
				20.5

The restructuring provision relates to the costs associated with the closure of a number of Heat Treatment sites. The net addition to restructuring and restructuring environmental provisions of £4.6m relates to costs associated with new restructuring initiatives announced, primarily in Canada.

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 identify separately 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.

Notes to the consolidated financial statements continued

Year ended 31 December 2016

24. Share capital

	2016 £m	2015 £m
Issued and fully paid:		
191,456,172 (2015: 191,456,172) ordinary shares of 17 ³ / _{11p} each	33.1	33.1

25. Acquisition of businesses

During the year the Group spent £30.2m on the acquisitions of businesses. Individually the acquisitions are not considered material.

The acquisitions were made to strengthen the Group's network and to enhance the process offering in Canada, USA and Germany. The acquisitions fit well with the Group's automotive and general industrial strategy.

The transactions have been accounted for by the purchase method of accounting and are summarised below:

	Total £m
Fair value of net assets acquired:	
Intangible fixed assets	7.5
Property, plant and equipment	16.7
Inventories	0.2
Trade and other receivables	4.1
Trade and other payables	(3.2)
Cash and cash equivalents	0.2
Deferred tax liabilities	(2.8)
Current tax liabilities	(0.4)
Bank loans	(2.3)
	20.0
Goodwill	10.4
Total consideration	30.4
Satisfied by:	
Cash consideration	23.9
Accrued consideration	6.5
Total consideration transferred	30.4
Net cash outflow arising on acquisition:	
Cash consideration	30.4
Less: cash and cash equivalents acquired	(0.2)
	30.2

The accrued consideration remains unpaid until the purchase price adjustment, based on a review of working capital, is finalised.

The carrying value of inventories, trade and other receivables and trade and other payables approximates their fair value. Fair values of the acquired identifiable tangible and intangible assets are provisional, pending completion of the final valuations.

The gross contractual value of trade and other receivables was £4.1m. The best estimate at the acquisition date of the contractual cash flows not expected to be collected was £nil.

The goodwill arising on the acquisitions is attributable to the anticipated profitability of the Group's services in new markets and the anticipated future operating synergies from acquisitions. Goodwill of £2.7m is expected to be deductible for income tax purposes.

Acquisition-related costs (reported in exceptional items in note 5) amounted to £0.6m.

The acquired businesses contributed £4.6m revenue and £1.1m to the Group's operating profit for the period between the dates of acquisition and the balance sheet date.

If the acquisitions had been completed on the first day of the financial year, Group revenue would have been £615.3m and Group headline operating profit attributable to equity holders of the parent, stated prior to Group management charges, would have been £102.6m.

26. Disposal of businesses

On 5 December 2016, the Group sold the trade and assets of its Coatings business based in Wolverhampton due to the facility delivering returns below those considered acceptable to the Group. During the year, the Wolverhampton facility contributed £2.3m (2015: £2.6m) to Group revenue and contributed headline operating profit of £0.1m (2015: £0.1m) to Group results. The Wolverhampton facility is disclosed within the Western Europe AGI operating segment.

On 25 September 2015, the Group sold 100% of its interest in ("Bodycote Brazil"). During 2015, Bodycote Brazil contributed £4.0m to Group revenue and contributed a headline operating loss of £1.8m to Group results. Bodycote Brazil was 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"). During 2015, Bodycote India contributed £1.0m to Group revenue and contributed a headline operating loss of £0.2m to Group results. Bodycote India was disclosed within the Emerging Markets AGI operating segment.

The net assets of these businesses at the date of disposal were as follows:

	2016	2015
	£m	£m
Property, plant and equipment	(1.7)	(1.0)
Trade and other receivables	–	(1.4)
Inventories	(0.1)	(0.1)
Trade and other payables	–	1.4
Net assets on date of disposal	(1.8)	(1.1)
Cash consideration	1.9	1.8
Disposal costs	–	(0.2)
Cumulative exchange differences recycled on disposal	–	3.3
Profit on disposal of businesses	0.1	3.8
Net cash inflow arising on disposal:		
Cash consideration net of disposal costs	1.9	1.6

Notes to the consolidated financial statements continued

Year ended 31 December 2016

27. Notes to the cash flow statement

	2016 £m	2015 £m
Profit for the year	67.0	56.2
Adjustments for:		
Investment revenue	–	(0.1)
Finance costs	2.6	3.0
Taxation	24.9	18.8
Depreciation of property, plant and equipment	54.1	48.8
Amortisation of intangible assets	5.6	5.0
Profit on disposal of property, plant and equipment	(4.5)	(2.1)
Share-based payments	0.5	(0.4)
Impairment of fixed assets	5.1	9.0
Impairment of other assets	–	0.5
Profit on sale of businesses	(0.1)	(3.8)
EBITDA*	155.2	134.9
Decrease in inventories	5.5	0.7
(Increase)/decrease in receivables	(4.1)	0.9
Decrease in payables	(6.7)	(6.3)
(Decrease)/increase in provisions	(3.6)	4.3
Cash generated by operations	146.3	134.5
Income taxes paid	(20.4)	(23.2)
Net cash from operating activities	125.9	111.3

* 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 businesses and share-based payments.

	2016 £m	2015 £m
Cash and cash equivalents comprise:		
Cash and bank balances	12.0	16.2
Bank overdrafts (included in borrowings)	(5.8)	(3.8)
	6.2	12.4

28. Operating lease arrangements – the Group as lessee

	2016 £m	2015 £m
Minimum lease payments under operating leases recognised as an expense	17.3	14.6

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:

	2016 £m	2015 £m
Within one year	14.1	12.2
In the second to fifth years inclusive	28.7	26.4
After five years	22.4	16.5
	65.2	55.1

Operating lease payments represent rentals payable by the Group for certain of its land and buildings, fixtures and fittings and motor vehicles.

29. 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. No new CIP awards were granted in 2016.

The number of outstanding share awards is as follows:

	BIP 2016	CIP 2016	BIP 2015	CIP 2015
At 1 January	2,003,996	165,240	2,322,260	186,791
Granted during the year	896,894	–	702,072	38,688
Exercised during the year	(745,089)	(52,256)	(706,394)	(60,239)
Expired during the year	(95,231)	–	(313,942)	–
At 31 December	2,060,570	112,984	2,003,996	165,240
Average fair value of share awards granted during the year at date of grant (pence)	543.3	–	723.3	331.0
Fair value of awards granted during the year (£)	4,873,094	–	5,078,087	128,057

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:

		2016	2015
Weighted average share price	pence	543.3	765.7
Weighted average exercise price	pence	nil	nil
Expected life	years	3.0	3.0
Expected dividend yields	%	1.9	1.9

The inputs to the Monte Carlo simulation model, used to determine the charge to the income statement for CIP, are as follows:

		2016	2015
Weighted average share price	pence	–	748.5
Weighted average exercise price	pence	–	nil
Expected volatility	%	–	26.0
Expected life	years	–	3.0
Risk-free rate	%	–	0.9
Expected dividend yields	%	–	1.9

The Group recognised a total charge to the income statement of £0.5m (2015: £0.4m credit) related to equity-settled share-based payment transactions.

Notes to the consolidated financial statements continued

Year ended 31 December 2016

30. 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:

	2016	2015
	£m	£m
Short-term employee benefits	1.8	1.6
Share-based payments	0.1	0.1
	1.9	1.7

Further information about the remuneration of the individual directors is provided in the Board report on remuneration on pages 54 to 73.

31. 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 £6.2m (2015: £6.0m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2016 contributions of £0.2m (2015: £0.3m) 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:

	2016	2015
	£m	£m
UK Scheme	3.6	2.7
Non-UK Schemes	17.9	15.2
	21.5	17.9

Total expense recognised in income statement

	2016	2015
	£m	£m
UK Scheme	0.8	1.0
Non-UK Schemes	0.1	0.9
	0.9	1.9

Further details of the Group's defined benefit arrangements are given in the Chief Financial Officer's report on page 22.

31. 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 2016.

The contributions made by the employer over the financial year have been £4.4m, comprising £0.5m in respect of benefit accrual and £3.9m 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. As the Scheme is in deficit as at 31 December 2016, there is no surplus to be restricted on the balance sheet. In addition, no further liabilities need to be recognised at 31 December 2016 as the Group is not committed to paying any further deficit reduction contributions under the current Schedule of Contributions.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2016 £m	2015 £m
Defined benefit obligation at start of year	99.9	103.3
Current service cost	0.6	0.7
Interest expense	3.4	3.3
Contributions by plan participants	0.2	0.2
Actuarial losses/(gains) arising from changes in financial assumptions	27.0	(2.3)
Experience losses on liabilities	1.3	–
Benefits paid, death in service insurance premiums and expenses	(5.8)	(5.3)
Defined benefit obligation at end of year	126.6	99.9

Reconciliation of opening and closing balances of the fair value of the assets

	2016 £m	2015 £m
Fair value of assets at start of year	101.4	102.3
Interest income	3.5	3.3
Return on scheme assets excluding interest income	19.8	(0.4)
Scheme administration expenses	(0.3)	(0.3)
Contributions by employer	4.2	1.6
Contributions by plan participants	0.2	0.2
Benefits paid, death in service insurance premiums and expenses (incl. age related rebate)	(5.8)	(5.3)
Fair value of assets at end of year	123.0	101.4

Total expense recognised in the income statement

	2016 £m	2015 £m
Current service cost	0.6	0.7
Net interest on the defined benefit liability	(0.1)	–
Scheme administration expenses	0.3	0.3
Total expenses	0.8	1.0

Notes to the consolidated financial statements continued

Year ended 31 December 2016

31. Retirement benefit schemes (continued)

UK Scheme (continued)

Assets

	2016 Quoted £m	2016 Unquoted £m	2015 Quoted £m	2015 Unquoted £m
Equities	18.5	–	13.3	–
Bonds	59.1	15.7	53.9	7.8
Cash	1.4	–	3.5	–
Diversified growth funds	28.3	–	22.5	0.4
	107.3	15.7	93.2	8.2

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 'return seeking' asset classes including equities, diversified growth funds, absolute return bonds and direct lending, and 35% to 'liability-matching' 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

	2016 % per annum	2015 % per annum
RPI inflation	3.30	3.20
CPI inflation	2.50	2.40
Salary increases	3.00	3.00
Rate of discount	2.30	3.50
Allowance for pension in payment increases of RPI or 3% p.a. if less	2.41	2.37
Allowance for revaluation of deferred pensions	2.50	2.40

Mortality – current pensioners:

	2016 S2PxA YoB CMI 2013 1.5% long term trend	2015 S2PxA YoB CMI 2013 1.5% long term trend
Actuarial tables used		
Life expectancy for members currently aged 65	22.8	22.7

Mortality – future pensioners:

	2016 S2PxA YoB CMI 2013 1.5% long term trend	2015 S2PxA YoB CMI 2013 1.5% long term trend
Actuarial tables used		
Life expectancy at age 65 for members currently aged 40	25.0	24.9

	2016 All members commute 75% of maximum permitted	2015 All members commute 75% of maximum permitted
Cash commutation		

The weighted average duration of the defined benefit obligation as at 31 December 2016 is approximately 18 years (31 December 2015: 18 years).

31. Retirement benefit schemes (continued)

UK Scheme (continued)

Present value of defined benefit obligations, fair value of assets and deficit

	2016 £m	2015 £m
Present value of defined benefit obligation	126.6	99.9
Fair value of plan assets	(123.0)	(101.4)
Deficit/(surplus) in the Scheme	3.6	(1.5)
Adjustment relating to asset ceilings and minimum funding requirements	–	4.2
Net defined benefit liability before deferred tax	3.6	2.7

Reconciliation of asset ceiling

	2016 £m	2015 £m
Restriction due to asset ceiling at beginning of period	4.2	–
Interest on asset restriction	0.1	–
Other changes in asset restriction	(4.3)	4.2
Restriction due to asset ceiling at end of period	–	4.2

The best estimate of contributions to be paid into the plan for the year ending 31 December 2017 is £0.7m.

Amounts recognised in Other Comprehensive Income

	2016 £m	2015 £m
Loss on experience on plan liabilities	(1.3)	–
Return on scheme assets excluding interest income	19.8	(0.4)
Effects of changes in financial assumptions underlying the present value of the liabilities	(27.0)	2.3
Gain/(loss) due to change in asset restriction	4.3	(4.2)
Total loss recognised in Other Comprehensive Income	(4.2)	(2.3)

Impact of changes to assumptions

	2016		2015	
	Increase £m	Decrease £m	Increase £m	Decrease £m
0.25% change in discount rate	(6.3)	6.3	(4.6)	4.6
0.25% change in price inflation (and associated assumptions)	2.9	(2.9)	1.9	(1.9)
1 year change in life expectancy at age 65	4.5	(4.5)	3.6	(3.6)

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

	2016 £m	2015 £m
Defined benefit obligation at start of year	25.6	26.2
Current service cost	0.7	0.6
Interest expense	0.6	0.6
Actuarial losses arising from changes in financial assumptions	1.5	0.3
Experience gains on liabilities	(0.4)	(1.0)
Benefits paid, death in service insurance premiums and expenses	(2.3)	(1.2)
Curtailments	(0.2)	–
Employee contributions	0.1	0.1
Past service costs	(0.8)	–
Exchange rate loss	4.2	–
Defined benefit obligation at end of year	29.0	25.6

Notes to the consolidated financial statements continued

Year ended 31 December 2016

31. Retirement benefit schemes (continued)

Combined non-UK disclosures (continued)

Reconciliation of opening and closing balances of the fair value of plan assets

	2016 £m	2015 £m
Fair value of assets at start of year	10.4	10.2
Interest income	0.2	0.3
Return on/(costs to) scheme assets excluding interest income	0.3	(0.1)
Contributions by employer	0.2	0.2
Contributions by employees	0.1	0.1
Benefits paid, death in service insurance premiums and expenses	(1.9)	(0.8)
Exchange rate gain	1.8	0.5
Fair value of assets at end of year	11.1	10.4

Total expense recognised in the income statement

	2016 £m	2015 £m
Current service cost	0.7	0.6
Net interest on the defined benefit liability	0.4	0.3
Curtailments	(0.2)	–
Past service costs	(0.8)	–
Total expenses	0.1	0.9

Assets

	2016 Quoted £m	2016 Unquoted £m	2015 Quoted £m	2015 Unquoted £m
Equities	1.9	–	1.9	–
Bonds	–	–	0.1	–
Cash	1.9	0.1	1.5	0.1
Insurance contracts	–	7.2	–	6.8
	3.8	7.3	3.5	6.9

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 2016

	Salary increases % per annum	Rate of discount % per annum	Inflation % per annum	Pension increases % per annum
USA – metallurgical	n/a	4.3	n/a	n/a
USA – non-metallurgical	n/a	4.3	n/a	n/a
France	2.8	1.5	1.8	1.5
Germany	2.5	1.8	n/a	1.8
Italy	2.5	1.3	1.5	n/a
Turkey	n/a	10.0	6.0	n/a
Liechtenstein	2.5	0.7	n/a	n/a
Switzerland	3.0	0.7	n/a	n/a

31. 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 2016 range from 10 years to 20 years. The durations ranged from 11 years to 19 years as at 31 December 2015.

Present value of defined benefit obligations, fair value of assets and deficit

	2016 £m	2015 £m
Present value of defined benefit obligation	29.0	25.6
Fair value of plan assets	(11.1)	(10.4)
Deficit in the schemes	17.9	15.2

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2016 is that recognised in the balance sheet.

Amounts recognised in Other Comprehensive Income

	2016 £m	2015 £m
Gain from experience on plan liabilities	0.4	1.0
Return on/(costs to) scheme assets excluding interest income	0.3	(0.1)
Effects of changes in financial assumptions underlying the present value of the liabilities	(1.5)	(0.3)
Total (loss)/gain recognised in Other Comprehensive Income	(0.8)	0.6

The only funded plans are those operated in USA, France, Switzerland and Liechtenstein. The best estimate of contributions to be paid into the plans for the year ending 31 December 2017 is £0.3m.

Sensitivities (changes to total defined benefit obligations)

	2016		2015	
	Increase £m	Decrease £m	Increase £m	Decrease £m
0.25% change in discount rate	(1.1)	1.1	(0.9)	0.9
0.25% change in price inflation (and associated assumptions)	0.5	(0.5)	0.4	(0.4)

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

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Revenue	600.6	567.2	609.1	619.6	587.8
Profit:					
Headline operating profit	99.6	102.1	111.1	107.4	97.5
Amortisation of acquired intangible fixed assets	(4.5)	(4.2)	(3.9)	(4.5)	(2.0)
Operating profit prior to exceptional items	95.1	97.9	107.2	102.9	95.5
Profit on disposal of investments	–	–	–	–	2.4
Acquisition costs	(0.6)	–	(0.2)	–	(2.5)
Reorganisation costs	–	(20.0)	–	(0.8)	(2.4)
Operating profit	94.5	77.9	107.0	102.1	93.0
Net finance costs	(2.6)	(2.9)	(3.3)	(3.7)	(3.0)
Profit before taxation	91.9	75.0	103.7	98.4	90.0
Taxation	(24.9)	(18.8)	(24.4)	(25.3)	(22.8)
Profit after taxation	67.0	56.2	79.3	73.1	67.2
Non-controlling interests	–	–	0.1	(0.1)	(0.1)
Profit attributable to the equity holders of the parent	67.0	56.2	79.4	73.0	67.1
Headline earnings per share (pence)	37.0	39.5	43.8	41.2	37.5
Dividend per share (pence)	15.8	15.1	14.4	13.5	12.3
Special dividend per share (pence)	–	10.0	20.0	10.0	–
Assets employed					
Intangible fixed assets	206.7	175.2	172.1	167.9	166.8
Tangible fixed assets	509.0	429.6	434.6	444.6	448.7
Other assets and liabilities	(88.5)	(67.5)	(71.5)	(80.1)	(77.2)
	627.2	537.3	535.2	532.4	538.3
Financed by					
Share capital	33.1	33.1	33.1	33.1	33.1
Reserves	594.8	516.1	537.3	513.7	469.6
Shareholders' funds	627.9	549.2	570.4	546.8	502.7
Non-controlling interests	0.4	0.4	0.5	0.6	1.4
Net (cash)/borrowings	(1.1)	(12.3)	(35.7)	(15.0)	34.2
Capital employed	627.2	537.3	535.2	532.4	538.3
Net assets per share (pence)	328.0	286.9	297.9	285.6	262.6
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	17.1	19.0	20.7	19.9	17.9

Company statement of financial position

At 31 December 2016

	Note	2016 £m	2015 £m
Fixed assets			
Intangible fixed assets	2	18.7	14.1
Tangible fixed assets	3	0.2	0.3
Investments	4	390.9	395.0
Receivables	5	5.1	3.5
		414.9	412.9
Current assets			
Receivables	5	5.6	10.8
Current liabilities			
Payables	6	(7.6)	(7.2)
Net current (liabilities)/assets		(2.0)	3.6
Total assets less current liabilities		412.9	416.5
Payables: Amounts falling due after more than one year	6	–	(17.2)
Retirement benefit obligations	11	(3.6)	(2.7)
Net assets		409.3	396.6
Capital and reserves			
Called-up share capital	8	33.1	33.1
Share premium account		177.1	177.1
Other reserves		125.0	124.2
Profit and loss account		74.1	62.2
Shareholders' funds		409.3	396.6

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 28 February 2017.

They were signed on its behalf by:

S.C. Harris
Director

D. Yates
Director

Company statement of changes in equity

For the year ended 31 December 2016

	Called-up share capital £m	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
1 January 2015	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
Profit for the year	–	–	–	63.0	63.0
Actuarial loss on defined benefit pension schemes net of deferred tax	–	–	–	(3.6)	(3.6)
Total comprehensive income for the year	–	–	–	59.4	59.4
Dividends paid	–	–	–	(48.1)	(48.1)
Share-based payments	–	–	0.5	–	0.5
Settlement of share options	–	–	0.3	0.6	0.9
31 December 2016	33.1	177.1	125.0	74.1	409.3

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 29 of the consolidated financial statements.

The other reserves are stated after deducting £8.0m (2015: £9.2m) 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 2016 1,289,378 (2015: 1,464,515) ordinary shares of 17³/₁₁p 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 (2015: £8.3m).

Included in other reserves is the capital redemption reserve of £129.8m (2015: £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 Chief Financial Officer'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.

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.

Critical judgements in applying the Company's accounting policies and key sources of estimation uncertainty

The critical judgements in applying the Company's accounting policies and key sources of estimation uncertainty at the balance sheet date relevant to the Company financial statements are included within the Group considerations on pages 85 and 86.

Notes to the company financial statements

Year ended 31 December 2016

1. Profit for the year

Bodycote plc reported a profit for the financial year ended 31 December 2016 of £63.0m (2015: £71.6m).

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 2016	19.7
Additions	6.0
Disposals	(0.7)
At 31 December 2016	25.0
Amortisation	
At 1 January 2016	5.6
Charge for the year	0.8
Disposals	(0.1)
At 31 December 2016	6.3
Net book value	
At 31 December 2016	18.7
At 31 December 2015	14.1

3. Tangible fixed assets

	Fixtures and fittings £m
Cost	
At 1 January 2016 and 31 December 2016	0.8
Depreciation	
At 1 January 2016	0.5
Charge for the year	0.1
At 31 December 2016	0.6
Net book value	
At 31 December 2016	0.2
At 31 December 2015	0.3

Notes to the company financial statements continued

Year ended 31 December 2016

4. Investments

	Shares £m
Cost	
At 1 January 2016	401.7
Acquisitions	16.3
Disposals	(20.5)
At 31 December 2016	397.5
Provision for impairment	
At 1 January 2015	6.7
Disposals	(0.1)
At 31 December 2016	6.6
Net book value	
At 31 December 2016	390.9
At 31 December 2015	395.0

5. Receivables

	2016 £m	2015 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	0.4	0.6
Corporation tax recoverable	0.1	4.2
Other receivables and prepayments	5.1	6.0
	5.6	10.8
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	4.2	2.7
Deferred taxation (note 7)	0.9	0.8
	5.1	3.5
	10.7	14.3

6. Payables

	2016 £m	2015 £m
Amounts falling due within one year:		
Trade payables	0.2	1.6
Amounts owed to subsidiary undertakings	0.6	0.5
Other taxes and social security	0.1	0.5
Other payables	2.0	1.5
Accruals and deferred income	4.7	3.1
	7.6	7.2
Amounts falling due after more than one year:		
Amounts owed to subsidiary undertakings	–	17.2

7. Deferred tax assets

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 2015	0.2	1.0	1.2
Credit to profit or loss	–	(0.7)	(0.7)
Credit to other comprehensive income	0.3	–	0.3
At 1 January 2016	0.5	0.3	0.8
Charge to profit or loss	(0.6)	–	(0.6)
Credit to other comprehensive income	0.7	–	0.7
At 31 December 2016	0.6	0.3	0.9

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:

	2016 £m	2015 £m
Deferred tax assets	0.9	0.8

8. Called-up share capital

Share capital:

Ordinary shares (allotted, called-up and fully paid)

	Number of shares	£m
At 1 January 2016	191,456,172	33.1
At 31 December 2016	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 29 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 £17.1m (2015: £7.8m).

10. Operating lease arrangements – the Company as lessee

	2016 £m	2015 £m
Minimum lease payments under operating leases recognised as an expense	0.3	0.3

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:

	2016 £m	2015 £m
Within one year	0.4	0.4
In the second to fifth years inclusive	0.3	0.4
	0.7	0.8

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 2016

11. Pension commitments

The Company participates in a final salary defined benefit scheme, the details of which are disclosed in note 31 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 31 to the consolidated financial statements.

The contributions made by the Company over the financial year to the defined contribution scheme amounted to £0.3m (2015: £0.3m). As at 31 December 2016, contributions of £0.1m (2015: £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.

Subsidiary undertakings

Thermal Processing – Heat Treatment and Metal Joining

Company name	Plants	Registered office & country of incorporation
Bodycote Austria GmbH	Kapfenberg and Marchtrenk	Boehlerdurplatz 1, 8605 Kapfenberg, Austria
Bodycote Belgium SA	Brussels	Font Saint Landry 11, 1120 Brussels, Belgium
Bodycote de SLP, S. de R.L. de C.V.	San Luis Potosí, SLP, Mexico	Oficinas en el Parque Torre Baker & McKenzie, Piso 10, Blvd. Antonio L. Rodríguez 1884 Pte, Monterrey, NL 64650, Mexico
Bodycote FHK Flachstahl-Härtereie Köllner GmbH	Steinbach-Hallenberg	Schiessstrasse 68, 40549 Düsseldorf, Germany
Bodycote Hardingscentrum BV	Apeldoorn, Diemen, Gandrange (France), Haaksbergen, Tilburg and Venlo	Groethofstraat 27, 5916PA Venlo, Netherlands
Bodycote Heat Treatment Canada, Inc.	Burlington ON	50 Queen Street North, Suite 1020, Kitchener ON N2H 6M2, Canada
Bodycote Heat Treatments Limited	Birmingham, Cambridge, Chard, Coventry, Derby, Macclesfield, Rotherham, Skelmersdale, Stillington and Stockport	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote Hirzenhain GmbH	Hirzenhain	Schiessstrasse 68, 40549 Düsseldorf, Germany
Bodycote HT s.r.o.	Brno, Krnov, Liberec and Prague	Liberec 30, Tanvaldska 345, PSC, 46311, Czech Republic
Bodycote Hungary Hökezelő KFT	Budapest	Orczy ut 46, Budapest, H-1089, Hungary
Bodycote Istas Isil Islem Sanayi ve Ticaret AS (79.3% owned)	Bursa, Gebze and Izmir	Kemalpasa OSB, Izmir Kemalpasa Asfalti No:17/1, 35730 Kemalpasa-İZMİR, Turkey
Bodycote (Jinan) Heat Treatments Technology Co., Ltd.	Jinan	2012 Kehang Road, High Tech District, Jinan City, Shandong, China
Bodycote (Kunshan) Heat Treatments Technology Co., Ltd.	Kunshan	No.12 Building, No. 78, Gu Cheng Zhong Road, Yu Shan Town, Kunshan City, Jiangsu Province, China
Bodycote Lämpökäsittely Oy	Pieksämäki, Tampere, Vaasa and Vantaa	Gesällvägen 7, 01730 Vantaa, Finland
Bodycote (Ningbo) Heat Treatment Co., Ltd.	Ningbo	No. 94 Xiayu, Fuming Jiangnan, Jiangdong District, Ningbo City, China
Bodycote Polska sp z o.o	Chelmno, Czestochowa, Swiebodzin, Warsaw, Wroclaw and Zabrze	Wilgowa 65D, Czestochowa, 42-271, Poland
Bodycote Rheintal Wärmebehandlung AG	Schaan and branch Kloten, Switzerland	Im alten Riet 123, 9494 Schaan, Liechtenstein
Bodycote SAS	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	Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France
Bodycote Specialist Technologies GmbH	Landsberg and Karben	Schiessstrasse 68, 40549 Düsseldorf, Germany
Bodycote Sud-Ouest SAS	Cambes	Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France

Subsidiary undertakings continued

Company name	Plants	Registered office & country of incorporation
Bodycote Syracuse Heat Treating Corporation	Syracuse NY	Main Office: 12700 Park Central Drive, Suite 700, Dallas TX 75251-1518, USA
Bodycote Thermal Processing Canada, Inc.	Kitchener and Newmarket ON	630 Newpark Boulevard, Newmarket ON L3X 2S2, Canada
Bodycote Thermal Processing de Mexico S. de R.L. de C.V.	Silao, Guanajuato, Mexico	Oficinas en el Parque Torre Baker & McKenzie, Piso 10, Blvd. Antonio L. Rodríguez 1884 Pte, Monterrey, NL, 64650, Mexico
Bodycote Thermal Processing, Inc.	Athens AL, Fremont, Huntington Park, Rancho Dominguez, Santa Fe Springs, Vernon, Westminster CA, Berlin, South Windsor, Waterbury CT, Covington 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, Mooresville 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, Haltom City, Houston TX, New Berlin and Sturtevant WI	Main Office: 12700 Park Central Drive, Suite 700, Dallas TX 75251-1518, USA
Bodycote Thermal Processing Mexico Limited	Empalme, Sonora, Mexico	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote Trattamenti Termici SpA	Madone and Rodengo	Via Moie 28, 25050, Rodengo Saiano, Italy
Bodycote Tratamente Termice SRL	Brasov and Cugir	Brasov, str. Zizinului nr. 119, cod 500407, Romania
Bodycote Värmebehandling AB	Göteborg, Hudiksvall, Malmö, Mora, Stockholm, Värnamo, Västerås and Vellinge	Box 124, 424 23, Angered, Sweden
Bodycote Varmebehandling A/S	Ejby and Herlev	Industribuen 16-18, 5592, Ejby, Denmark
Bodycote VHK Vakuum-Härtereie Köllner GmbH	Walterhausen/Schmerbach	Schiessstrasse 68, 40549 Düsseldorf, Germany
Bodycote Wärmebehandlung GmbH	Ebersbach, Eching, Essen, Esslingen, Korntal, Langenfeld, Langenselbold, Lüdenscheid, Menden, Nürnberg, Otterfing, Remscheid, Sömmerda, Sprockhövel and Wehingen	Schiessstrasse 68, 40549 Düsseldorf, Germany
Bodycote Wuxi Technology Co., Ltd.	Wuxi	No.B2-A, Wuxi National Hi-New Tech Industrial Development Z, Wuxi City, Jiangsu Province, 214028, China
Bodycote Ytbehandling AB	Katrineholm and Västra Frölunda	Box 124, 424 23, Angered, Sweden
Nitruvid SAS	Argenteuil	Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France
Techmeta Engineering SAS	Metz-Tessy	Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France
Techniques Metallurgiques Avancées SAS	Metz-Tessy	Lieu-dit Champ Corbert, 74370, Metz Tessy, France

Thermal Processing – Hot Isostatic Pressing

Company name	Plants	Registered office & country of incorporation
Bodycote H.I.P. Limited	Chesterfield and Hereford	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote Hot Isostatic Pressing AB	Surahammar	Box 209, 735 23 Surahammar, Sweden
Bodycote Hot Isostatic Pressing NV	Sint-Niklaas	Industrie Park Noord 7, 9100 Sint-Niklaas, Belgium
Bodycote IMT, Inc.	Princeton KY, Andover MA, London OH and Camas WA	Main Office: 12700 Park Central Drive, Suite 700, Dallas TX 75251-1518, USA
Bodycote Specialist Technologies Deutschland GmbH	Haag-Winden	Schießstrasse 68, 40549 Düsseldorf, Germany
Bodycote SAS	Magny-Cours	Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France

Thermal Processing – Surface Technology

Company name	Plants	Country of incorporation
Bodycote K-Tech, Inc.	Hot Springs AR and Houston TX	Main Office: 12700 Park Central Drive, Suite 700, Dallas TX 75251-1518, USA
Bodycote SAS	Ambazac and Serres Castet	Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France
Bodycote Surface Technology Limited	Knowsley, Newport, Skelmersdale, Stonehouse, Wolverhampton and Dubai (UAE)	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK

Non-trading entities

Company name	Registered office & country of incorporation
Bodycote America Finance Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote America Finance LLC	12700 Park Central Drive, Suite 700, Dallas TX 75251-1518, USA
Bodycote Americas Inc.	12700 Park Central Drive, Suite 700, Dallas TX 75251-1518, USA
Bodycote America Treasury Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote Canada Property Inc.	630 Newpark Boulevard, Newmarket ON L3X 2S2, Canada
Bodycote de Mexico S. de R.L. de C.V.	Oficinas en el Parque Torre Baker & McKenzie, Piso 10, Blvd. Antonio L. Rodriguez 1884 Pte, Monterrey, NL, 64650, Mexico
Bodycote Deutschland GmbH	Schießstrasse 68, 40549 Düsseldorf, Germany
Bodycote Developments Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote European Holdings GmbH	Schießstrasse 68, 40549 Düsseldorf, Germany
Bodycote Finance Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote Finance UK Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote France Holdings SA	Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France
Bodycote Germany – East GmbH	Schießstrasse 68, 40549 Düsseldorf, Germany
Bodycote Heat Treatments Technology (Taicang) Co., Limited	No. 68 Ningbo East Road, Taicang Economic Development Area, Taicang City, Jiangsu, China
Bodycote HIP Germany Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote International Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK

Subsidiary undertakings continued

Non-trading entities

Company name	Registered office & country of incorporation
Bodycote Investments	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote Ireland Treasury Limited	12 Merrion Square North, Dublin 2, Ireland
Bodycote Japan K.K.	c/o JMC K.K., Asabudai N House 3F, 4-23, Azabudai 3-chome, Minato-ku, Tokyo, Japan
Bodycote Jersey Holdings Limited	13 Castle Street, St Helier, JE4 5UT, Jersey
Bodycote K-Tech Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote Luxembourg Finance SARL	7, Rue Robert Stumper, L-2557 Luxembourg
Bodycote Lyon SNC	Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France
Bodycote Nominees No. 1 Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote Nominees No. 2 Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote Pension Trustees Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote Processing (Skelmersdale) Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote Singapore Pte. Limited	6 Temasek Boulevard, 29th floor, Suntec Tower Four, 038986, Singapore
Bodycote (Somerset) Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote SSC s.r.o.	Rohanské nábřeží 671/15, Karlín, 186 00, Praha 8, 110 00, Czech Republic
Bodycote Sweden AB	Box 124, 424 23, Angered, Sweden
Bodycote Testing de Mexico S. de R.L. de C.V.	Oficinas en el Parque Torre Baker & McKenzie, Piso 10, Blvd. Antonio L. Rodríguez 1884 Pte, Monterrey, NL, 64650, Mexico
Bodycote Thermal Processing de Mexico Servicios, S. de R.L. de C.V.	Oficinas en el Parque Torre Baker & McKenzie, Piso 10, Blvd. Antonio L. Rodríguez 1884 Pte, Monterrey, NL, 64650, Mexico
Bodycote Thermal Processing Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote Thermotreat AB	Box 124, 424 23, Angered, Sweden
Bodycote Treasury Services Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Bodycote USA, Inc.	12700 Park Central Drive, Suite 700, Dallas TX 75251-1518, USA
Expert Heat Treatments Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
HITEC SAS	Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France
Taylor & Hartley Fabrics Limited	Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF, UK
Techmeta Participations SAS	Lieu-dit Champ Corbert, 74370, Metz Tassy, France
Thixomat Technologies, LLC (13.9% Investment)	13753 Otterson Court, Livonia, MI 48150, USA

Except where stated, these companies are wholly-owned subsidiaries and have only one class of issued shares.

It is agreed that the three German subsidiaries Bodycote Wärmebehandlung GmbH, Bodycote Specialist Technologies Deutschland GmbH and Bodycote Specialist Technologies GmbH make use of the exemption option under Sec. 264 para. 3 German Commercial Code for the fiscal year 2016, 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 Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone +44 (0)871 664 0300 (Calls from the UK cost 12p per minute plus network extras. Calls from outside the UK will be charged at the applicable international rate. Lines are open between 9.00am and 5.30pm, Monday to Friday, excluding public holidays in England and Wales.); Fax: +44 (0)1484 600 912; 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 from the UK are charged at the standard network rate and may vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open between 9.00am and 5.30pm, 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 £39.50), and for the telephone service, Capita's commission rates are 1.50%* of the value of the deal (minimum charge £59.50). 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)371 664 0381. Calls from the UK cost 12p per minute plus network extras. Calls from outside the UK will be charged at the applicable international rate. Lines are open between 9.00am and 5.30pm, 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 0391. Calls from the UK cost 12p per minute plus network extras. Calls from outside the UK will be charged at the applicable international rate. Lines are open between 9.00am and 5.30pm, 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 enquiries continued

Shareholder analysis

Analysis of share register as at 17 February 2017:

Holding range	Number of shareholders	%	Number of shares	%
1 to 1,000	928	43.3	389,200	0.2
1,001 to 10,000	815	38.1	2,593,746	1.4
10,001 to 100,000	213	9.9	6,983,676	3.6
100,001 to 500,000	112	5.2	27,211,375	14.2
500,001 and over	74	3.5	154,278,175	80.6
	2,142	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	31.8	97.6
Other shareholdings	68.0	2.2
	100.0	100.0

As at 17 February 2017 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	26,491,060	13.84
Old Mutual Global Investors (UK) Limited	9,754,867	5.10
Franklin Templeton Fund Management Limited	9,403,000	4.91
Schroder Investment Management Ltd	9,066,948	4.74
Dimensional Fund Advisors, LP	8,847,440	4.62
Legal & General Asset Management Ltd	6,944,899	3.63
Baillie Gifford & Co	6,205,464	3.24

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 Sutherland (International) LLP, Herbert Smith Freehills LLP and DLA Piper UK LLP

Financial calendar

Annual General Meeting

17 May 2017

Final dividend for 2016

2 June 2017

Interim results for 2017

July 2017

Interim dividend for 2017

November 2017

Results for 2017

February 2018

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