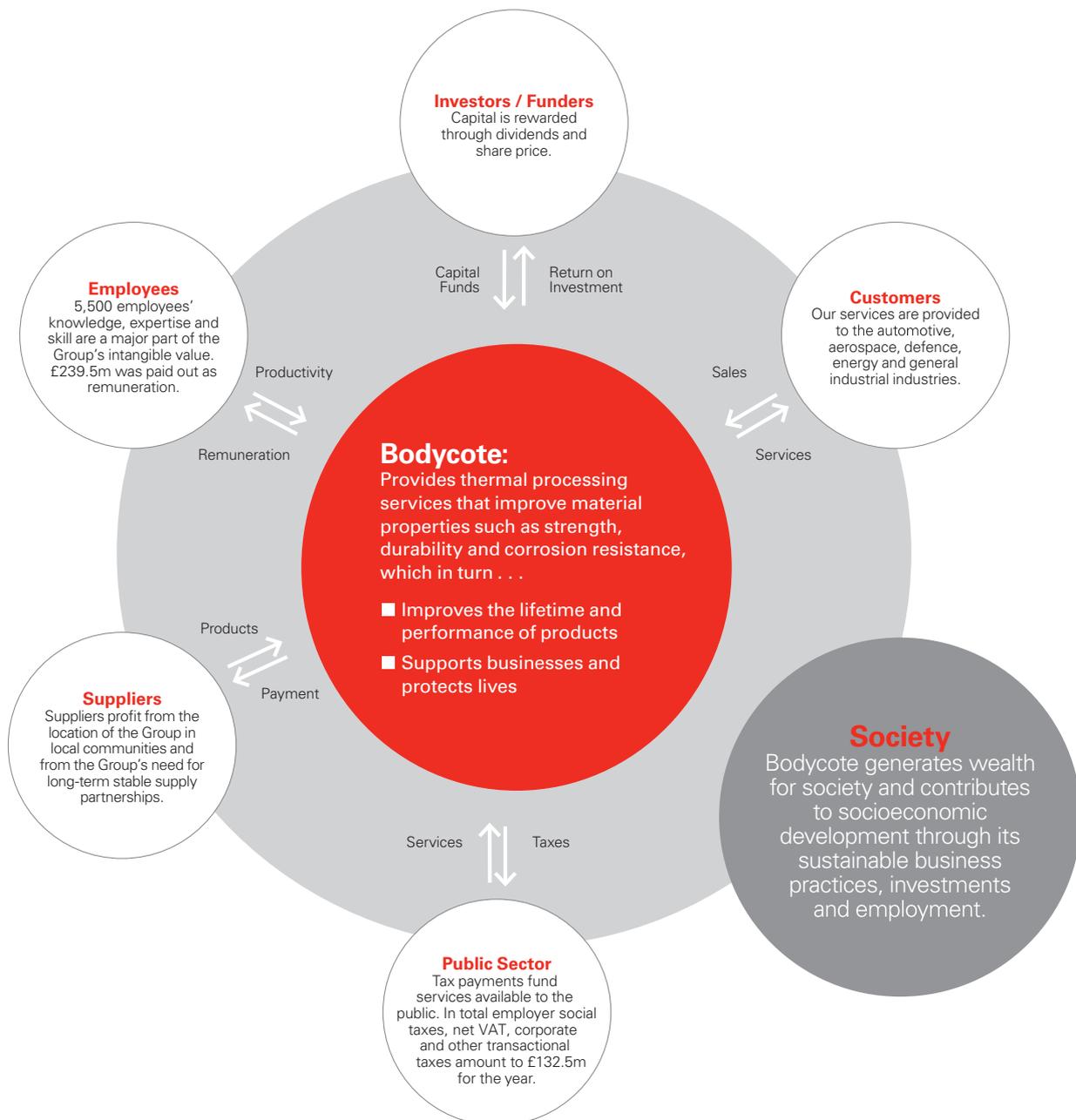


Corporate responsibility and sustainability



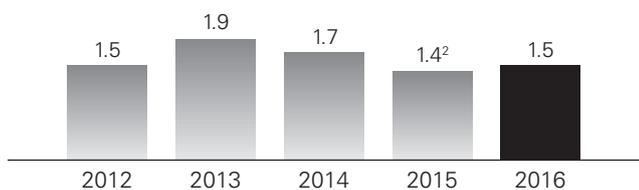
As a Group, Bodycote is committed to acting responsibly as a good corporate citizen, to reducing the environmental impact of the Group's activities and to providing our employees with a safe working environment.

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.



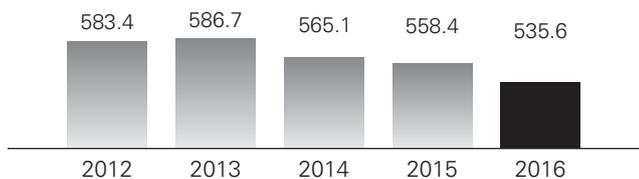
Corporate responsibility and sustainability continued

Accident frequency¹



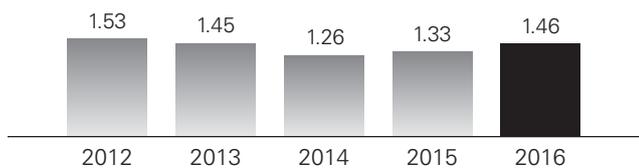
Carbon footprint³

(tonne CO₂e/£m sales normalised⁴)



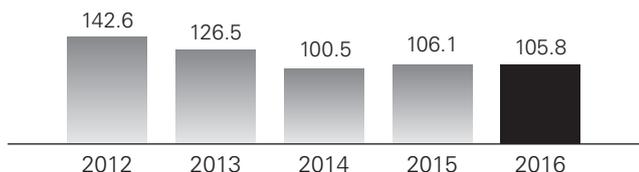
Water consumption

(thousand m³/£m sales normalised⁴)



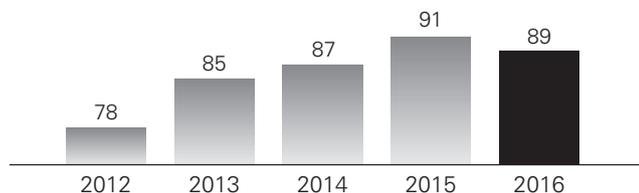
Chlorinated solvents

(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.