

# Chairman's statement

"I believe that the Group will continue to deliver positive returns in the years ahead. Underpinned by our continued focus upon excellent customer service, strong cash management and the quality of our global workforce, I look forward to the future with confidence."

**Alan Thomson** | Chairman



## Overview

Against the backdrop of a weak economic environment, particularly in Europe, I am pleased to report that Bodycote made further progress in 2012. In line with our strategy to provide thermal processing services on a global scale, we made a number of acquisitions in the USA at a cost of £84.7m. These represent the first portfolio additions the Group has made since 2008. Going forward we will continue to seek out opportunities to expand the Group through a combination of organic growth initiatives in new markets and technologies while seeking to build new plants and acquire new businesses.

Despite the adverse movement in exchange rates, headline earnings per share at 37.4p grew by 14.4%, headline operating margins exceeded 16% and operating profits were fully backed by positive cash generation. The return on capital employed increased to an impressive 19.5%.

## Dividend

The Board is proposing a final dividend of 8.3p, an increase of 13.7%, which will be paid to shareholders on 7 May 2013 subject to approval at the AGM. This brings the total dividend for 2012 to 12.3p (2011: 10.9p) costing £23.4m, which is a year on year increase of 12.8%.

## Governance

As Chairman, one of my primary responsibilities is to ensure that the Group operates to the highest standards in all aspects of governance and risk management. Our aim within Bodycote is to manage a growing business effectively, while ensuring that proper operating procedures are maintained at all times in each of the 26 countries where we operate. Transparency is central to this objective and you will find more detail about our approach and progress over the last year in the Corporate Governance section starting on page 38. This year's Corporate Governance report now fully reflects the changes introduced in the UK Governance Code (The Code) in June 2010.

A feature of the Board's agenda this year was the commissioning of an externally facilitated review of the Board's performance. While the outcome was favourable, it did provide useful insight enabling the Board to continue its development.

During the year I met a number of Bodycote's major shareholders and received positive feedback from them on their views of the Group. Going forward I will maintain this regular dialogue with our shareholders and look forward to meeting increasing numbers of you at this year's AGM, when there will be an opportunity to discuss the Group's business and achievements.

## Board Changes

On behalf of the Board, I would like to thank Hans Vogelsang for his substantial contribution to Bodycote over the last 10 years, particularly as Senior Independent Director and Chairman of the Remuneration Committee. Hans will be retiring from the Board on 24 April 2013 at the end of our AGM. Hans was an invaluable supporter when in 2007 the Board took the strategic decision to dispose of the Testing division which enabled us to focus on revitalising the Thermal Processing business. His wise counsel will be missed.

Following an international search led by external consultants we welcomed Eva Lindqvist, our first female member, to the Board in June 2012. A Swedish national and a qualified engineer, Eva brings a wealth of skills and international experience, particularly of operating in Asia and North America. In addition to serving on the Nomination and Audit Committees she has agreed to chair the Remuneration Committee.

## People

Over the past year I have continued to visit our operations around the Group. Following our first business acquisitions for some years in North America, I was delighted by the welcome extended to the Bodycote team by our new colleagues. I continue to be impressed by the commitment and professionalism of our employees and their ongoing desire for the Group to grow and prosper. Our people are undoubtedly our key asset and I am certain that the long-term opportunities for growth mean that our employees will continue to find Bodycote a place where they can enjoy rewarding careers. On behalf of the Board I congratulate them all for delivering another year of successful trading and financial performance.

## Summary

As you will read in this Annual Report Bodycote is in very good shape and has once again delivered value in terms of total shareholder return and the Board's recommendation is for a 12.8% dividend increase.

I believe that the Group will continue to deliver positive returns in the years ahead. Underpinned by our continued focus upon excellent customer service, strong cash management and the quality of our global workforce, I look forward to the future with confidence.

## A.M. Thomson

Chairman

27 February 2013