

# Chairman's statement



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

**A.M. Thomson** | Chairman

## Overview

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

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

## Dividend

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

## Governance and reporting

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

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

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

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

### Board matters

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

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

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

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

### People

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

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

### Shareholders

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

### Summary

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

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

### A.M. Thomson

Chairman  
25 February 2016