

15 March 2013

Electronic communications

Our shareholder records show that you have not signified that you wish to receive paper copies of Bodycote's annual and interim results and meeting notices. As a result we are writing to tell you that Bodycote's 2012 Annual Report, highlights of which are provided below, together with the notice of the Annual General Meeting, are now available on our website - www.bodycote.com. Shareholders should read the whole of both these items and not rely on the summarised information set out in this letter.

Bodycote's Annual General Meeting will be held at 12:00 noon on 24 April 2013 at Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield, Cheshire SK10 2XF. Enclosed with this letter is your personalised proxy card, with which you can vote; you can, of course, attend the meeting in person if you wish.

Should you wish to revert to receiving physical copies of documents, you can request this by contacting our registrars, Capita, by telephone on 0871-664-0300 (within the UK calls cost 10p per minute plus network extras; lines are open 8.30 am to 5.30 pm, Monday - Friday) or +44(0)208-639-3399 (from overseas) or online at www.capitashareportal.com.

Dear Shareholder,

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 business.

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%.

2012 results highlights:

	2012	2011
Revenue	£587.8m	£570.7m
Headline operating profit	£97.9m	£85.5m
Operating profit	£93.4m	£80.4m
Headline profit before taxation	£94.3m	£80.9m
Profit before taxation	£89.8m	£75.8m
Headline operating cash flow	£110.8m	£96.0m
Operating cash flow	£103.0m	£90.3m
Net debt / (cash)	£34.2m	£(0.1)m
Basic headline earnings per share	37.4p	32.7p
Basic earnings per share	35.8p	30.0p
Dividend per share	12.3p	10.9p
Annualised return on capital employed	19.5%	16.9%

2012 Annual Report Overview

Bodycote delivered another strong performance in what was a difficult economic environment. Sales growth of £17.1m included a contribution of £22.4m from acquisitions but was impacted by £19.6m of foreign exchange translation headwind. Notwithstanding the difficult trading environment Bodycote continued to demonstrate its pricing power and ability to improve the mix of business, resulting in headline margins increasing to 16.6%.

The Aerospace, Defence and Energy businesses took full advantage of their strong markets and delivered sales growth of 11.5%, of which 4.2% came from acquisitions, with margins expanding to 26.7% (2011: 21.9%). Progress was particularly pleasing in the Automotive and General Industrial segments. Even though revenues declined by 2.9%, notwithstanding adding 3.8% from acquisitions, margins remained constant at 13.3%, providing continued evidence of the improved resilience of Bodycote's profitability.

Return on capital employed increased to 19.5% (2011: 16.9%) on the back of the higher level of profits and carefully managed net capital expenditure of £47.7m, which was 0.9 times depreciation (2011: 0.9 times). Capital expenditure was lower than expected due primarily to longer than anticipated approval and regulatory processes. Capital expenditure was targeted at expansion of aerospace capacity and greenfield sites in emerging economies together with a focus on specific technologies such as Specialty Stainless Steel Processes (S³P), HIP Product Fabrication, Corri-Dur® and Low Pressure Carburising.



Headline operating cash conversion was once again very strong at 113% demonstrating the Group's commitment to cash generation as a primary focus. Net debt finished the year at £34.2m after spending £84.7m on acquisitions during the year. On 18 February 2013, the Group's €125m revolving credit facility was refinanced to 1 March 2018.

2012 marked a year of excellent strategic progress for Bodycote. Our initiatives aimed at improving market focus and increasing efficiencies through deployment of enhanced business processes all worked together to help drive profitable growth. Indeed the expansion of Group margins and growth in ROCE underscores the quality of earnings and resilience of the business.

While there are many examples of the successful deployment of Bodycote's strategy, activities in Brazil and in Eastern Europe disappointed in 2012. In Brazil the currency rose strongly, disrupting Brazil's position in the global supply chain. In Eastern Europe sales dropped, mainly due to manufacturers choosing to sustain their facilities in France and Germany, bearing the brunt of cutbacks in parallel plants in Eastern Europe.

In contrast, the growth in S³P was very pleasing, overcoming many of the capacity constraints that had hampered this business following its strong growth in 2011. Late in the year capacity was increased in the HIP Product Fabrication business and the benefits should be seen in 2013.

A number of businesses were acquired in 2012. North America has been under-represented in Bodycote, with the business heavily weighted towards Western Europe. Acquisitions in North America were high on the priority list as a result.

In April the heat treatment division of Curtiss-Wright was acquired, adding eight sites to the Group's footprint in North America. One major attraction of this business is its high degree of aerospace and energy work. Three of the acquired sites are located in the Wichita, Kansas aerospace hub, an important centre that previously did not have a Bodycote presence. The remaining sites dovetail very well into the pre-existing North American network.

In October seven sites were acquired from Bluewater Thermal Processing LLC. Six of these sites constituted the business formerly known as Carolina Commercial Heat Treating, which has a strong competitive position in the so called 'right to work' states of the South Eastern USA. This region, spanning from North Carolina down to Georgia and across to Tennessee, has enjoyed higher than average growth in the USA having been the target for significant inward investment for some time. It is not only benefiting from the arrival of many new foreign companies, but also from businesses that are relocating away from the union dominated north. The fledgling aerospace supply chain that is being established in the region provides a further attraction for Bodycote.

Other acquisitions included a small business comprising three sites in Michigan and Indiana, which was acquired from a private owner on 31 December 2012. They bring to the Group some of the best practitioners of Low Pressure Carburising and sophisticated vacuum heat treating technology in the world and are a welcome addition to the Group.

As we enter 2013 all of the businesses acquired are performing in line with expectations.

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%.

2013 has started slowly and we are mindful of the near term macroeconomic environment. Nevertheless, at this early stage in the year the Board expects modest progress in 2013.

Looking further ahead, the improvements made to the business in recent years give the Board confidence that Bodycote will continue to deliver good profits and cash through the business cycle.

As you will see from the enclosed form of proxy, in addition to the ordinary business your Board is proposing four items of special business as set out in resolutions 12 to 15. Briefly, these relate to: the renewal of the authority for Directors to allot shares; the dis-application of pre-emption rights to permit limited allotment of ordinary shares for cash; the renewal of authority for the Company to purchase its own shares; and authority for the Company to call General Meetings at 14 days' notice.

You will find enclosed a form of proxy which, to be effective, you should please complete in accordance with the instructions given and return so as to reach the Company's registrar as soon as possible, but in any event not later than 48 hours before the time of the meeting. The completion of the form of proxy will not prevent you from attending the meeting in person, if you wish to do so.

Copies of the full notice of meeting and the 2012 annual report and accounts are available to read in full on the Company's website, together with the presentation made to City analysts.

Yours faithfully,

Alan Thomson

Chairman

Financial Calendar 2013-2014

Annual General Meeting	24 April 2013
Final dividend for 2012	7 May 2013
Interim results for 2013	July 2013
Interim dividend for 2013	November 2013
Results for 2013	February 2014

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