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 2015 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 comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company balance sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, the Statement of Group and Company Accounting Policies and the related notes to the consolidated financial statements (notes 1 to 30) and to the company financial statements (notes 1 to 14). 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".

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

We have nothing 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 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 twelve months from the date of approval of the financial statements;
- the director's 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 agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such 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 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. The significant risks identified below are consistent with those in the previous year, with the addition of the risk regarding Restructuring provisions for this report.

The Audit Committee has requested that, whilst not required under International Standards on Auditing (UK and Ireland), we include in our report any significant key observations in respect of these assessed risks of material misstatement.

Risk	How the scope of our audit responded to the risk	Key observations
Impairment of non-current assets The Group has a significant non-current asset base including tangible fixed assets of £429.6m and intangible assets (including goodwill) of £175.2m as shown in notes 11, 12 and 13 respectively. Current macro-economic uncertainties result in a risk regarding the carrying value of these assets. Performing an impaiment review of these non-current assets requires the exercise of significant judgement regarding future growth rates, discount rates and sensitivity assumptions, as described in note 11 and the key sources of estimation uncertainty within the accounting policies on page 86.	We challenged the assumptions used in the impairment model for intangible and tangible assets. As part of our procedures we: ■ 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; ■ 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 12.4% and 13.4% applied as described in note 11; 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.	Based on the procedures performed, no impairments were noted and we have concluded that the assumptions in the impairment model were appropriate.
Environmental remediation provisions 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 £13.2m environmental remediation provisions. The risk specifically applies to the level of judgement involved in calculating the provisions required and to the likely period of utilisation, as described in the Critical judgments within the accounting policies.	We evaluated the environmental provisions by undertaking the following testing: ■ comparing the basis for the recognition of provisions against the regulatory and legal requirements; ■ assessing the value of the provision recognised; and ■ challenging the status and utilisation of provisions. 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. 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.	Based on the results of work carried out we concur that the provision recognised by management is in accordance with IAS 37. We also concur with management's assessment that the impact of discounting the provision is not material.

Risk	How the scope of our audit responded to the risk	Key observations
Taxation – deferred tax assets and tax provisions The tax risk concerns the judgements and estimates applied in the determination of tax balances, in particular in relation to the recognition of the £31.2m deferred tax asset balance for which an amount of £3.1m is recognised in relation to £14.1m of tax losses across the Group based on future profitability, as disclosed in note 20 and provisions for liabilities attributed to specific uncertain tax positions linked to the Group's corporate arrangements.	We have assessed and challenged the appropriateness of management's assumptions and estimates in relation to the likelihood of generating future taxable, as opposed to accounting, profits to support the recognition of deferred tax assets by comparing to forecast information and historical trends in loss utilisation. In conjunction with our taxation audit specialists, we have also 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.	From the work performed we are satisfied that the assumptions applied in respect of the Income Statement and the carrying value of amounts held on the balance sheet regarding current and deferred tax balances are appropriate.
Pensions – liability assumptions for defined benefit schemes This risk concerns the appropriateness of the actuarial assumptions applied in calculating the Group's defined benefit liability of £99.9m (2014: £103.3m) within the net defined benefit liability of £2.7m (2014: £1.0m) as shown in note 30. The valuation of the Group's IAS 19 liability involves significant judgement as described in note 30 and in the key sources of estimation uncertainty in the accounting policies, in particular in relation to the discount rate, inflation and mortality assumptions.	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.	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 and are considered to be towards the prudent end of our benchmarked range.
Restructuring provisions During 2015 the Group has implemented a significant global restructuring programme driven by the fall in global oil prices along with widespread softer economic conditions, both of which have combined to cause a notable fall in demand for many types of industrial equipment and machinery. This restructuring has led to management recognising a net exceptional charge of £20.0m in the Income Statement. A risk exists regarding the completeness, utilisation and validity of the provision as shown in note 23. There is also a risk relating to ensuring the appropriate classification of these costs in the Income Statement as exceptional items in accordance with the Group's policy.	We evaluated the restructuring provisions by comparing the basis for the recognition of provisions to assess whether the recognition criteria of a constructive obligation arising from a past event are satisfied, assessing the value of the provision recognised and challenging the status and utilisation of provisions. Additionally we have assessed the disclosure of the costs incurred within the Income Statement to assess whether those costs described as exceptional are in accordance with the Group's policy for exceptional costs as per note 5.	From the work performed we are satisfied that the provisions recognised were complete, valid and appropriately utilised and appropriately presented as exceptional costs.

Independent auditor's report continued
To the Members of Bodycote plc

Our application of materiality

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 50 and 51.

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.

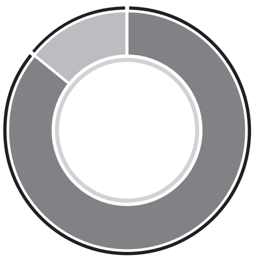
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £4.8m (2014: £4.9m), which is below 5% of adjusted pre-tax profit, which has been determined to be the most stable basis of underlying performance (2014: 5% of pre-tax profit), and below 1% (2014: 1%) of equity. The adjustment to pre-tax profit relates to the adding back of exceptional restructuring costs of £20.0m in order to use an underlying pre-tax profit base for materiality. There were no such exceptional costs in 2014.

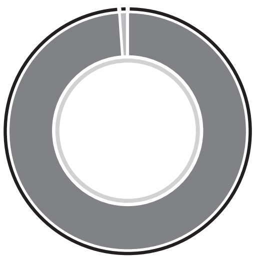
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.15m (2014: £0.145m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Revenue



Profit before tax



Net assets

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 thirteen countries, being USA, UK, France, Italy, Germany, Poland, Sweden, Netherlands, Czech Republic, Turkey, Singapore, China and Mexico. Consistent with the prior year and as agreed with the Audit Committee, the smaller components in territories such as China, Singapore and Mexico have remained in scope and we have maintained the scoping levels in territories such as Netherlands, Luxembourg, Germany and Turkey.

In 2015 we have 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% (2014: 86%) of revenue, 99% (2014: 97%) of profit before tax and 91% (2014: 88%) 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 (2014: £0.5m to £2.9m).

The Group audit team continued to follow a program of planned visits that has been designed so that a senior member of the Group audit team visits each of the locations included as full scope for the Group audit at least once every three years and the most significant of them at least once a year.

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.

Opinion on other matters prescribed by the Companies Act 2006	In our opinion: ■ the part of the Board report on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and ■ 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.

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 Board report on remuneration 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. 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. We confirm that we have not identified any such inconsistencies or misleading statements.
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.

Independent auditor’s report continued

To the Members of Bodycote plc

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
25 February 2016