RENOLD

Renold plc Annual Report and Accounts
for the year ended 31 March 2016

Re-engineering our future.

Continuing Our Progress.

www.renold.com Stock code: RNO

RENOLD

Renold plc is an international group delivering high precision engineered and power transmission products to our customers worldwide.

Our market-leading products can be seen in diverse applications from cement making to chocolate manufacturing, subway trains to power stations, escalators to quarries; in fact, anywhere something needs to be lifted, moved, rotated or conveyed.

Our areas of key focus

Our objective at Renold is to deliver mid-teens operating margins. We are delivering this objective through the execution of our STEP 2020 Strategic Plan. STEP 2020 is built on a bedrock of continuous improvement that is applied to add value in all of our business processes. Through STEP 2020 and our strategic goals, we will re-engineer everything that we do.

Besafe.
Actsafe.
Thinksafe.

Our Values

- Operate with integrity
- Value our people
- Work together to achieve excellence
- Accept accountability
- Be open-minded

Read more about our Values on page 60

Navigating the report

For further information within this document and relevant page numbers

Additional information available online

Visit us online at **www.renold.com**

Welcome to our Report

We present our Annual Report and Accounts for the year ended 31 March 2016.

An overview of who we are and what we do can be found in the introductory pages of our Annual Report, including our Chairman's letter.

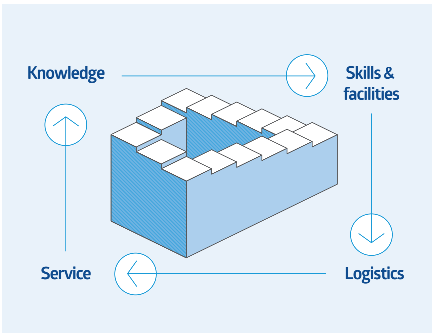
In our Strategic Report, we outline our strategy and how we are taking the business forward. We then give details of our operational and financial performance across the Group. We also set out our approach to corporate social responsibility and talk about our people and why they are fundamental to our success.

The Governance section follows the Strategic Report and includes our Corporate Governance Report, Audit and Nomination Committee Reports and our Directors' Remuneration Report. The Directors' Report provides other statutory and regulatory information.

The financial statements for the Group and the Company can be found at pages 110 to 169 towards the end of the Annual Report and Accounts.

We use a number of technical terms and abbreviations within this document. Please refer to the Glossary on page 171 for the definitions and other explanatory information.

Read more about our new acquisition
See pages 08-09



Read more about our Business Model
See pages 18-19

For an update on our STEP 2020 Strategy
See pages 20-31

To read a Q&A with Chief Executive Robert Purcell
See pages 24-25

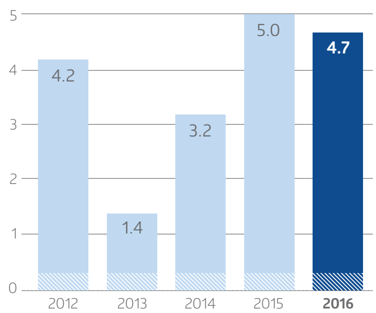
Contents

Highlights

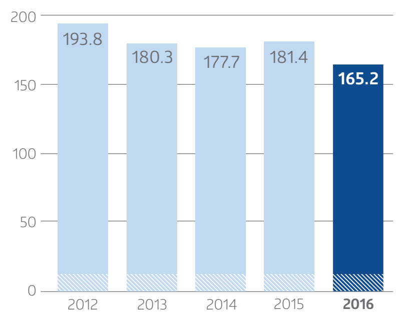
Significant progress was made on a number of the key objectives underpinning our STEP 2020 Strategic Plan. We have delivered step changes in our health and safety KPIs following a number of years of hard work. We made further reductions in our breakeven point allowing us to maintain our operating margins while at the same time improving a number of our core business processes. The benefits from our efforts to bring new products to market and enhancements to customer service were offset by challenging and volatile market conditions but will generate upside value when market conditions moderate.

Financial highlights

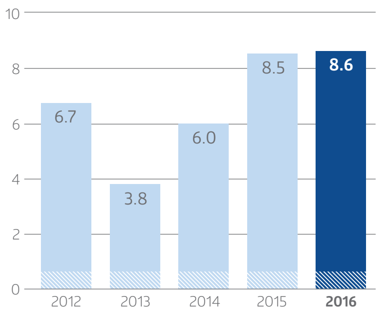
Adjusted[1] earnings per share
pence



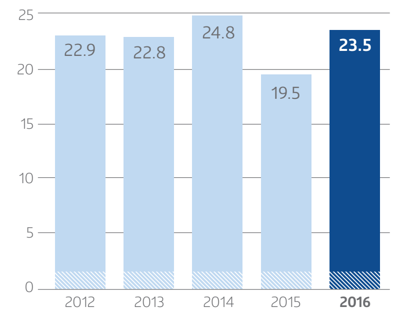
Underlying[2] revenue
£m



Adjusted Return on Sales
%



Net debt
£m



[1] Adjusted results exclude the impact of exceptional items, pension financing charges, pension administration costs and the amortisation of acquired intangible assets and any tax thereon.

[2] Underlying results are retranslated to current year exchange rates.

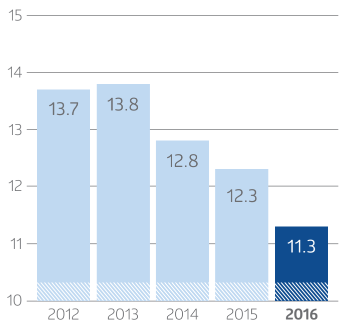
Adjusted return on sales %	Cash generated from operations	Total operating assets	Average working capital % of sales
8.6% up 0.1%	**£11.8m**	**£85.9m**	**20.3%**

Pictured: The new Mazak machine at our Couplings facility in Cardiff will be used to produce larger and bespoke couplings.

Operational highlights

- Over 50% improvement in health and safety accident rate KPIs. All major manufacturing sites now certified to OHSAS 18001.
- The Group's breakeven point further reduced by widespread re-engineering of business processes and hence our cost base across all units. This is illustrated in the chart below.
- Significant increase in the Group's capital investment programme in the year to £9.5m. Key projects supported the reduction of costs, the enhancement of service and the further lowering of our breakeven point.
- Successful transaction and integration firmly underway of the Group's first acquisition in Phase 3 of STEP 2020. The newly named Renold Tooth Chain is an excellent strategic fit with a high specification product range whose addressable market can be actively expanded through Renold's international footprint.
- Fully de-risked 50% of current UK pension liabilities. Major de-risking also delivered through closing German scheme to future accrual and liquidating the Australian scheme.
- Benefits delivered in our financing charges as a result of the amended refinancing agreed in the first quarter of the financial year.

Breakeven point
£m



The chart shows an estimate of the average monthly sales required for the Group to deliver a breakeven adjusted operating profit. The estimate is based on the actual variable margin in the years in question so that when the actual fixed costs are deducted the resulting adjusted operating profit is £nil. The resulting sales figure is then divided by 12 calendar months to arrive at the level of monthly sales required to breakeven. The reduction in breakeven point since March 2013 reflects a 5.1% improvement in our variable margins (operational gearing) combined with a £6.1m reduction in overheads.

Pension liabilities fully de-risked	Biggest customer % of sales	Total employees at 31 March 2016	3 year CAGR Adjusted EPS growth [1]
c. £50.0m	5%	2,187	50%

[1] Compound Annual Growth Rate

Group at a Glance

Renold plc is an international group delivering high precision engineered products and solutions to our customers worldwide.

Chain

A global market leading supplier of chain for many applications. Heavy duty, high precision, indoor or outdoor, high or low temperature and in clean or contaminated environments; these are all in a day's work. This year we have added high specification tooth chain (sometimes known as silent chain) to our offering following the acquisition of a market leading business in Germany.

We have manufacturing sites across the world including the USA, Germany, India, China, Malaysia and Australia in addition to local service capabilities in a number of other markets. We operate at the leading edge of technology, with innovative products designed to meet customers' exacting standards.

Our vast range of roller chains means that for most requirements there is a Renold solution. Our premier brand, Renold Synergy, offers unbeatable wear and fatigue performance, whilst our all-purpose range of standard chain provides affordable reliability. Continuous research, development, innovation and ingenuity has led to the production of more specialised solutions such as Hydro-Service with its superior corrosion-resistant coating and the Syno range which sets a new benchmark for chains requiring little or no lubrication.

Conveyor chain applications including theme park rides, water treatment plants, cement mills, agricultural machinery, mining and sugar production all rely on the high-specification materials and processes used by Renold. Renold is also a market leader in leaf chain used in many of the forklift trucks produced worldwide.

Read more about the performance of our Chain division on pages 32 to 35

Adjusted operating profit	Return on sales	Employees at 31 March 2016
£15.4m	12.1%	1,752

Torque Transmission

A global market leading manufacturer and developer of coupling and gearbox solutions, from fluid couplings to rubber-in-compression and rubber-in-shear couplings, and a complete range of worm gears, helical and bevel helical worm drives.

We also manufacture custom gear spindles and gear couplings for the primary metals industry and we are experts in providing bespoke gear solutions across industries worldwide such as power generation, rail and escalator transit systems, metals and materials handling.

We have manufacturing sites across the world including the USA, the UK, South Africa and China. We work closely alongside our customers to design and manufacture a solution to specific application needs. Our design capability and innovation is recognised by customers around the world and is utilised in customising our gearboxes and couplings to meet our customers' specific requirements.

Our solutions deliver durability, reliability and long life for demanding industrial applications. Renold Torque Transmission also provides a range of freewheel clutches featuring both sprag and roller ramp technology. Sprag clutches are used in a wide range of safety-critical applications such as keeping riders safe on some of the world's most thrilling rollercoasters.

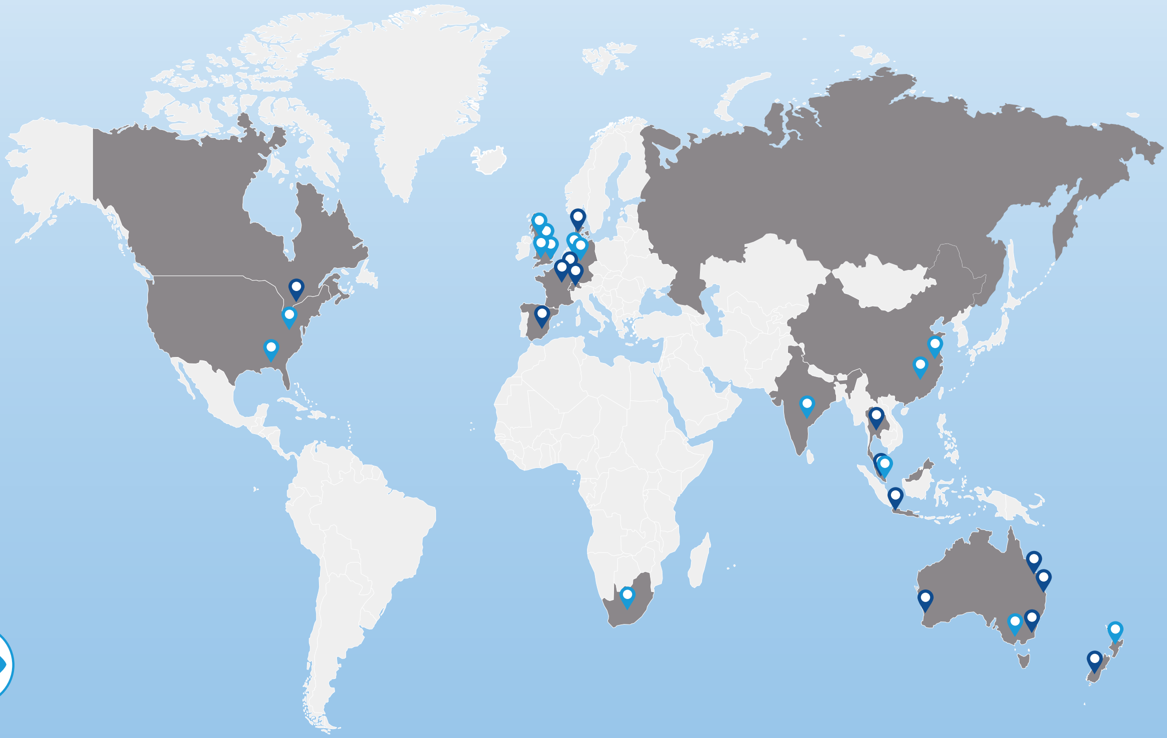
In a number of locations we also offer service and maintenance from our own teams of engineers. These services can be provided in our own facilities or in the field.

Read more about the performance of our TT division on pages 36 to 39

Adjusted operating profit	Return on sales	Employees at 31 March 2016
£5.0m	13.0%	398

Our international network includes **nine countries** where we both manufacture and sell and a further **nine countries** where we have sales only companies, strategically located to support our customers within our two operating divisions.

Renold employed an average of **2,232 people** around the world in the last year, with 56% of our staff engaged in direct production activities.



North America

36% of global sales

Renold Jeffrey and Renold Ajax have been well known participants in the North American markets for many years.

Renold Jeffrey manufactures conveyor (engineering) chain and sells transmission chain sourced elsewhere in the Group.

Renold Ajax focuses on gear spindles and other Hi-Tec products.

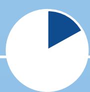
Europe

39% of global sales

Renold Chain and Renold Tooth Chain operate from our two European manufacturing locations in Germany. Renold Chain, our largest facility in Europe, exports transmission chain all over the world.

Renold Torque Transmission operates three plants in the UK exporting a range of gears and couplings products all over the world.

Asia Pacific

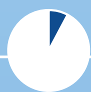


17% of global sales

We operate manufacturing plants in Australia, Malaysia and New Zealand. These are supplemented by additional sales centres in Malaysia, Singapore, Indonesia and Thailand.

We also operate our own distribution networks in Australia and Malaysia. We sell a wide range of chain and torque transmission products.

High growth economies



8% of global sales

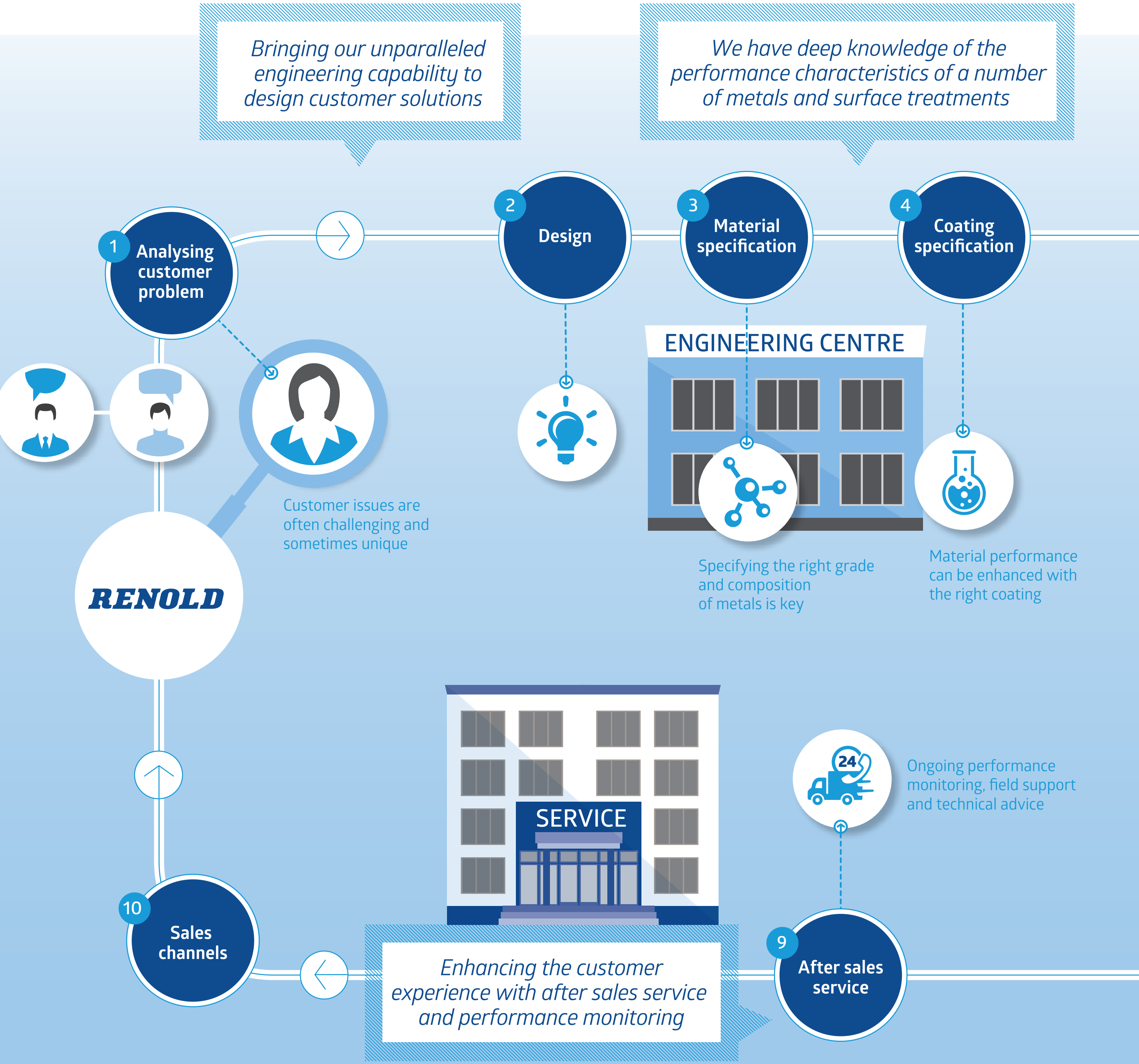
Our Chinese chain plant primarily serves sister companies with a range of transmission chains and has a smaller but growing local focus.

Our Indian business was acquired in 2007 and manufactures a broad range of transmission and conveyor chain with 72% of output destined for the local market.

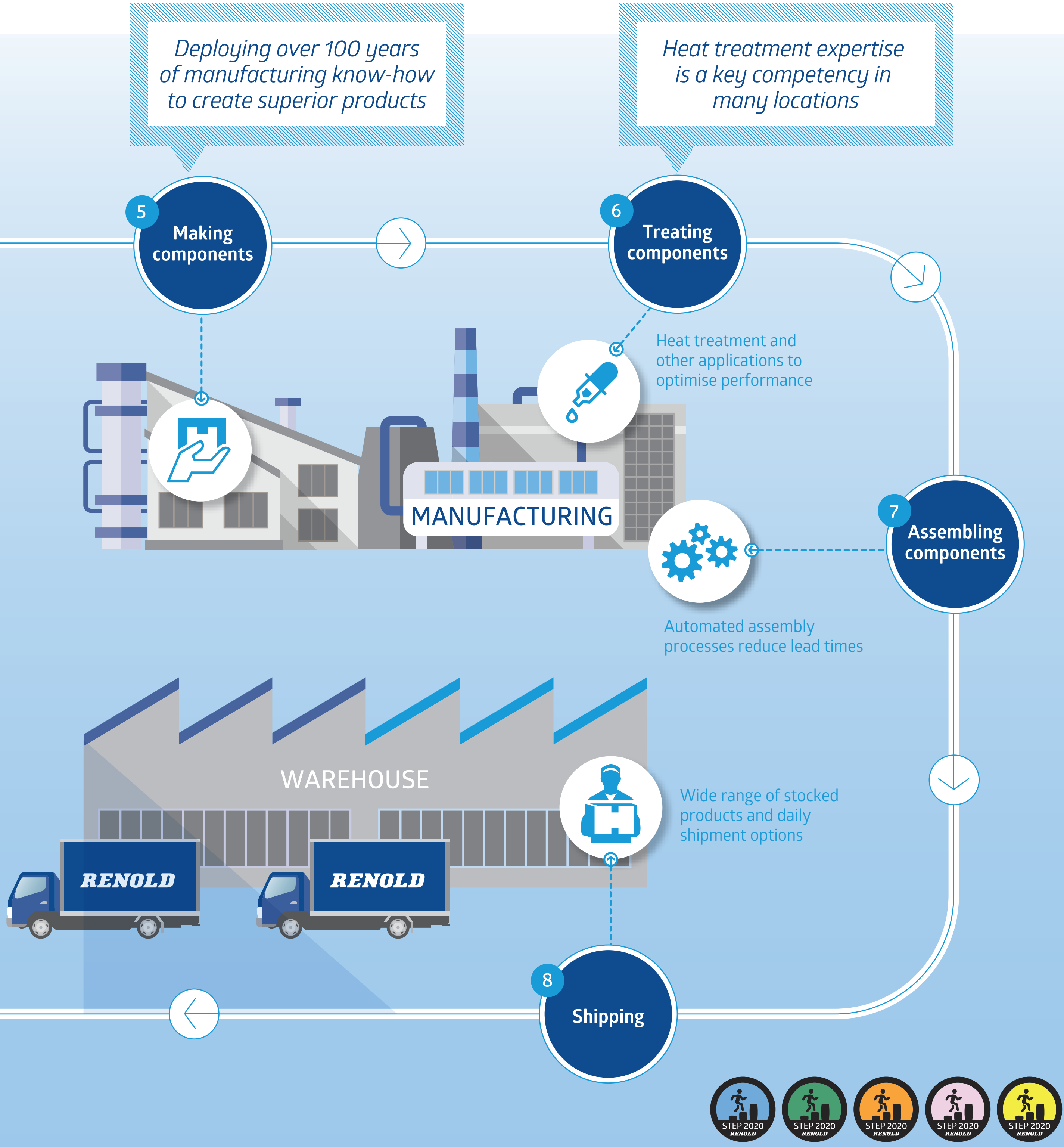
Map key:
Manufacturing and sales company
Sales only location

Our Customer Journey

Our activities range from diagnosing our customers' specific power transmission application challenges, to proposing the right material solutions, to formulating their often complex properties, then to cutting and heat treating the components and finally to assembling the finished product.



We add value during our customer journey from our unrivalled engineering capability, 100+ years of know-how on solving power transmission challenges and enhanced after sales service.



Growing Through Acquisitions
Introducing Renold Tooth Chain

STEP 2020
RENOLD

The purchase of the Tooth Chain business is an excellent fit with Phase 3 of our STEP 2020 Strategic Plan: Structural Activities. Renold Tooth Chain manufactures a specialist, high quality product range which will expand our existing product offering whilst Renold's international footprint will give the Tooth Chain business access to new customers and geographies.

KEY FACTS

- Market leading manufacturer of tooth chain products in terms of design, engineering and performance
- Sales of approximately €9.0m, double digit margins
- Based in a self contained factory in Gronau, Hanover (40km from Einbeck) with 62 employees
- Sold into a variety of industrial markets with more than 80% of sales in Germany
- High value added product, ideally suited to high speed, high load and high temperature applications
- Very limited crossover with our traditional customer base and applications
- Opportunity to extend geographic footprint by leveraging Renold global supply chain
- Opportunities to share manufacturing knowledge and process capabilities
- Opportunities for supply chain and back office synergies
- As a niche chain business, will benefit from joining a wider chain group

Overview

Renold acquired the business and trading assets of Aventics Tooth Chain in January 2016, an operating division of Aventics GmbH based in Germany and the market leader in the manufacture of inverted tooth chain for industrial applications. Tooth chain is a specialist product which was not being manufactured by Renold at the time of the acquisition and is typically seen in applications such as bottling plants and other manufacturing facilities and equipment.

Renold Tooth Chain employs 62 people and operates from a self-contained rented facility in Gronau, Lower Saxony with its own dedicated manufacturing, engineering and sales teams. Over 80% of sales are currently made in Germany with the balance of sales being made in a wide range of international territories including other western European countries, the USA and China.

Benefits of the acquisition

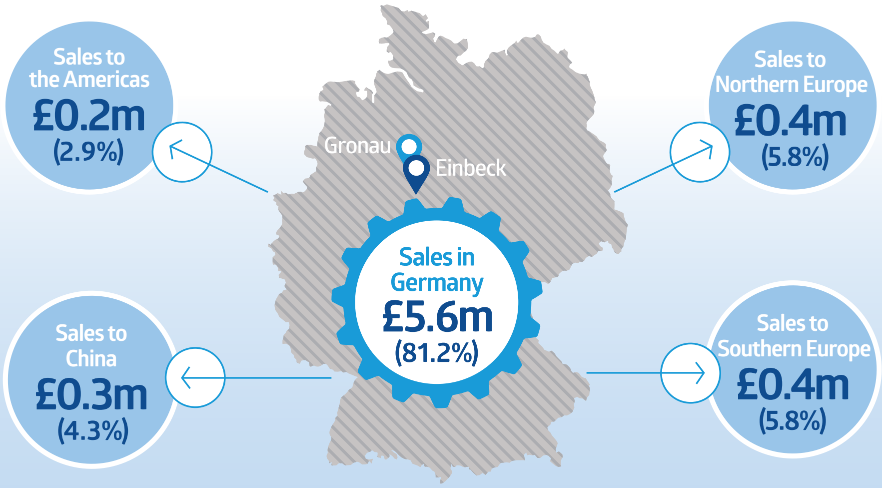
The acquisition completed smoothly in January 2016. Initial integration activities to bring on board the new employees and rebrand the business all completed according to plan. Planning for the transfer of all back office support functions and systems to Renold is well underway. Customer relationships with the Vendor's wider group are being successfully transferred to Renold and we are already seeing some additional, unprompted sales pull through in our existing commercial network.

In addition, the proximity of the factory to our existing plant in Einbeck, Germany, is already allowing the business to share resources and expertise as well as some infrastructure services ahead of plan within the more substantial Renold Group.

Pictured: Renold tooth chain in use at a bottling plant.

Pictured: Our new Gronau facility is already part of the Renold brand.

Opportunity to exploit Renold's sales presence



The graphic shows the geographical split of sales by Renold Tooth Chain in the year ended 31 December 2015. Renold has significant sales presence and resources in the broader European market and also in the Americas. There is a clear opportunity to pull more tooth chain product sales through Renold's existing channels to market. One of the key integration activities, which is progressing well, is the transfer of £1.5m of sales activity that was delivered by other companies within the Aventics Group (the seller of the business).

Pictured: Our new Gronau colleagues joining the Renold family.

Chairman's Letter

"We remain committed to modernising and improving everything we do as we re-engineer the business to deliver our STEP 2020 Strategic Plan."

Mark Harper
Chairman

Overview

The Group has continued to make excellent progress in delivering the self-help measures that underpin our STEP 2020 Strategic Plan and its core objectives. Our acquisition of the Tooth Chain business in Gronau, Germany, has been a particular highlight as we see the first activity in the Acquisitions phase of STEP 2020.

STEP 2020 has also delivered many continuous improvements in our business processes and manufacturing facilities, significantly reducing the adverse financial impact of market driven falls in our revenue. Against a backdrop of a 8.9% (£16.2m) fall in sales, the impact on our adjusted operating profit was limited to £1.3m. This is clear evidence of the success of STEP 2020 in lowering our breakeven point and also in starting to break away from the extreme cyclicality of the past. Even at the current reduced levels of revenue, we remain confident that double digit operating margins are achievable over the short term as demonstrated by the continuing improvement in the Chain division this year. Mid-teens margins remain our medium term STEP 2020 goal based on a return to GDP+ levels of growth supplemented by potential acquisitions.

Read more about our Tooth Chain business on pages 08 and 09

STEP 2020 Strategic Plan

I reported last year on the successful delivery of key projects in Phase One of our Step 2020 Strategic Plan, the Restructuring Phase. Our work in this area has continued and we have also commenced Phases Two (Organic Growth) and Three (Acquisitions) of the Strategic Plan.

Deliverables in Phase One last year included the closure of our Bredbury manufacturing facility ahead of time and budget, the full annual benefits of which have been realised this year. During the past year we have also continued to progress and complete other Restructuring activities, most notably the ongoing project to implement a new ERP system throughout the business with the first facility to go live being our Cardiff plant in March 2016. This is a key strategic objective and we expect that it will be successfully completed in a rolling programme over the next three years.

We also continue to invest in modern manufacturing which includes new 'state of the art' machines installed in our US Chain facility and Couplings facility in Cardiff. Our total investment in the year was £9.5m, reflecting continued scope for self-help measures to deliver further margin gains.

The strengthening of our management team is another continuing element of Phase One with recruitment to additional senior posts. We have appointed a new Managing Director for the Chain division, which has allowed Robert Purcell to take a more active role in the Torque Transmission division. We also appointed new MDs for our Chain business in the Americas and our Torque Transmission business in South Africa. Other new hires in the year have been focused around commercial and marketing activities as we entered the Organic Growth Phase. I am pleased to report that the acquisition of the Tooth Chain business in Gronau, Germany, was completed on time and the integration into the business was well planned and is proceeding smoothly. Tooth Chain business performance has also been in line with expectations.

Importantly, we have also seen further improvements in our health and safety culture and performance, and I am pleased that our hard work in the last three years is now being rewarded with strong improvement in the accident statistics. Health and safety rightly remains the number one priority for the Board and the Group and we remain confident that ongoing and new initiatives in this area will keep driving further improvements.

Read more about our Health and Safety performance on pages 56 and 57

Our people

I wish to express my sincere gratitude to everyone who works for Renold for their continued hard work during the year. In these extremely challenging market conditions your ongoing commitment to support the changes required by STEP 2020 is much appreciated.

A highlight in our commitment to investing in our people now and in the future has been the welcoming of the first recruits under our Graduate Programme. Five graduates have joined the Group in its commercial, engineering and finance functions this year.

We are also committed to our Values, rolled out across all of our units in the past year, and these continue to become embedded throughout the Group. As I reported last year, our aim is to set standards of behaviour and expectations for all of our employees that will shape and inform the manner in which we implement STEP 2020 now and in the future.

An important part of our commitment to a new Group culture and one element in the Restructuring phase of STEP 2020 was the completion of our head office move in July 2015. Our head office is now located in new local premises in

Pictured: The addition of the Sinico machine in our US Chain facility allows quick and precise production of pins with many customised features such as cut-ins, off-sets, extensions, shoulders and threading.

Manchester which are not only more suited to the size of our business today and reduce our fixed overhead base but also better reflect the more modern and agile culture that we are seeking to create in Renold.

Read more about our Graduate Programme on page 59

The Board

The Board continues to support the Executive team in reviewing and monitoring all activities under STEP 2020. The Board remains closely involved in the oversight of the major project deliverables. All Board members have continued to give additional time and support on a wide range of issues during the year.

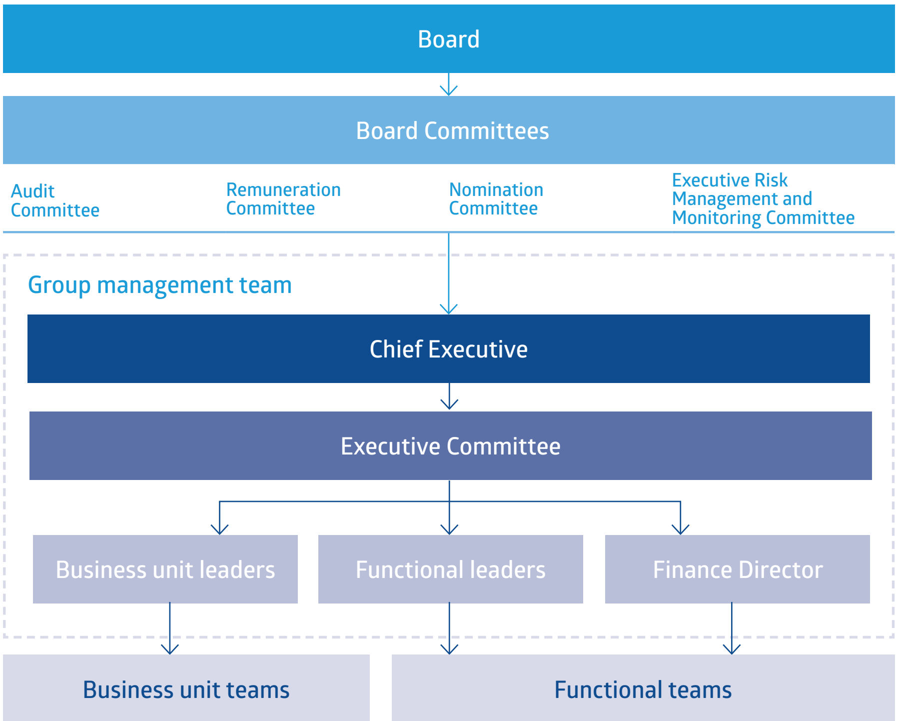
Dividend

The Board fully recognises the importance of dividends to shareholders. However, given the need to balance this with our continuing focus on planned capital investments to improve the longer term performance of the business, the Board has decided not to recommend the payment of a dividend in the current financial year. This will remain under active review as market conditions stabilise and performance improves further.

Outlook

Externally, most of our end markets remain volatile. Undoubtedly, much of this is due to broad based macroeconomic uncertainty in a number of regions. This in turn has led to significant fluctuations in capital and foreign currency markets.

In these turbulent times, the strategic objectives set out in our STEP 2020 Strategic Plan remain wholly relevant and critical to the long term delivery of value to all of our stakeholders. The business will continue to identify and deliver on the wealth of internal efficiencies and growth initiatives available to us. Significant opportunities for continuous



Read more about our Governance Structure on pages 72 to 74

improvement remain in all aspects of our business, in our sales and service offering, our manufacturing facilities and our supporting functions.

We are also devoting more resources to Organic Growth activities with a particular emphasis on our commercial, product development and marketing functions. This work will position us well to exploit opportunities to grow our top line when market conditions stabilise. Our progress in STEP 2020 Restructuring activities is also now freeing up management bandwidth to consider future acquisition opportunities which can support business growth.

Our ability to draw on our self-help initiatives gives confidence that we remain well placed to deliver sustainable gains in adjusted operating profit and adjusted earnings per share. As a result of the recent improvements in operating margins, supported by our long term re-financing of the business to 2020, we retain the resources and operating flexibility to maintain our expanded capital investment programme and resource allocation to initiatives that will ultimately enable the business to grow when market conditions improve.

Mark Harper
Chairman

Strategic Report

Pictured: The use of robots at our Chain manufacturing facility in Germany is one element of our Manufacturing Efficiency programme.

Pictured: The control panel on the new Mazak machine incorporates a wide variety of advanced programming functions for complete ease of use and to ensure high speed, high accuracy manufacturing performance.

Contents

STEP 2020
RENOLD

STEP 2020 *in Action*

Commercial Positioning

Our high quality engineering solutions can and should be positioned towards the top of the value chain. Matching the quality of our products with superior lead times and customer service will produce a compelling value proposition and competitive advantage.

Chief Executive's Review

"We chose the name 'STEP 2020' for our Strategic Plan to reflect that each and every part of our business has the opportunity to take a significant number of value enhancing 'steps' as we re-engineer everything that we do."

Robert Purcell
Chief Executive

STEP 2020 strategy overview

Underpinning STEP 2020 is the concept of driving shareholder value by the sum of multiple incremental gains. It is this continuous improvement philosophy that we are instilling in all aspects of our business. Ultimately, the increase in shareholder value is greater than the sum of the individual steps as improvements in one area lead directly or indirectly to improvements in others.

The table below sets out the different parts of our STEP 2020 Strategic Plan and how they fit together.

Strategic Plan Component	Description	Reference
Medium Term Goal	Our goal by 2020: To deliver mid-teens net operating margins	Page 21
Strategic Objectives	Key objectives that in aggregate underpin delivery of our Medium Term Goal	Pages 20-21 and 28-31
Business Model	How we organise ourselves to deliver our Medium Term Goal and Strategic Objectives How we add value to our customers	Pages 18-19
Market Overview	The locations and environments we operate in and the factors influencing them.	Pages 22-23
Staircases	Commonly themed groups of 'steps' or individual business improvement plans that when delivered will secure our Strategic Objectives	Pages 20-21
Timeline	The timeframe for the delivery of our Medium Term Goal. STEP 2020 has three overlapping phases: Phase 1: 'Restructuring' focusing on; internal self-help; Phase 2: 'Organic Growth' also focused on self-help activities targeting growth; and Phase 3: 'Acquisitions' where Renold will aim to act as a consolidator.	Page 17

Pictured: The DMG Mori-Seiki machines will be used to manufacture components for a number of couplings ranges. They will not only streamline the production process, but also ensure that components are manufactured more accurately and to a higher quality.

Three Phases of STEP 2020

Our initial focus was very much on internally focused self-help initiatives to improve many of our business processes, structures, cost base and underinvested manufacturing facilities. We refer to this as Phase 1 or the 'Restructuring' phase of STEP 2020. At its heart, the scale of the challenge required a major change in the culture of our business to one based on a professional 'can do' attitude that seeks to continuously find smarter, faster, safer and more efficient ways of delivering better service and higher quality products and solutions to our customers.

As Phase 1 improvements took hold and we were sure that volume growth would not simply dilute margins and expand working capital needs, our focus would then expand to activities to generate organic growth in Phase 2 of STEP 2020. This would include geographical, market sector and product expansion as well as improving the capability of our commercial teams to seek out, and win new business.

Finally, having established a robust and replicable operating platform and organic growth having taken root, we would turn our attention to Phase 3 of STEP 2020, 'Acquisitions' where we would exploit our position to be a consolidator in the Chain division and expand our product niches in Torque Transmission.

It is worth noting that the three Phases would be layered on top of each other and not in sequence so that even when in the Acquisition Phase, we would still be implementing 'Restructuring' activities and also pursuing 'Organic Growth' opportunities.

See our Three Phase Plan Diagram on page 17

Our place in the market

Renold often operates in invisible but mission or safety critical applications in a whole host of industries and market sectors. Our Market Overview on pages 22 and 23 illustrates the extremely diverse and the low sales concentration of our business, whether by market sector, geography, or product. The nature of our markets is such that any supplier who wants to be a major player needs both extensive geographical reach and a very broad range of the products demanded by the customers.

Therefore a key part of our strategy is to ensure the widest range of customer requirements are met and to do this active product management and new product launches are essential additions to our commercial proposition. It also flows from the market dynamics that we will ultimately need to expand further our geographic footprint into territories where we are currently under-represented.

STEP 2020 progress

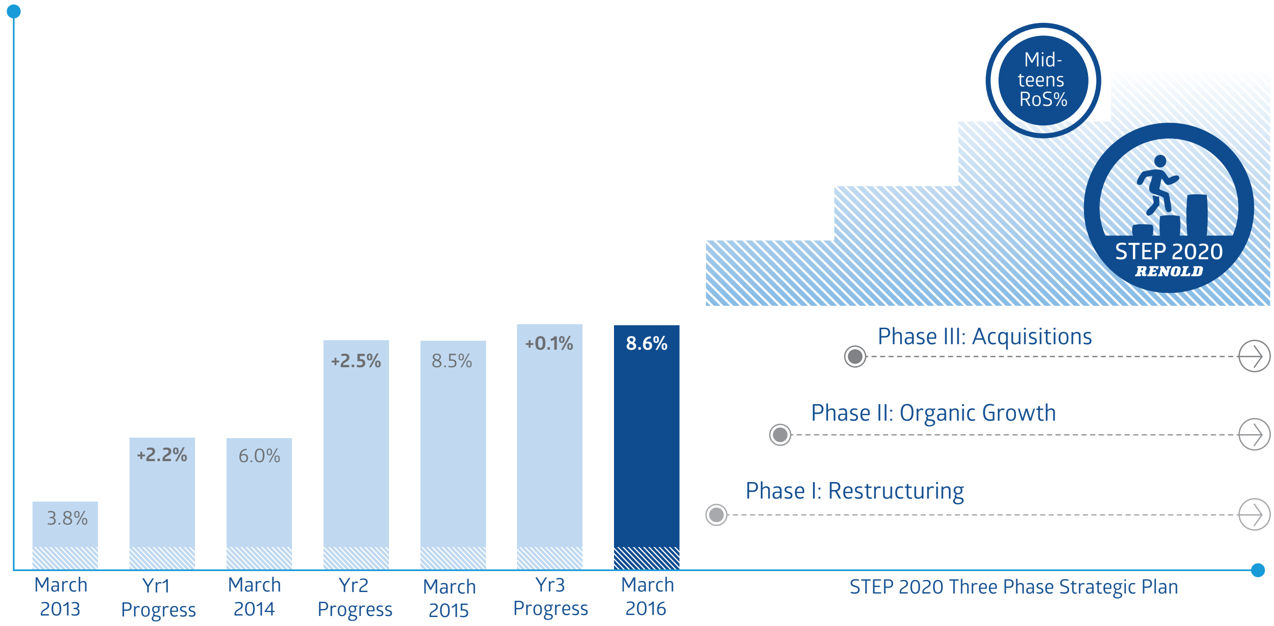
The first two years of STEP 2020 to March 2015 saw us deliver significant progress in the Restructuring Phase. The biggest achievement was the successful delivery of an 18 month project to close a major chain manufacturing facility in the UK and to transfer its production to other Renold factories without any significant loss of business. This delivered the goals of eliminating surplus capacity, reducing our fixed overheads and lowering our breakeven point, reducing our working capital and allowing more concentrated value enhancing capital spend in a smaller number of facilities.

During those two years our adjusted net operating margin increased by 4.7% to 8.5%, closing much of the gap between our starting point and our intermediate objective of a 10.0% margin. Towards the end of the financial year 2015 we started to transition into the second phase of STEP 2020, Organic Growth, by switching some management time and resource to enhance our commercial process.

Unfortunately, volatility increased significantly in most global industrial markets and geographies over the last year and the timing of the development of this strong headwind has not helped our progress on our organic sales. However, given the robust improvements in our operating margin and ongoing efficiency improvements in our factories and overheads, we were able to protect

Chief Executive's Review

STEP 2020: road map for continued margin progression



and grow early investments in additional costs in support of our longer term growth goals. So while the top line has contracted in response to lower demand in the market, we have maintained our adjusted net operating margin at 8.6% while supporting additional expenditure on growth activities and a 73% higher capital expenditure programme to generate further efficiencies in the future.

Acquisitions

Acquisitions were due to be the key defining feature of Phase 3 of STEP 2020. In Phase 3 we would consciously and pro-actively go in search of the right acquisition opportunities to significantly increase our scale.

We group our acquisition opportunities into three broad categories based on the main drivers:

- New product niche or range expansion
- Geographical expansion
- Consolidation and synergy

Product or range expansion was more likely to be a shorter term proposition with geographical expansion and consolidation both more medium term prospects, with the latter dependent on the recipient businesses being ready to absorb the target.

Acquisitions and their timing, however, are not always under the control of management. We have said in the past that if an interesting opportunity presented itself then we would consider it pragmatically, even if we did not see ourselves as being in Phase 3 of our Plan. So, when an excellent strategic fit small bolt-on opportunity arose in the Tooth Chain business we assessed it carefully and then made the acquisition, completing on 4 January 2016. The transaction is described in more detail on page 08.

Outlook

Ongoing success in implementing our STEP 2020 Strategic Plan has enabled us to maintain our operating margins. This was achieved despite external market challenges which resulted in a fall in revenue as we expected. At the same time, we have improved a number of our core business processes, developed new products ready for market launch, and enhanced customer service.

Our first STEP 2020 acquisition of the Tooth Chain business is an excellent strategic fit. The integration process is proceeding well with customer relationships being successfully transferred to Renold Group companies. Management bandwidth is now available for further acquisitions in the highly fragmented chain market.

Looking ahead, we are hopeful that market headwinds will moderate around the end of the first half of the new financial year. All three phases of STEP 2020 are now in progress. We are confident that the sum of the individual steps we are taking to improve our business will generate significant shareholder value when market conditions improve.

Robert Purcell
Chief Executive
31 May 2016

Our Strategy
STEP 2020: Three Phase Strategic Plan

Phase III
3 Acquisitions

Acquisitions
Renold has the underlying characteristics to make the Group a natural consolidator in the industrial chain market. As the Number 2 by sales we have the reputation, scale and product range to operate as a strong foundation for integration.

By delivering the changes and benefits identified in the Restructuring and Organic Growth Phases of STEP 2020 we increase the scope of value enhancing acquisitions. These can be built around market or product expansion, geographical expansion, or simple consolidation to deliver significant cost savings.

January 2016

Acquisition of the Gronau based Tooth Chain business.

Phase II
2 Organic Growth

Product capability
We will leverage superior products in Chain and Torque Transmission. We will also re-invigorate the development and speed to market of a new range of products in both divisions. We will leverage our product reputation to add value to our customers as we solve their complex power transmission problems.

Improved sales and marketing
The Renold brand is extremely well known and respected as standing for high performance products and quality of engineering solutions. Historically we have not been as active as we should have in targeted marketing and communication with our end markets. We aim to remedy this to capture more of our accessible market.

Enhanced customer service
We intend to reduce our lead times and also improve our stock holding profile to match customer expectations for improved service. We have launched new services in a number of locations offering 24, 48 and 72 hour response times on a range of standard configured chains. This offering will be expanded upon. Through opening a number of small offices in various locations to focus on local customer service and responsiveness we will improve the growth opportunities for the Group.

We now offer SMX gear boxes 'off the shelf'.

Phase I
1 Restructuring

Right size capacity
Historically the business suffered from excess and inflexible capacity. We aim to significantly improve in this area by eliminating excess capacity and enhancing the flexibility of existing capacity through increased automation. This will lead to a direct improvement in variable and net margins.

Right size cost base
Much of our manufacturing capacity depends on manual processes that inevitably reduce any volume benefits due to disproportionate increases in costs. We aim to deliver flexible capacity with very low marginal costs.

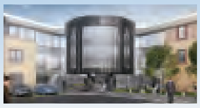
Fix product margins
We aim to achieve appropriate value for the highly technical products we offer to the market.

Optimise business processes
We aim to deliver support function business processes with the same degree of flexibility that we are targeting in our operations. By implementing simple repeatable and standardised business processes we will lower our breakeven point.

Make the right hires to drive growth
We will invest in our people to enable them to match the performance of our enhanced manufacturing and business processes. In some cases this will involve new talent and ideas being brought into the business.

August 2015

New Head Office
A simple but valuable incremental gain of £0.1m p.a. was delivered by re-locating our Head Office. This also allowed us to move to a more modern and collaborative working environment.



Strong EPS growth as plan progresses

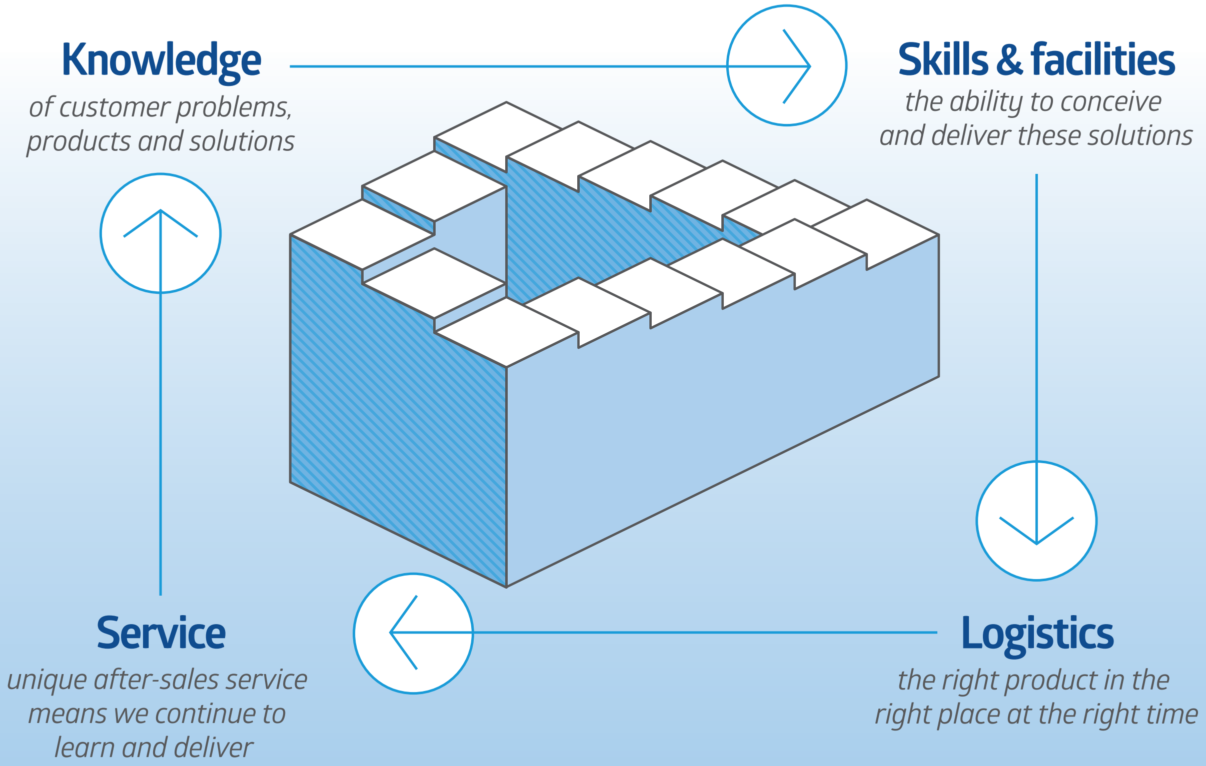
EPS	1.4 pence	3.2 pence	5.0 pence	4.7 pence			
	March 2013	March 2014	March 2015	March 2016	Double digit margins and boost in shareholder value. Deliverable in the short term	Achieve streamlined business fit for future	Mid teens % margins deliverable by 2020

Three Phase Plan Commences

Find out more: www.renold.com

Our Business Model

The Renold business model is focused on leveraging the unique knowledge and capabilities of our people and facilities, to generate value for our stakeholders. The continuous value generation cycle that underpins STEP 2020 is shown below.



Value generated for our customers:

End users

- Expert knowledge
- Bespoke solutions
- Unique problems understood and solved
- The Renold name

20% of sales

OEMs

- Access to facilities and capabilities
- Bespoke solutions
- Meeting their own customer needs
- The Renold name

38% of sales

Distribution

- Trust
- Reliability
- Access to broad product range
- The Renold name

42% of sales

Knowledge

- Reviewing after-sales service means we continue to learn and deliver
- Deep understanding of metallurgy and chemistry in real world scenarios
- Practical application of engineering excellence

See page 38

See how our engineering knowledge helps meet customer requirements in hostile environments

Skills & facilities

- Bringing our unparalleled engineering capability to design customer solutions
- Deploying over 100 years of manufacturing know-how to create superior products
- Manufacturing capability in most major regions

See page 34

See how our expertise in heat treatment is used to create premium products

RENOLD

Service

- After sales service centres and product performance monitoring
- Rapid response offering on standard configured chain and standard transmission chain
- Getting closer to customers in more locations

See page 35

See our service in action case study

Logistics

- Wide range of stocked products can reduce supply chain complexity
- Daily shipment options respond to customer specific needs
- Rapid response cells geared up for swift deliveries

See page 33

Read more about service improvement to drive future growth

Underpinned by our:

People

We are building a strong, highly skilled team with a clear set of values and stretching targets. Our approach combines new skills for existing staff and new capabilities from recruits.

Assets

We are upgrading our infrastructure and process capability to be an appropriate match for our strategic goals. This will support better quality and service and also lower our breakeven point.

Partners

We work in long term collaboration with a wide range of general and specialist suppliers. This supports our ability to source complex materials for our leading edge solutions.

Our Five 'Staircases'

STEP 2020 is fundamentally concerned with continuous improvement. Each initiative, no matter how small, is a step in a series of commonly themed staircases aimed at re-engineering everything we do.

Our Strategic Objectives

We aim to deliver consistently improving returns to shareholders through the delivery of a number of strategic objectives as set out below.

1. Significantly improving our health and safety performance
2. Generating margin enhancing growth from our superior product capability
3. Enhancing customer service
4. Optimising business processes
5. Lowering our breakeven point
6. Enhancing customer service
7. Strengthening and de-risking our balance sheet

These objectives will be delivered through a significant number of individual projects or 'staircases' as described below.

The Staircases of STEP 2020

Our STEP 2020 Strategic Plan is built around three overlapping phases: Restructuring in Phase 1, Organic Growth in Phase 2 and Acquisitions in Phase 3. Phase 1 is based on self-help and continuous improvement activities with a particular focus on manufacturing efficiency and business process improvement. Phase 2, Organic Growth, sees management time and resource being directed towards growing our business with a focus on matters within our own control. Each of our business units has developed an action plan covering the period to 2020. The individual actions make up the many steps that build to deliver our overall strategic goal of mid-teens operating margins by 2020 and are grouped into what we call our 'Staircases'.

We set out on these pages an overview of each of our Staircases and their relevance to each of our Strategic Objectives.

Phase 3, Acquisitions, will focus on expanding the Group through geographical, market or product, and consolidation based acquisitions.

Read more about our Strategic Objectives and the progress we have made on pages 28 and 31

STEP 2020 RENOLD
Business process efficiency

STEP 2020 RENOLD
Manufacturing efficiency

STEP 2020 RENOLD
Commercial positioning

STEP 2020 RENOLD
Corporate efficiency

STEP 2020 RENOLD
Growth activities

Overview	Medium term goals	*Relevant Strategic Objective*
We operate a varied and wide ranging set of business processes which differ in almost all locations. All of them inter-link in different ways with multiple different users and computer systems. Our aim is to implement one global standard operating model. This will unify our people, processes and systems. Each of our business processes is being designed to be simple and effective while being robust and as automated as possible. That will free up management time to focus on value added activities. It will also reduce the cost and simplify support for our information systems.	Our intention is to create one global, integrated, ERP system. Alongside this, all of our units will operate to efficient and standardised business processes. Our cost to serve will be reduced and this work will also feed into the KPIs for customer service.	3 4 5 6
Our manufacturing facilities have been underinvested in previous years. This has led to inefficient manufacturing processes, long lead times, excess waste and waiting time as products pass between multiple work centres. Our aim is to modernise our manufacturing capability to match our leading edge engineering and production know-how. Better equipped facilities will shorten lead times to enhance customer service, reduce stock holdings to improve the balance sheet, and contribute strongly towards our goal of mid-teens operating margins by 2020.	Our aim is to increase the operational gearing in the business to ensure full value is extracted from volume growth. This will involve reducing the marginal cost and response times to volume fluctuations. Average variable margins in excess of 50% should result. Our medium term annual capital expenditure will rise to approximately £10.0m.	3 5 7
Our commercial business processes are focused on improving customer service and enhancing our service offering. Like many of our diverse business processes, there is much scope for us to standardise and simplify. We are working hard to improve our customer service. We know we have a long way to go as this is an area that has been weak in the past. Through improved management of our commercial teams and resources and by re-connecting with customers in their own local markets we aim to make our reputation for service as strong as that for our superior products.	Our aim is to show a steady and regular improvement in all commercial metrics. A number of consistent quantitative metrics will be capable of measurement when the new ERP system is implemented.	2 3 6
Put simply, we want to make the best use of the spaces we occupy. Where we have too much space, we will aim to reduce it. Where we overpay for space we will renegotiate lower rents or move to better priced premises. Where we have surplus assets or facilities we will aim to realise value and avoid unnecessary costs. We will over time de-risk the Group's balance sheet exposure to legacy defined benefit pension schemes. At the same time, we will maximise the latent value in the Group's recognised and unrecognised tax assets.	We will work to eliminate all of the Group's surplus properties and to mitigate or exit excess leasehold space. The medium term focus for pension schemes is on managing down the larger exposures in the UK and Germany, delivering stable and predictable annual cash costs. We want to optimise working capital to support the business while minimising the cash tied up.	5 7
Our diversity of markets is a major opportunity for the Group. By bringing greater focus to our sales activities, we can deliver steady and sustainable growth and eliminate much of our historical cyclicality. Our markets typically grow in line with GDP. Because we are under-represented in a number of geographies, markets and industry sectors, we are aiming to deliver annual growth of GDP plus in the period to 2020. At the same time, we will leverage superior product capability to enhance our operating margins and retain value for our shareholders.	We are aiming to deliver steady improvement in RoS % each year. This will feed directly into growth in adjusted EPS. Our medium term goal, as part of our STEP 2020 programme, is to deliver mid-teens operating margins by 2020.	2 3 6

Market Review

Renold is a leading manufacturer and distributor of power transmission products and operates as two separate divisions: Chain and Torque Transmission. The Chain division has nine production facilities and a local commercial presence in 17 countries, strategically placed to serve our customers on a global basis. In Torque Transmission we operate a number of specialised niche businesses that produce and sell a range of specialist products in both the industrial couplings and industrial gear markets. The key elements of our go to market strategy are common across both divisions: technical excellence, value adding innovative product ranges and exceptional service.

Global presence – local support

Renold continues to benefit from its presence in a wide spread of geographic markets and even wider range of diverse end user applications across a myriad of industry sectors.

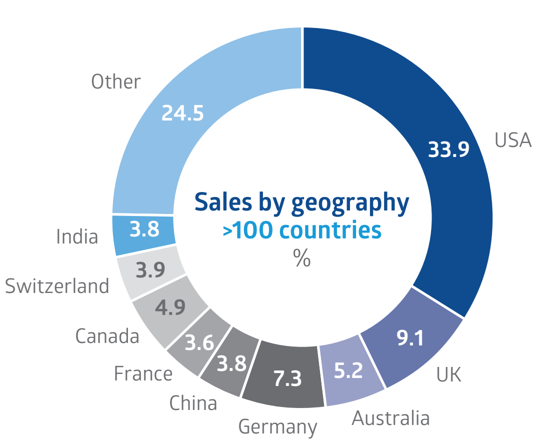
Our global manufacturing footprint not only enables the business to control product specification and quality, but also positions us well to service customers with a rapid response in both our traditional geographic territories and within emerging markets. For example, our facilities in India, China and Malaysia combine to offer an excellent platform for growth within Asia whilst also supporting established markets in Europe, the Americas and Australia.

Our global sales and distribution network is designed to offer local commercial support and rapid delivery, ensuring that we meet our customers' exacting expectations. It also enables the aggregation of overall demand to drive economies of scale within our factories. Whilst engineering and product development is coordinated globally, local support teams are there to ensure that we are able to rapidly understand and provide solutions for our customers' often technically challenging power transmission and conveying applications.

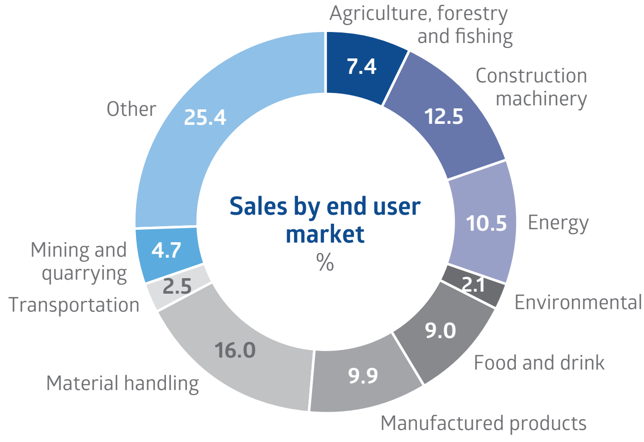
Go to market strategy

With a very diverse and numerically large customer base, reliance on any single customer is relatively low. Similarly, the business enjoys little reliance on any one particular industry with sales spread across most general industrial markets such as construction machinery, material handling, transportation, mining and quarrying, food processing, energy, agriculture, leisure and many more.

In order to successfully target these diverse sectors, Renold goes to market through three main channels: OEMs, distribution and end users. This combined approach is all about fulfilling the requirements of the users of our products in the optimum way that aligns with their



Renold currently sells products in over 100 countries. The key regions and territories are represented in this chart.



This chart shows the extremely diverse markets for the approximate (58%) of our sales where we serve end users and OEMs directly. Distribution sales are excluded from this analysis as visibility of the final market is limited.

Pictured: Rubber plantation used in the latex industry in Malaysia.

STEP 2020 Strategic Plan

Whilst progress has been made, there is a need to further improve the overall mix of business to protect the Company from the impact of the cyclical industries where we have historically been strong. Investing in new growth territories and the development of brand, sector and product initiatives are all part of our strategy in relation to sustainable organic growth.

A good example of this is in Malaysia with recent business wins in market sectors where Renold had previously not been active.

Investments in additional commercial resource in China, India and South East Asia over the last six to twelve months will further accelerate progress in these higher growth markets where we have traditionally been under strength.

Elsewhere, our commercial efforts will be focused in identified market sectors which not only offer good market potential but also are best suited to the strengths of the Renold offering.

Success in the growth phase of our STEP 2020 Strategic Plan will be as much driven by how well we execute the various elements of the plan rather than external factors over which we have limited control.

own business model. Approximately 38% of sales go into the OEMs. Customers in this segment typically value the technical expertise that Renold can bring to bear in providing solutions to increasingly demanding applications as their own products are developed. 42% of our sales are channelled through our distribution partners. Customers in this segment typically value rapid product availability, the Renold 'brand' and the breadth of the Renold product range, which enables them to easily service their own customers' requirements from one supplier. The remaining 20% of sales go direct to end users, typically into larger and more complex service and MRO (maintenance, repair and overhaul) applications where customers gain value dealing direct. Not only are all three channels important to the business, they are heavily interdependent with success in the OEMs driving downstream replacement orders and end user marketing pulling demand for the Renold product through the distribution channels.

Going right back to when Hans Renold first invented roller chain in the late 1800s, the Company has a longstanding reputation for innovation and product excellence. This remains a core element of the go to market strategy and a number of initiatives are underway to better understand the evolving needs of our customers and translating those into the next generation of Renold products. The Product Management teams in both Chain and Torque Transmission have been strengthened in the last 12 months, bringing a sharper focus to our NPI (New Product Introduction) pipeline which will improve both the quality and speed to market on future introductions.

Delivering exceptional service to our customers is a key and growing element of our commercial strategy. Whether it is in a drive system or a conveying application, reducing downtime and thus cost is vital to our customers. We continue to drive internal process improvements and investment in the right component and finished goods inventory in order to support our customers on a global basis with more rapid response times.

The competitive landscapes in our markets remain highly fragmented with a large number of small and medium sized manufacturers and specialist distributors. However, few have the capability to match Renold in terms of coverage, capability and product range. Harnessing these strengths and building a globally integrated business model is a key strategic objective.

Outlook

Performance in the year was against a backdrop of poor macroeconomic conditions within our main geographic markets and market specific issues in some core sectors such as oil and mineral extraction. This has particularly impacted the OEM market for heavy plant with a number of major customers suffering from dramatically reduced demand for their own products, thus impacting orders on us. This has been further exacerbated by levels of finished inventory at customers and in the supply chain that is being destocked.

Our End User markets have held up better as can be seen by the overall share of our sales increasing to 20% (2015: 18%). Whilst there has been a slight trend towards MRO type work, this has been at the expense of lower capital spending on new projects or replacement projects. Sales into the distributor channel have been impacted by destocking by some of our major partners, particularly in Europe and the Americas, in the face of uncertainty and difficult trading in their markets.

The macroeconomic outlook for the coming year remains difficult in most geographic markets. However, the business now has a much more stable and improving platform on which to build. The overall market is large, in excess of £1.5 billion in industrial chain applications alone and larger for torque transmission. We can target increases in market share despite the difficult economic background. We remain very positive about the potential in our business.

Q&A with Chief Executive

Robert Purcell discusses the strategy and development of the business

Robert Purcell
Chief Executive

"The importance and relevance of the self-help measures in our STEP 2020 Strategic Plan is emphasised by current challenging market conditions. We continue to lower our breakeven point whilst we invest for the future in capital and revenue terms to build the required platforms for growth."

The external economic picture is challenging. How is this affecting you?

It has been widely reported that global industrial markets are challenging in many different sectors. Demand is volatile and also reflects broader macroeconomic and geopolitical uncertainty. We are focused on self-help measures the results of which give us the space and capability to continue to develop the business.

Our focus is in the longer term development of the business whilst handling the short term market conditions.

What new STEP 2020 initiatives were implemented during the year and what will the benefits be?

The three phases of STEP 2020 are made up of a number of staircases. Each staircase represents a series of individual initiatives or projects that share a common theme. These themes, or staircases, are: Business Process Efficiency; Manufacturing Efficiency; Commercial Positioning; Corporate Efficiency and Growth Activities. There is also a separate staircase of its own for Health and Safety. This remains, rightly, the number one priority for the business. All of our staircases have seen delivery of projects and benefits as well as the identification of new projects to be brought on stream.

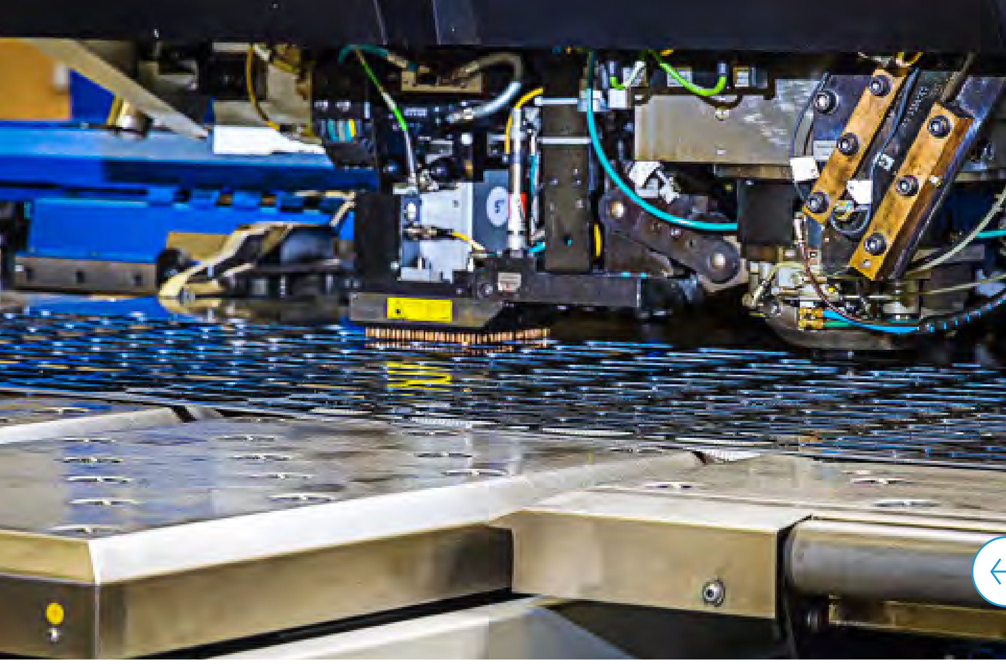
In our Health and Safety performance I am very pleased to report that a number of years of hard work are now manifesting themselves in improved KPIs. Three more major sites have gained OHSAS 18001 accreditation in the year. The two remaining sites should achieve this in the next two years. We also continue to drive initiatives to win the "hearts and minds" of all our employees concerning health and safety with the second year of the Chief Executive's Health and Safety Awards providing an extra incentive.

The Manufacturing Efficiency staircase has given rise to significant increases in capital investment in our facilities, with projects delivered or significantly advanced in the period. Capital expenditure in the financial year ended 31 March 2016 increased by over 70% from £5.5m to £9.5m as we maintained our determination to invest in the future of the business despite the difficult trading environment. In Business Process Efficiency an important milestone was achieved with the implementation of our new ERP system and suite of business process changes in our Cardiff facility, the first site to 'Go Live'. This is a critical step in the medium term re-engineering of our business across all our sites with the goal of standardised and optimised ways of working delivering significant savings to the Group over the next three years of the roll out programme.

On a smaller scale, the relocation of our head office to new premises in Manchester has created multiple benefits including a more effective working environment, £0.1m annual cost savings and a step change in the robustness of our IT infrastructure.

Self-help is not limited to cost reductions and business process effectiveness. There are also many initiatives included in our Growth Staircase. During the year we opened new sales offices in South East Asia and our new customer service offices in a number of key European territories are also progressing well and we have plans to expand our local presence further. Furthermore, we continue to develop our service and product offering and to drive new product management ideas. Both Chain and TT businesses have rolled out new offerings, Gears service and maintenance offering and Chains geographical expansion of its excellent 24 hour configured chain offering are good examples. As I have outlined before, these activities proceed in parallel with the continuous improvement activities that are now a permanent feature of our business.

Read more about the progress on our Staircases and Strategic Objectives on pages 20 and 21



Pictured: The Trumpf laser cutter at our US Chain facility is used to create speciality Chain sidebars and attachments with precision and speed.

Images courtesy of TRUMPF

How far can self-help continue to drive margins / performance if top line growth does not pick up?

When we launched STEP 2020 we set ourselves the goal of delivering double digit operating margins even if revenues remained flat. We also stated that with modest, 'GDP Plus' type growth, we could deliver mid-teens operating margins. Self-help is therefore clearly one key element of the STEP 2020 Strategic Plan, but it is only one element. This is not a short-term project with a definitive end date – that is not the nature of continuous improvement. We are implementing major improvements in the way we do business that are ongoing and will stand us in good stead for years. Our focus is on doing the right things to protect capital and revenue investment in projects to support the delivery of shareholder value. We are aware that our ultimate goal includes sales growth and as markets stabilise we will see the benefits of all the commercial work we have and continue to do.

You acquired the Tooth Chain business this year. What is your acquisition strategy?

As we noted in our half year results, the active pursuit of acquisition opportunities was not a priority for management in the year. Three types of acquisition will ultimately be considered in the third phase of STEP 2020:

- Geographical expansion into a market where we have limited or no presence. This sort of acquisition is likely to be further in the future given the current level of initiatives and difficulty in executing such a transaction. South America would be one region where this could be considered.
- A consolidation play where we can absorb a business into our own facilities and hence realise significant cost savings and other synergies. This type of acquisition is best done when our own processes and relevant facility are upgraded to ease the integration process and also to optimise the acquisition benefits.
- A product range or market expansion acquisition. In this case we would be adding to our existing extensive range of products or gaining access to new market sectors. This would allow us to accelerate our growth.

Clearly some acquisitions could be a combination of one or more of the above features. Equally, we have always said that if an attractive acquisition arose on an opportunistic basis then we would consider it, particularly if the business could be run as a stand alone entity and hence not require significant short term integration activity.

The Tooth Chain business fell into the third type of acquisition category and is an excellent strategic fit for the Group. We have gained access to a high value-added product not previously part of the Renold offering and we expect to expand sales through Renold's existing international sales presence and network. In addition, as the factory is close to Renold's plant in Einbeck, Germany, the business will be able to share expertise and some management services within the more substantial Renold Group while being run on a stand alone basis.

Read more about our Tooth Chain acquisition on pages 08 and 09

What is the outlook for Renold over the next year?

Trading conditions took a clear step down in the second half of the financial year. Volatility remains and therefore we expect the first half of the new financial year to be challenging and similar in outcome to the second half of the current year with some support from the Tooth Chain acquisition. If it becomes clear that the level of sales seen in the second half is the new norm then the comparators will level off in the Autumn of 2016.

Against the backdrop of a 8.9% reduction in underlying sales, the Group is pleased to have maintained the same level of operating margin as last year. The Group is still able to continue to grow capital and revenue investment to support the development of the business. The recent improvements in the robustness of the business allowed the Group to take advantage of the opportunity to purchase the Aventics Tooth Chain business when it arose.

STEP 2020 actions already delivered and those now underway will continue to allow the Group to cope better with the impact of the weaker demand. The limited impact of the £16.2m sales fall on operating profit is testimony to the new resilience we have developed within the Renold business and of the progress that has been made, and will continue to be made, in re-engineering our future.

Robert Purcell
Chief Executive
31 May 2016

Key Performance Indicators

Put simply, health and safety is our top priority. At Renold we make the connection between personal safety and sustainable value creation. A robust system of control for health and safety is the bedrock of a manufacturing business such as ours.

KPI	Definition
Non-Financial KPIs	*The four health and safety KPIs below are taken from a suite of aligned measures that our sites review on a continuous basis. The Board reviews these at every meeting.*
Accident frequency rates†	Over a 12 month period this contrasts the total number of lost time accidents, irrespective of severity, against the hours worked. An internationally recognised standard measure.
Reportable injury rates	Over a 12 month period this contrasts the number of accidents greater than 3 lost days, against the average number of employees in the same period. We also monitor accidents greater than 7 lost days in the same way. Both are internationally recognised standard measures.
Lost time days	The total number of lost days attributable to all accidents in the 12 month period. An internationally recognised standard measure.
Safety improvements	As part of our annual Health and Safety Awards Scheme we drive our sites to capture and implement safety improvements. These are generated by, for example, employee suggested improvements and investigations into any reported near misses or accidents. An internationally recognised concept with different business measuring and capturing in different ways.
Financial KPIs	*KPIs selected as either important to our external stakeholders or because they accurately represent an area of management focus, often where we are trying to improve historically weaker performance.*
RoS%†	Adjusted operating profit divided by sales. STEP 2020 medium term goal is a mid teens RoS%.
Adjusted EPS†	Earnings per share before exceptional or adjusting items. This is a key metric used by capital markets and stakeholders in assessing performance improvement and value generation in Renold.
Sales per employee	Total sales divided by the average number of employees. A simple way to assess the efficiency of our business processes. Historically we have ranked in the lower quartile and have an important metric to improve.
Total overheads	Costs that are, in theory, fixed or very inflexible. Driving these down is one way to lower our breakeven point and to enhance our operational gearing. This therefore has a direct impact on our RoS% target.
Cash cost of servicing legacy pensions	Annual cash contributions to closed legacy defined benefit pension schemes including associated administrative costs. Relatively large sum but adding little or no value to the business. Hence the goal to keep it stable or reduce.
Average working capital ratio	Working capital as a ratio of rolling 12 month sales. Calculated as the simple average of the previous 12 months. Based on an average to prevent short-termism and reflects the need to improve upon historically poor performance.
Leverage ratio	Ratio of Net Debt to Adjusted EBITDA. 'Banking' leverage means the figure reflects our banking agreements which differ from IFRS figures (e.g. preference shares are debt in IFRS but ignored in our banking agreement). Historically Renold had a poor record of cash generation and hence this is an area of focus.
Net Debt	Total borrowing less cash balances.

† KPI used in determining remuneration

Read more about Remuneration on pages 86 to 104

Pictured: At our Gears facility in the UK, preheater units being prepared for despatch to customers for use in air preheater drives in coal fired power stations.

Strategic	Performance	Change
1	7.0	✔
1	887	✔
1	308	✔
1	1,233	✖
2	8.6%	✔
2	4.7p	✖
2	£74.0k	✖
5	Reduced £1.1m	✔
5	£3.5m	✔
7	20.3%	✖
7	1.1	✖
7	£23.5m	✖

Our Strategic Objectives:

1. Significantly improving our health and safety performance
2. Generating margin enhancing growth from our superior product capability
3. Enhancing customer service
4. Optimising business processes
5. Lowering our breakeven point
6. Enhancing customer service
7. Strengthening and de-risking our balance sheet

Key:

- ✔ KPI result an improvement on the prior year
- = KPI result unchanged on the prior year
- ✖ KPI result a deterioration on the prior year

Our Strategy
Our Strategic Objectives and Progress

The third year of our STEP 2020 Strategic Plan has built on the successes of the previous two years. The Group is working hard to continue to do the right things by investing in capital and revenue programmes to support the medium term delivery of the STEP 2020 Strategic Plan.

The alternative of simply cutting costs to deliver short term gains would ultimately be at the expense of the Group's future development and medium term goals for margins and growth.

Strategic objective | **Progress in 2015/16**

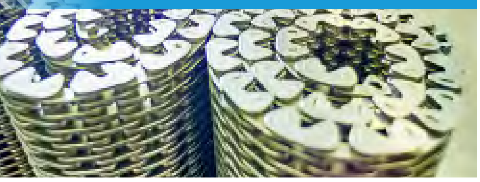
1 Significantly improving our health and safety performance

Health and safety will always remain our top priority. Our accident KPIs show considerable improvement during the period with gains of over 50% in many. This is a reflection of and reward for the cumulative efforts of the Group over the prior three year period. The attitude to safety culture is changing throughout the Group and we have developed best practise management systems and are confident that further improvements in performance will come as we build on the established foundation.

We have implemented over 2,700 health and safety actions, tracked in our KPI shown opposite. The CEO launched a groupwide Hazard Assessment initiative to pre-empt the causes of accidents. This led to the creation of a well developed risk profile of 6,800 hazards assessed against a standardised methodology. Improvement actions have already commenced to address those hazards which are deemed to be outside the Group's Risk Appetite. During the year, the last of our major sites became certified to OHSAS 18001 and the audit results show that our sites are steadily improving.

Since 2014 we have operated a Health and Safety Awards Scheme to recognise and celebrate success. In the 2015 calendar year, 12 sites received an award, more than double the number issued in the first year of the Scheme. The Scheme rules have been reviewed to set revised stretch targets as we seek to drive continuous improvement.

2 Generating margin enhancing growth from our superior product capability



Our mid-teens operating margin target is predicated on GDP+ levels of organic growth. Margins have continued to be maintained despite the difficult economic background. However, it is worth noting that our Chain division was able to improve its divisional margin despite a 6.5% fall in sales. In part this reflects the continued shift in mix towards higher value added products, higher service levels and product development:

- Investing to expand service and product offering.
- Increase in marketing.
- Product management driving strategy for new product development.

3 Enhancing customer service

We have opened a number of local, customer service focused offices during the year. In Chain, the territories were Indonesia, Thailand and Spain. In Torque Transmission, the focus was on France and Canada. The range of territories shows that we can do better in both emerging and established markets.

Shorter lead times and faster response times are being rolled out in more locations. Our Chain rapid response service has been launched in Germany and Australia, while configured and adapted chain capability has been added in the USA. The latter supported by further investment in laser cutting technology.

Key: ✓ KPI result an improvement on the prior year   = KPI result unchanged on the prior year   ✗ KPI result a deterioration on the prior year

Pictured: Major investment in pin manufacturing in the USA.

Significant work has continued in relation to our top priority of improving health and safety. A number of value adding projects have also been completed that will further enhance manufacturing and business processes, reducing costs and making our service proposition more compelling for customers. The pipeline of new projects continues to be developed. Our successes in improving the robustness of the business allowed the Group to take advantage of the opportunity to purchase the Tooth Chain business.

KPIs[1]	Future aims	Risks and mitigations
Average Lost Time Accident Frequency Rates 7 ✓ Reportable Injury Rates 887 ✓ Lost Time Days 308 ✓ Safety Improvements 1,233 ✗	Our overarching objective is to achieve zero accidents every year. As well as targeting annual improvements in each KPI, we tasked all major manufacturing sites with achieving OHSAS 18001 by the end of the year. This key milestone was successfully delivered and has now been extended to two smaller sites in Gronau and our UK Chain service centre. The number of sites being awarded a Health and Safety Award rose from five to eight.	Organisational change increases the risk of accidents, particularly when the change is on a large scale and in production environments that involve heavy objects, objects being moved or rotated at speed and other industrial hazards. The Group is mitigating this risk by conducting, in advance of any change, full risk assessments and introducing new safe operating procedures.
RoS% 8.6% ✓ Adjusted EPS 4.7p ✗ ROCE% 13.7% ✗	STEP 2020 aims to deliver mid-teens operating margins (RoS%) by 2020. A RoS% at this level would be consistent with ROCE in excess of 20% and EPS CAGR since March 2013 of approximately 30%.	Our mid-teens operating margin target is based on a GDP plus growth environment. A significant fall in sales or a rapid appreciation of input costs could jeopardise this outcome if we were not able to respond quickly and effectively. Our order books give reasonable visibility on sales in Chain (approximately 3 months) and Torque Transmission (approximately 6 months), though these figures have been reducing recently.
Improvement in: — Customer contact response times — Quotation lead times — On Time Delivery In Full (OTIF)	We aim to respond to all customer contacts within one working day as a maximum. Quotation lead times are targeted at two hours for standard product and less than ten days for more complex engineered product. We aim to deliver OTIF in the high nineties percent.	Excellent customer service requires efficient business processes and systems that deliver replicable, predictable and timely outcomes. As the Group is changing and improving many of our business processes and systems, this creates a risk to current service levels. This risk is being mitigated by a steering committee with responsibility for oversight and approval of all business system changes.

Read more about our KPIs on pages 26 and 27

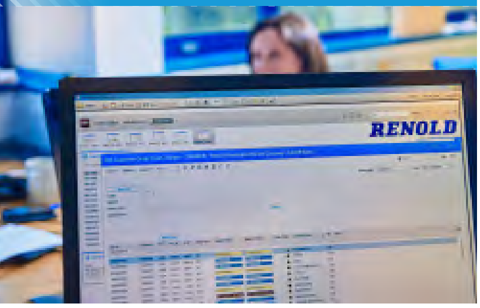
Read more about our Risks on pages 47 to 55

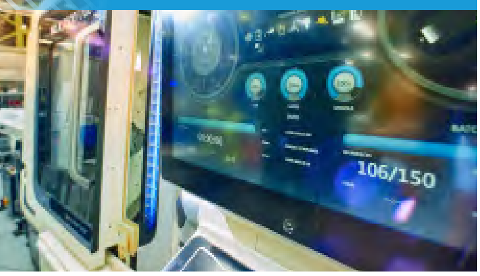
[1] Refer to Glossary on page 171 for definitions of KPIs.

Our Strategy
Our Strategic Objectives and Progress

Pictured: The Keyence system digitally measures cut chain components quickly and accurately before they are assembled. Precision chain components create stronger and longer lasting chains.

Strategic objective	Progress in 2015/16
4 Optimising business processes	A number of improvement initiatives have been implemented in the current year, aimed at simplifying, standardising and speeding up our core business processes. The Go Live of our new ERP system at our Cardiff site was a major milestone. As the first site to go live, the Cardiff ERP implementation is helping us refine and define further the standard template for all future implementations. The goal remains one integrated and optimised set of business processes and systems underpinned by consistent and accurate data. We have continued to standardise our Engineering systems, successfully implementing our Group standards at our Halifax and Cardiff sites, including PLM, CAD and CAM packages. These allow for an integrated process from product development through to component manufacture with complete visibility, traceability and a single point of data entry throughout. Renold's standard engineering systems are now live across eight of our twelve manufacturing sites, with future implementations at Westfield and Gronau sites to be live before the end of the 16/17 financial year. In parallel we upgraded our infrastructure platform which includes an improved global Wide Area Network and moving our critical servers to a secure managed hosting centre.
5 Lowering our breakeven point	For the third consecutive year we have reduced our breakeven point. This has been achieved through a combination of increasing our operational gearing (or variable margins) and reducing our fixed overheads. The significant expansion of our capital investment programme is bringing cost reductions and also increases the flexibility of our response to fluctuations in demand as well as shortening process and lead times with flow through benefits for customer service. Processes that had been fundamentally manual are increasingly being automated with new equipment. The new manufacturing capabilities are also allowing us to bring in-house activity that had previously been outsourced. This reduces our costs but also lead times and again benefits customer service. Our absolute level of fixed overheads was also reduced in both operating divisions in the year. In part this was in response to lower demand, such as at our Milnrow facility where a long standing supply agreement was 'off shored' by the customer, but also as a result of changing our business processes.
6 Developing our people	We have taken the opportunity to make a number of improvements to our organisational structures in our operating businesses over the last year. These changes have permitted us to make some new appointments, both internal promotions and external hires, in order to enhance the overall capability of the business. We have created a new Performance and Development Review process which is due to be launched in the new financial year. Initially starting at senior management level, the aim is to establish and sustain employee performance and identify future development opportunities. Our Future Leaders – Graduate Programme was successfully launched in September 2015 and attracted five high calibre participants (from over four hundred original applicants). We are proposing to run the programme again in 2016 and have already seen significant interest from graduates in the UK for these new positions. We have continued to embed our organisational values, launched in 2015.
7 Strengthening our balance sheet	In the early part of the year we completed the re-financing of our core banking facilities, delivering lower interest rates, an accordion facility of £20.0m to support potential acquisitions and cost around £0.8m lower than the previous re-financing. While our leverage and absolute level of net debt increased, both are directly attributable to the acquisition of the Tooth Chain business and both nonetheless remain at healthy levels. In pensions, we delivered significant de-risking projects. In the UK approximately £50.0m (or 50%) of existing pensioner liabilities were fully de-risked. In Germany the unfunded defined benefit scheme was fully closed not just to future accrual but also to future salary inflation (hence eliminating both of these risks), reducing the deficit by £1.6m and saving annual operating costs of £0.2m. Finally, in Australia, a scheme which had a deficit of £1.4m in June 2011 was liquidated at a cost of £0.1m and hence fully de-risked. Our working capital to sales KPI deteriorated in the year. In part due to management action to put in place strategic stock holdings. In part it was also due to sales falling faster than working capital could be unwound for stock, as noted, and also for debtors where customers' payment patterns slowed throughout the year.





Key: KPI result an improvement on the prior year | KPI result unchanged on the prior year | KPI result a deterioration on the prior year

Pictured: At our US Chain facility, the Trumpf laser cutter can be programmed to cut with a variety of features to form precision attachment chain.

KPIs[1]	Future aims	Risks and mitigations
Beneath this global KPI, each of our business processes will have its own set of detailed KPIs Sales per employee £74.0k ✗	Our aim is to roll out the ERP system in three or four new sites in the new financial year. All sites in the Group should be on the new system by the end of 2018. Our sales per employee KPI would rank us in the lower quartile of our comparators. Our STEP 2020 target is to be in the second quartile by delivering year on year gains in this KPI.	Delay to the ERP project will result in potential delays to the various benefits being delivered, particularly as these tend to be end loaded in the roll out programme. Changes to systems and processes may also reduce performance in the short term as users learn new skills. The core ERP team is being supplemented with additional resources and consultants as required to ensure both the speed and quality of the business transformation. A programme of formal reviews and change controls will be developed during this year to ensure the standardisation remains in place.
Monthly sales breakeven point £11.3m ✓ Total overheads £64.9m ✓	As we re-engineer our business processes we aim to reduce the cost to serve all of our activities. Our medium term goal is to deliver meaningful annual reductions in our overheads to support the delivery of enhanced margins and shareholder value.	Overhead structures tend to be inflexible and can be a major financial burden in a downturn. Our new processes are being designed with more flexibility in mind to reduce this risk.
Completed Performance and Development Reviews (as a percentage of the total relevant population)	We will continue to move towards a high performance culture, extending the scope of our Performance and Development Review process, being sure to capture and execute the specific actions and interventions from this activity. We will seek to extend our Future Leaders – Graduate Programme to new geographies within the Group. We will seek to more fully understand why employees choose to leave Renold, from time to time, through the introduction of a standardised Exit Interview process.	As we implement processes to help achieve a high performing culture it is critical that our line managers have the necessary skills to properly introduce and operate them. We will ensure that, where necessary, we provide relevant training to our managers and leaders. As we extend the geographical breadth of our Future Leaders programme it is critical that we do not compromise our standards. We have an objective competency based assessment approach that will help us achieve this.
Cash cost of servicing legacy pensions £3.5m ✓ Average working capital ratio 20.3% ✗ Leverage ratio 1.1x ✗ Net Debt £23.5m ✗	Our goal is to reduce the share of the Group cash flow that is absorbed by legacy defined benefit pension schemes. In the medium term, this will be delivered by keeping pension cash flows stable while increasing the Group's cash flow. Working capital should be maintained between 15% and 20% of sales in the medium term. A leverage ratio below 1.5x and ideally below 1.0x is our target range.	Pension liabilities fluctuate with factors outside the Group's control (interest rates, inflation expectations, longevity and returns on assets). The key is to be ready to de-risk when the market opportunity arises. Legislative changes can also lead to changes in liabilities and opportunities for de-risking. Working capital can take time to unwind and in the event of a sudden downturn in activity the Group could be left with excess stock. To mitigate this risk we have deployed working capital management tools and WC % is a monthly monitored KPI.

Read more about our KPIs on pages 26 and 27

Read more about our Risks on pages 47 to 55

[1] Refer to Glossary on page 171 for definitions of KPIs.

Our Performance:
Chain

Renold Chain is a global market leading supplier of differentiated and value added chain products for a wide variety of end use applications. We create innovative solutions for our customers who want to reduce costs and ensure performance while dealing with increasingly challenging working environments. The Renold name is known in the industry for quality, performance, service and technical support.

CHAIN FACTS

The Chain division is exemplified by an extensive product range reaching into a wide number of geographies:

- → Sales offices and distribution channels in over 18 countries worldwide
- → Extensive product range that can be customised or designed from scratch for any application
- → Solution chains for many challenging applications

Chain performance review

Underlying external revenue of £126.8m was £8.8m (6.5%) down on the prior year. Underlying external revenues (excluding acquisitions) were £10.3m (7.6%) behind against a backdrop of difficult macroeconomic conditions in most of the territories in which we operate. Whilst some regions fared better than others, all were impacted by a combination of reduced activity amongst larger OEM accounts and destocking by larger distribution partners, particularly in Europe and the US.

Europe underlying sales declined by £4.0m (7.9%) although this performance was impacted by the large one-off contract in Switzerland in the prior year, with adjusted underlying performance £1.0m (2.0%) behind. The business in the Americas finished £1.6m (3.0%) down after a flat first half, primarily due to Canadian weakness in the second half as a result of depressed mining and mineral extraction demand. India finished £0.6m (7.7%) down. However, ongoing investment in production capabilities position the business well to deliver future growth. Underlying revenue in Australasia was down by £2.1m (11.3%) and China finished the year down £0.4m (11.3%). Recent investments in the commercial teams in both should improve growth rates in the coming year.

Order intake declined by £13.7m (10.1%), broadly in line with the sales performance. At a regional level, European underlying order intake was down by £3.8m (7.6%) and in the Americas it was down by £5.8m (10.6%). Overall order intake in Australasia was down £2.5m (12.9%). Our order books now tend to have shorter profiles which reflects customer caution but also reflects the increased stock availability of key lines, shorter lead times within our factories and less reliance being placed on large one off orders which have previously had an adverse impact by disrupting our production processes.

Contribution margins, the margin after all variable production costs, improved significantly during the year by 3.4%. In addition to structural cost reductions within our manufacturing base, this is also a reflection of continued focus on cost reductions in both material and labour, coupled with a focus on higher quality products.

Underlying net overheads were reduced by a further £0.9m in the year as we continue to streamline our processes and structures. This reduction was achieved despite a number of key appointments to upgrade our commercial capabilities across the division.

Despite the difficult market conditions, and largely as a result of these continuing cost reductions and improvements in the quality of our margins, underlying adjusted operating profit of £15.4m finished ahead of last year (2015: £13.8m), delivering a Return on Sales of 12.1% (2015: 10.2%). Performance was particularly strong in Europe which had at one time been the underperforming region of the division. The Bredbury closure was instrumental in the turn around.

As a sign of the growing robustness of the chain division, in January 2016 the business successfully completed the acquisition, the "Tooth Chain" business of Aventics GmbH based in Gronau, Germany. Now trading as Renold Tooth Chain, the business had sales revenues of £6.9m in 2015 within niche chain markets in which Renold previously had no product offering and is above 80% concentrated in Germany. It also offers numerous operational and purchasing synergies which will improve competitiveness and enhance margins. The integration of this business is proceeding in line with plans and will be completed during calendar year 2016 following migration to the Renold IT platform.

A new Managing Director was appointed towards the end of the year for the Chain division as a whole. This has allowed Robert Purcell who was performing the role to focus more of his time on Torque Transmission. Other new appointments include the MD for the Americas business and a number of new appointees in commercial and marketing functions to support our Organic Growth activities.

Read more about the Tooth Chain business on pages 08 and 09

Pictured: At our US Chain facility, the Trumpf laser cutter is able to cut sidebars with speed and form precision attachment chain with a variety of features such as bends, chamfered edges and grooves.

Images courtesy of TRUMPF

Service improvement will drive future growth

A key element of the growth strategy centres on improvements to our delivery capabilities and customer service. A number of initiatives have been successfully completed during the year.

Product availability has been dramatically improved through the introduction of strategic inventory on core product lines within each region. The adverse impact on working capital ratios should be a short term phenomenon only.

Investments in new state of the art machinery in the US and India have not only removed production bottlenecks but also enabled the in-sourcing of key processes, thus reducing lead times and costs on manufactured to order products and boosting overall productive capacity to support future growth. Other similar projects had already been committed at the year end.

The Malaysian factory is planned to relocate during calendar year 2016, effectively more than quadrupling the potential output in what is a key growth region.

The successful introduction of a rapid response cell in the UK to deliver attachment transmission chain in market-leading response times has subsequently been replicated in Germany, the US and Australia. A similar blueprint will be rolled out in China and South East Asia in the coming year.

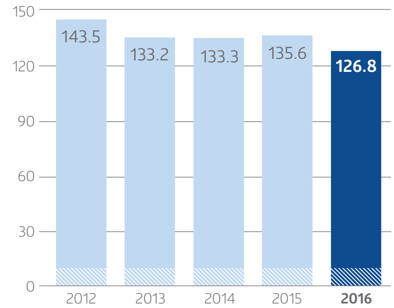
Expanding our horizons

Significant progress has been made in laying solid foundations which will underpin future growth and the challenge is now to build on this platform despite ongoing economic headwinds. Commercial coverage has been enhanced through 2016 office openings in Spain, Thailand and Indonesia, all of which should yield solid growth going forward. Further openings are planned in Eastern Europe and to expand geographic coverage in the Americas in the coming year.

Commercial activities are being focused around core market sectors which offer the right mix of product and opportunities for growth. As a result, the overall Chain business will become less reliant on some of the more cyclical industries (e.g. mineral extraction, heavy construction) in which it has traditionally operated in the past. We are confident that the division will attain the STEP 2020 Group target of mid-teens operating margins by 2020 with only modest growth required to do so.

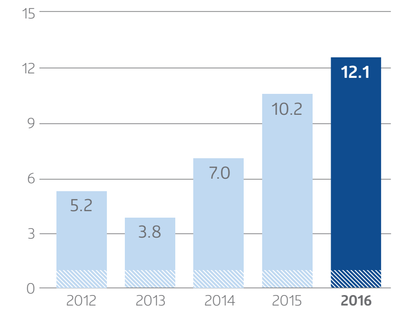
Underlying revenue

£m



Underlying adjusted operating margin[1]

%



[1] Adjusted operating profit divided by revenue at constant exchange rates.

Our Performance:
Chain

In addition to new production capabilities gained as a result of investment in state of the art machinery, Renold continues to use its deep knowledge and experience gained in over 100 years of manufacturing, for example in heat treatment, to create premium products.

At our US Chain facility, we heat treat all chain components in house. By maintaining control of this vital process we ensure that chains are properly manufactured and built to withstand demanding applications in a number of different industries.

Renold uses induction hardening on pins which increases the wear life and provides maximum chain service life.

Furnaces in the heat treatment process are controlled by computer and the conditions are constantly monitored to ensure that components are manufactured with maximum ductility and wear resistance.

Engineering class chain components are machined and assembled by experienced craftsmen for a long lasting chain that can withstand demanding applications.

Read more about our Knowledge and Skills in our Business Model on pages 18 and 19

Demonstrating Service

Pictured: Renold Syno lubrication free chain provides solutions across a wide range of industries where clean operating environments are essential such as in food and drink manufacture.

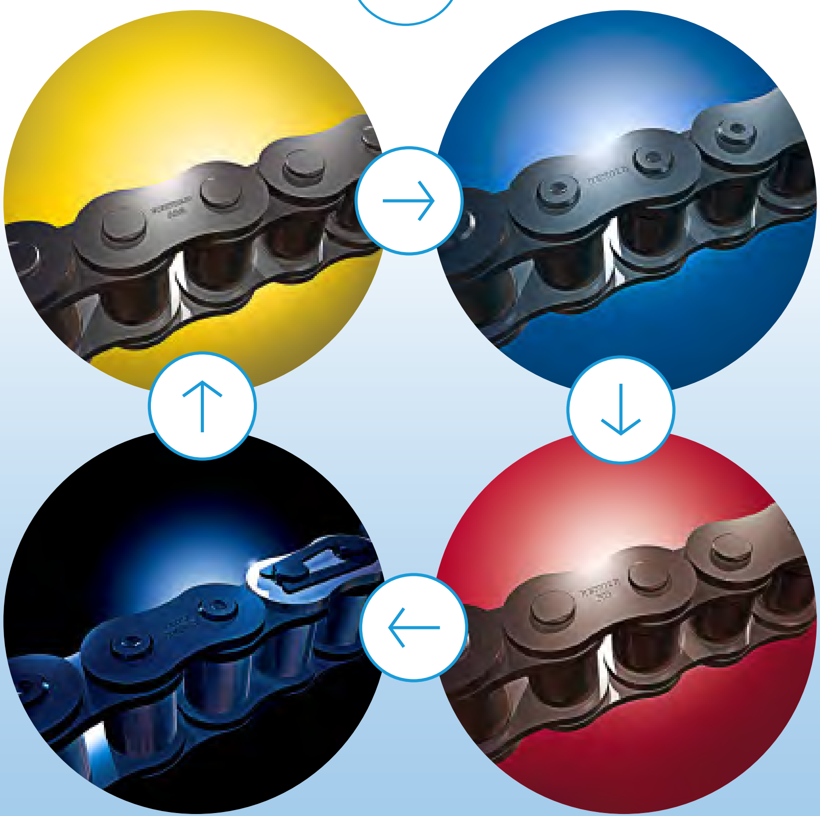
Renold Syno is a solution for PepsiCo

Renold Syno chain has provided a lubrication-free solution for PepsiCo on the company's bottling lines, packaging equipment and transporting machinery.

Production at the Sevilla plant was previously affected by excessive downtime as PepsiCo ran machinery without lubrication in order to achieve a clean environment. This led to chain failure and subsequently reduced production.

The solution was to install Renold Syno lubrication-free chain with Renold Roll-Ring chain tensioners. Renold Syno features an oil impregnated sintered bush that releases lubricant onto the internal bearing surfaces of the chain when it is in operation.

Since installing Syno on its production lines in 2012, PepsiCo has not encountered any downtime due to chain failure. The Syno chain is operating perfectly and has provided the lubrication-free environment required.



Read more about service in our Business Model on pages 18 and 19

Our Performance:
Torque Transmission

Renold Torque Transmission is an international manufacturer of high integrity torque transmitting products used where public safety or assured plant operation is critical. Renold's products are integral, but generally unseen, in different facets of daily life from gearboxes driving heavy duty, high rise escalators in London and New York subway systems to shaft couplings in cement plants ensuring the uninterrupted production of a vital building material.

TORQUE FACTS

Torque Transmission operates successfully in a number of attractive niches with:

- → Sales presence in over 12 countries worldwide
- → Bespoke design solutions for the most demanding applications
- → Coupling products with unique characteristics

Torque Transmission performance

Underlying external revenue of £38.4m was £7.4m (16.2%) below the prior year primarily as a result of the division's exposure to poor performing sectors (particularly in the Americas region for oil and gas, raw material extraction and the steel industry). Successful contract wins for escalator drives in Europe and the USA partly offset this exposure.

During the year, the business exited from the low margin automotive helical gear industry which had been underpinned by a long term supply agreement at our Milnrow plant. The customer decided to offshore production and in response to the loss of £2.0m of annual revenues (£1.0m in the current year) the site significantly reduced its headcount (see Note 2(c)).

Underlying order intake was weak and down £4.5m (10.7%) which is consistent with the revenue decline. The division is increasingly focusing on other industries with orders being received within the renewable energy and the recycling sectors. The division now has an increased product focus which has in turn started to deliver with investments in new machinery and an increased customer focus as explained on the following pages.

Contribution margins, the margin after all variable production costs, improved by 1.2% during the year driven by a more focused sales effort on the higher performance products in the portfolio. The exit from the low margin automotive helical gear contract contributed to the improved margins with cost saving initiatives being taken to ensure that the loss of these sales did not impact operating profit.

Continuous improvement activities in the factories also contributed to the margin gains with labour and material costs reducing by higher proportions than the underlying external revenue decline. Further benefits will be achieved as the businesses implement more efficient manufacturing processes using new plant and equipment. The Group ERP system was rolled out in the Cardiff manufacturing site with benefits expected to be realised from this during the next financial year.

Custom designed gearbox for Laidig Systems Inc.; a US manufacturer of turnkey storage and reclaim systems.

Renold designed and manufactured a multi stage helical gear unit to drive an auger in the base of a large storage vessel.

The auger advances 360 degrees and with an internal screw blade, operating like a screw conveyor, it enables the grain to be removed efficiently at a controlled rate.

Laidig was looking to collaborate with a gearbox manufacturer to design a custom unit for their application. Renold was the ideal partner because of our unique design capabilities and willingness to work alongside the customer to provide a bespoke solution.

Pictured: Multifunctional and dynamic, the new Mazak machine's flexibility allows Renold to react to changing market requirements.

Underlying net overheads in the division reduced for the third consecutive year with £0.7m savings as a result of a number of initiatives in each location rather than one major restructuring project.

The combination of the gains in our variable margins and ongoing overhead reductions led to a reduction in the revenue breakeven point of approximately £2.2m (7.2%). However, this was less than the actual reduction in underlying sales of £7.4m. As a result, the division's return on sales fell from 16.4% to 13.0%.

Focus areas

In the fourth quarter the CEO stepped in as the Managing Director of the division, having appointed a new Managing Director for the Chain division as a whole (a new role). This has brought additional strategic top down thinking to the division, with the goal of accelerating the performance improvement measures we are undertaking.

Health and Safety performance remains a top priority at all of our facilities. We are proud to report that all key production facilities received a 2015 Annual Health and Safety Award, acknowledging our ongoing programme of improvements in this key area.

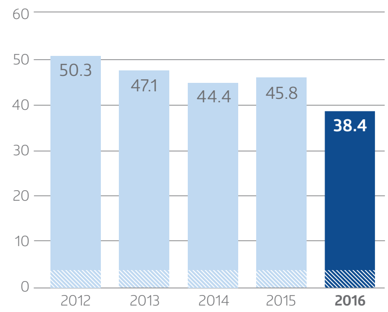
The division has had an increased focus on meeting customer needs whether this is through introducing innovative new products with higher torque capabilities or simply through ensuring that the right products are available off the shelf for immediate despatch.

New product development is becoming a more prominent feature in a number of our units. In Couplings, we are developing a new range that delivers more torque per unit of weight or cost per coupling. In Gears we have seen sales benefits from strategic stockholdings of certain products.

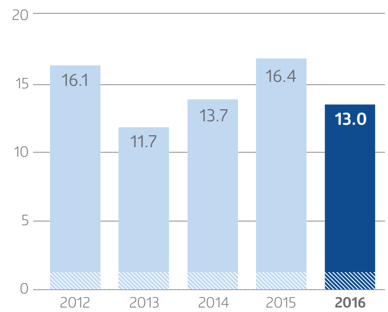
The leadership team is tasked with continuing to improve business efficiency and deliver growth within the framework of STEP 2020. Significant investment in the latest technology that is now coming on line will provide additional capacity and capabilities. These will provide shorter lead times and tighter tolerance production and also allow the division to respond to customer demands for innovative products in a faster and more efficient manner.

The division remains capable of generating operating margins well in excess of the mid-teens Group target. Our goal is to return to the mid-teens operating margins generated in the prior year.

Underlying revenue
£m



Underlying adjusted operating margin[1]
%



[1] Adjusted operating profit divided by revenue at constant exchange rates.

Our Performance:
Torque Transmission

Pictured: Ideal in hostile environments, the robust SMX Series shaft mount helical is used to drive aggregate conveyors in quarries around the world.

As part of Renold Gears' drive to reduce leadtimes and improve customer service through improved availability, the standard range of SMX heavy-duty, shaft mounted gearboxes is now available off the shelf for immediate despatch as part of our Rapid Response gearbox delivery service.

The units feature hardened and profile ground helical gears for maximum power transmission, efficiency, long life and smooth operation. High capacity, heavy-duty roller bearings ensure problem free operation and maximum load carrying capacity for a wide range of applications.

The SMX Series is also available with a wide range of non-standard options including enhanced seals on the output and input shafts for use in hostile environments, and a sprag clutch backstop option to prevent drive reversal. The units have a long pedigree coming from the same family as Renold's PM, TW and Carter gearbox ranges, sharing their enviable reputation for quality, reliability and service.

Read more about Knowledge in our Business Model on pages 18 and 19

Innovative escalator drives are a reliable solution for safety-critical, heavy-traffic locations

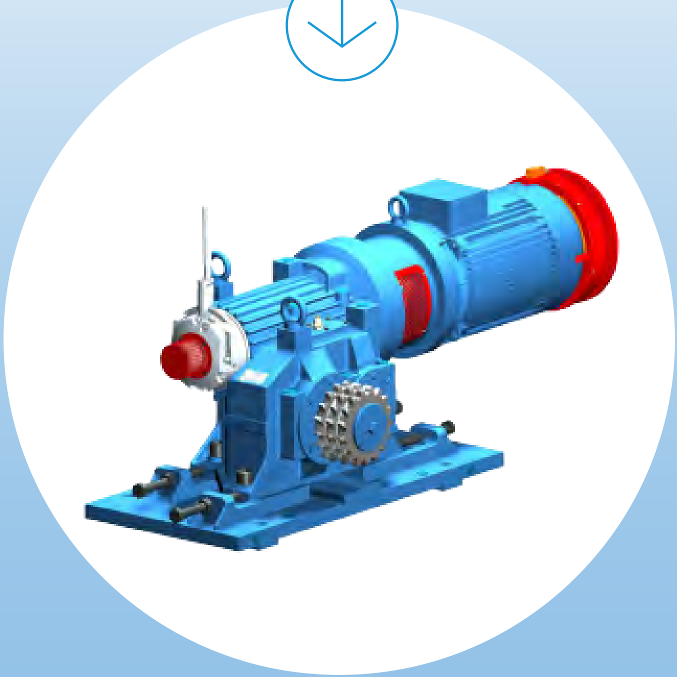
Demonstrating Skills & facilities

Designed to our customers' exact specifications, our escalator drive packages are relied on by transit authorities worldwide to provide efficient, safe and reliable performance at heavy-duty locations such as London Underground, Washington Metro, New York Subway and Metro Moscow.

As the leading supplier of heavy-duty escalator drive packages, Renold Gears' experienced application engineers work closely with escalator manufacturers, end users and transit authorities to provide bespoke solutions and the optimum design for each application.

We can design and manufacture drive packages for new installations, or alternatively we can design drop-in replacements for other manufacturers' products on modernisation projects, even if the old drive is obsolete and no longer supported. When replacing old drives we provide a complete service and full customer support that includes a site survey to determine the critical dimensions of the old drive, including the baseplate, the shaft height and the space envelope into which the unit fits.

The new drive package is fully load tested before it leaves the factory, in accordance with the transit authority's specifications, and our engineers can be present to assist with the installation and commissioning of the new drive to ensure the whole process runs smoothly, and on time. We provide training for our customers' engineers to ensure the new drive package is maintained correctly to provide optimum performance and maximum service life.



Read more about Skills and Facilities in our Business Model on pages 18 and 19

Finance Director's Review

Brian Tenner
Finance Director

"We have taken a cautious approach to managing the business in the current volatile market conditions. This has allowed us to maintain our operating margin while still increasing revenue and capital investment expenditure to support delivery of our strategic goals.

We also made excellent progress in strengthening our balance sheet through the amended refinancing with our existing banking partners and completion of a number of significant pension de-risking projects in three different countries."

Overview

Volatile demand in most of our end markets emphasised the need to maintain our focus on further lowering our breakeven point. This has been achieved for the third successive year. At the same time, work continues to improve our balance sheet and maintain cash generation that will fund further potential acquisitions, our capital investment programme and, in turn, support future growth in revenue and operating margins.

Orders and revenue

Order intake during the year in the Chain division was slightly lower than revenue with the underlying ratio of orders to revenue (book to bill) being 96.4% (2015: 100.2%). All regions had similar book to bill ratios as the division as a whole with the exception of Europe which delivered a result of 99.3%. All five Chain regions showed falls in underlying external order intake ranging from 7.6% down to 15.2% down and a reduction for the division as a whole of 10.1%.

In Torque Transmission, weaker demand for Hi-Tec products for a number of commodity related markets was the key driver for a year on year fall in underlying order intake of £4.5m (10.7%). Performance was mixed though with two of eight units within the division showing growth on the prior year. The overall book to bill ratio for the division was 97.5% (2015: 91.6%).

Group revenue for the year decreased by £16.2m (8.9%) to £165.2m both in absolute and on an underlying basis (2015: 1.4% or £2.6m decrease and 2.1% or £3.7m respectively). The reduction in underlying revenue was concentrated in the second and third quarters with the first and fourth quarters down 4.0% and 7.1% respectively.

The Chain division saw underlying revenue down 6.5% with Torque Transmission weaker, 16.2% down.

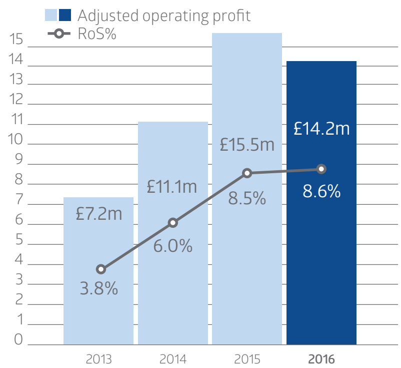
The results for the Chain and Torque Transmission divisions are set out in more detail on pages 32 to 35 and 36 to 39

	2016			2015		
	Order intake £m	Revenue £m	Operating profit £m	Order intake £m	Revenue £m	Operating profit £m
As reported	159.7	165.2	11.1	177.9	181.4	12.1
Impact of foreign exchange	–	–	–	(0.1)	–	0.2
Exceptional items	–	–	2.4	–	–	2.9
Pension administration costs	–	–	0.7	–	–	0.5
Underlying adjusted	159.7	165.2	14.2	177.8	181.4	15.7

Operating result

The Group generated £7.9m of adjusted operating profit in the first half (2015: £7.5m) and £6.3m in the second half (2015: £8.0m) with a full year result of £14.2m (2015: £15.5m). The second half result was achieved on 6.3% (£5.4m) lower underlying revenue than the first half with ongoing cost reduction initiatives providing some mitigation of the reduction in sales. This reflects our continuing drive to improve margins and reduce our costs as we continue to lower our breakeven point.

Trends in adjusted operating profit and RoS%



Progress on operating profit and operating margins were significantly impacted by this year's reduced revenues but it is still notable that the RoS was slightly improved. This is borne out by the analysis of our breakeven point shown in the chart and analysis on page 03.

Pictured: Apprentice tool makers in our Chain facility in Germany.

Foreign exchange rates have been extremely volatile during the year as shown in the table opposite. This shows the movements in the Group's four primary operating currencies versus £GBP over the course of the year. The table clearly shows that in the first half, £GBP had appreciated against three of the four currencies. But by the end of the year this had more than reversed with £GBP finishing the year weaker than its opening position in all four currencies.

The natural hedge normally provided by the Group's diverse operating territories and currencies therefore did not operate in the year as £GBP strengthened or weakened against almost all global currencies at the same time.

The net impact of this volatility was an operating charge of £0.1m in the year (2015: £0.2m income). All else being equal, there would be an estimated increase of £7.7m to revenue if the year end exchange rates had applied throughout the year. The potential impact on operating profit is harder to predict given changes in sales mix but could be in the region of £0.5m. Fluctuations are continuing with £GBP actually strengthening again since the year end so these figures are illustrative at best.

Exceptional items

Net exceptional charges of £2.2m were £0.7m lower than the prior year figure. Gross charges of £3.5m related to various restructuring and redundancy costs incurred as part of STEP 2020 or in response to falls in demand. The more significant items were the downsizing of the Milnrow facility following the end of a long term supply agreement (offshored by the customer), the relocation of our head office and server room, and other redundancies where the individual business unit headcount was reduced by 10% or more in response to lower demand. The Milnrow restructuring fully offset the impact of the loss of £2.0m annualised volume (£1.0m in the current year) and the Head Office relocation will deliver savings between £0.1m and £0.2m p.a.

FX Rates (% of Group sales)	Mar 15 FX rate	Sep 15 FX rate	Sep 15 Var %	Mar 16 FX rate	Mar 16 Var %
£GBP / Euro (23%)	1.38	1.36	(1%)	1.26	(7%)
£GBP / US$ (39%)	1.49	1.51	+1%	1.44	(5%)
£GBP / C$ (4%)	1.88	2.03	+8%	1.86	(8%)
£GBP / A$ (5%)	1.94	2.16	+11%	1.87	(13%)

The Group also incurred £0.4m of acquisition related costs in respect of the purchase of the Tooth Chain business in Gronau, Germany. The charges were partially offset by a £1.3m curtailment credit arising on the closure to future accrual and future salary inflation of the German defined benefit pension scheme. The remaining charges are detailed further in Note 2(c) to the Group financial statements.

Other adjusting items

These include legacy pension scheme administration costs of £0.7m (2015: £0.5m) and amortisation of acquired intangible assets of £0.2m (2015: £nil). Administration cost incurred slightly due to changes in the Pension Protection Fund Levy regime. We aim to reverse this increase in future.

Financing costs

External net interest costs in the year were £1.5m (2015: £1.7m). The annual charge includes £0.2m (2015: £0.3m charge) in respect of amortisation of the residual refinancing costs paid in 2012 and the new costs incurred in 2015 which are being expensed over the five year term of the facility, delivering non-cash savings of £0.1m p.a.. Financing costs also include £0.2m of unwinding discounts on onerous lease provisions established in the prior year (the Bredbury factory onerous lease provision).

The new facility terms were agreed in May 2015, include lower interest rates and were delivered at a lower one off cost of refinancing than previously (saving approximately £0.8m). The annual amortisation charge is therefore £0.1m p.a. lower as noted above.

Net IAS 19 finance charges (which are a non-cash item) were £2.0m (2015: £2.5m), the net movement being due to lower interest rates on a higher opening liability figure. In the current year, the actual return on assets was £13.9m lower than the return used in the interest calculation as specified in IAS 19 due primarily to weaker equity markets and the offsetting impact of higher corporate bond yields on the value of corporate bond portfolios. The difference appears as a remeasurement loss in the asset section of Note 20.

Result before tax

Profit before tax was £7.4m (2015: profit of £7.7m). Adjusted profit before tax, which excludes exceptional items, IAS 19 financing costs, amortisation of acquired intangible assets and legacy pension scheme costs, was £12.7m (2015: £13.8m).

Taxation

The current year tax charge of £2.0m (2015: charge £2.1m) is made up of a current tax charge of £1.5m (2015: charge of £1.4m) and a deferred tax charge of £0.5m (2015: charge of £0.7m). The Group cash tax paid was much lower at £1.0m (2015: £1.4m). The difference between tax charges and cash tax is due to the utilisation of tax losses and other tax assets in various parts of the Group.

Group results for the financial period

Profit for the financial year ended 31 March 2016 was £5.4m (2015: profit of £5.6m). The basic and diluted earnings per share was 2.4p and 2.3p respectively (2015: 2.5p for both). The basic and diluted adjusted earnings per share was 4.7p and 4.6p respectively (2015: earnings 5.0p for both).

Finance Director's Review

Tooth Chain acquisition

During the year the Group acquired the Tooth Chain business of Aventics GmbH. Note 7 to the accounts sets out the details of the transaction. An overview of key performance indicators and the acquisition balance sheet are summarised in the tables below (translated at year end exchange rates).

Pre-acquisition performance	£'m
Sales y.e. 31 December 2015	6.9
Operating margin	mid-teens%

Acquisition balance sheet	£'m
Tangible assets	0.6
Intangible assets	4.0
Goodwill	0.2
Total acquired assets	4.8
Satisfied by :	
Initial consideration	3.6
Working capital adjustment	0.1
Deferred consideration	1.1
Total consideration	4.8

Balance sheet

Net assets at 31 March 2016 were £10.5m (2015: £11.6m). The fall was driven by the increase in the net pension deficit as a result of falling equity values which were only partly offset by a marginal increase in corporate bond yields used to value the scheme liabilities.

The net liability for pension benefit obligations was £68.1m (2015: £61.2m) after allowing for a net deferred tax asset of £14.8m (2015: £14.5m). Overseas schemes now account for £24.2m (36%) of the post tax pension deficits and £20.5m of this is in respect of the German scheme which is not required to be prefunded (see Pensions section on pages 44 and 45).

Cash flow and borrowings

Cash generated from operations was £10.8m (2015: £12.8m). Capital expenditure was significantly up in the year at £9.5m (2015: £5.5m), an increase of 73%. This reflects the ample opportunities for attractive payback capital investments in our manufacturing facilities as well as catch up expenditure to upgrade our infrastructure.

Capital expenditure in the new financial year is expected to exceed £10.0m. A number of major projects totalling approximately £5.0m are already committed as at the date of this report and include one $2.8m project in the US and £1.2m in respect of the roll out of our global IT system.

Investments were also made in a number of stock lines to support new sales initiatives and new product launches. This in part explains the small rise in our working capital KPI (average working capital as a ratio of rolling 12 month sales) from 19.1% to 20.3% which was also adversely impacted by the slow down in demand. The absolute level of working capital was £1.0m higher than in the prior year (which excludes the impact of the Tooth Chain acquisition).

Group net borrowings at 31 March 2016 of £23.5m were £4.0m higher than the opening position of £19.5m comprising cash and cash equivalents of £13.5m (2015: £12.6m) and borrowings (which include £0.5m of preference stock) of £37.0m (2015: £32.1m). The increase in net debt is almost wholly explained by the initial cash payment for the Tooth Chain acquisition.

Debt facility and capital structure

In May 2015, the Group completed a process to amend and extend its core banking facility. The facility had been due to mature in October 2016 and was renewed with Lloyds Bank plc and Svenska Handelsbanken AB.

The amended facility comprises an unchanged committed £41m Multi-Currency Revolving Credit Facility (MCRF), but now also includes a £20.0m accordion feature. This can be used in the event of a significant investment or acquisition opportunity. Given that the amended facility has a five year term (matures in May 2020), it is likely to be an important foundation as the Group delivers the third, Acquisition, phase of STEP 2020.

The principal covenants remain unchanged, being the Net Debt/Adjusted EBITDA ratio (calculated on a rolling 12 months basis), which remains at a maximum of 2.5 times until maturity, and minimum Adjusted EBITDA/Interest cover which is also unchanged at 4.0 times until maturity.

The Net Debt/Adjusted EBITDA ratio as at 31 March 2016 is 1.1 times (2015: 0.9 times), based on the reported figures for the period as adjusted for the banking agreement. The Adjusted EBITDA/ interest cover as at 31 March 2016 is 13.6 times (2015: 12.1 times), again on a banking basis.

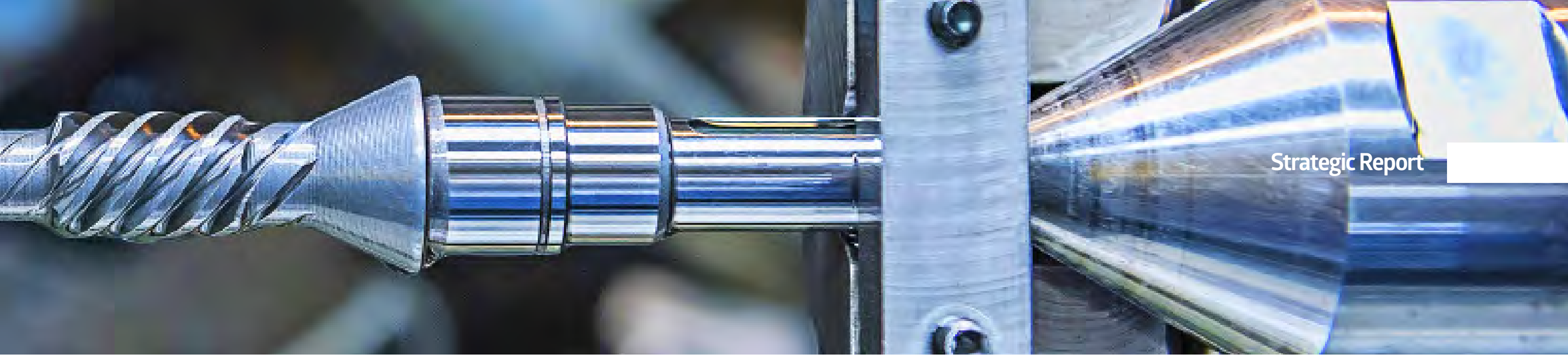
At 31 March 2016 the Group had unused credit facilities totalling £5.2m and cash balances of £13.5m. Total Group credit facilities amounted to £43.5m, all of which were committed.

Treasury and financial instruments

The Group's treasury policy, approved by the Directors, is to manage its funding requirements and treasury risks without undertaking any speculative risks. Treasury and financing matters are assessed further in the section on Principal risks and uncertainties on pages 49 to 54 Note 27 to the Group financial statements provides further details of financial instruments.

To manage foreign currency exchange risk on the translation of net investments, certain US Dollar denominated borrowings taken out in the UK to finance US acquisitions are designated as a hedge of the net investment in US subsidiaries. At 31 March 2016 this hedge was fully effective. The carrying value of these borrowings at 31 March 2016 was £6.1m (2015: £5.8m).

At 31 March 2016, the Group had 1% (2015: 2%) of its gross debt at fixed interest rates. Cash deposits are placed short term with banks where security and liquidity are the primary objectives. The Group has no significant concentrations of credit risk with sales made to a wide spread of customers, industries and geographies. Policies are in place to ensure that credit risk on individual customers is kept to a minimum.



Pension assets and liabilities

The Group has a mix of UK (82% of gross liabilities) and overseas (18%) defined benefit pension obligations as shown below.

	2016 Assets £m	2016 Liabilities £m	2016 Deficit £m	2015 Assets £m	2015 Liabilities £m	2015 Deficit £m
Defined benefit schemes						
UK funded	137.7	(191.3)	(53.6)	156.6	(201.5)	(44.9)
Overseas funded	11.4	(16.2)	(4.8)	14.7	(19.5)	(4.8)
Overseas unfunded	–	(24.5)	(24.5)	–	(26.0)	(26.0)
	149.1	(232.0)	(82.9)	171.3	(247.0)	(75.7)
Deferred tax asset			14.8			14.5
Net deficit			(68.1)			(61.2)

Detailed information on the Group's pension schemes is set out in Note 20 to the Group financial statements, including the key actuarial assumptions used in arriving at the IAS 19 valuation.

The Group's retirement benefit obligations increased from £75.7m (£61.2m net of deferred tax) at 31 March 2015 to £82.9m (£68.1m net of deferred tax) at 31 March 2016. The drivers of change are shown on the waterfall chart below.

The main reason for the change was the fall in UK liabilities being more than offset by the fall in the value of UK assets. In particular, growth assets such as equities and dynamic diversified growth funds, all suffered weak performance in the year.

The closure of the unfunded German scheme to future accrual and salary inflation reduced the liabilities by a further £1.6m. This was then offset by adverse foreign exchange movements of £2.4m. It is important to note that the change in discount rates used to value the schemes' liabilities balance has no impact on the cash contributions paid to the schemes and these remain stable. This stability is produced by the long term funding agreement put in place in 2013 when the previous three UK defined benefit pension schemes merged to form the Renold Pension Scheme (RPS).

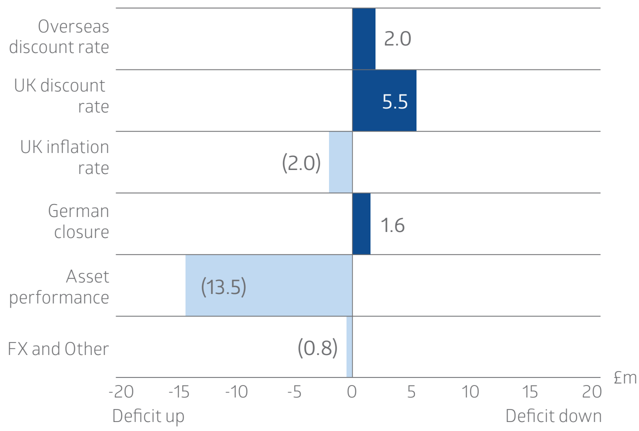
The Group's Australian defined benefit scheme had all of its member liabilities paid out in full while in a net surplus. The scheme is now undergoing a formal liquidation process following a similar project for one of the three US pension schemes in the prior year.

The aggregate expense of administering the pension schemes was £0.7m (2015: £0.5m) and is now included in operating costs but is excluded in arriving at adjusted operating profit.

The most recent triennial actuarial valuation of the RPS was completed with an effective date of 5 April 2013 and no additional contributions in excess of those generated by the asset backed funding structure were deemed necessary. The next triennial valuation is now underway with an effective date of 5 April 2016. The detailed structure and mechanics of the merger and underpinning asset backed funding structure are set out in Note 20 to the accounts.

Total cash costs for UK deficit repair payments and UK administrative expenses in the period were £3.4m (2015: £3.1m). The current year figure includes the £2.7m noted above in connection with the SLP, and a further £0.7m in administration costs. The main de-risking initiatives implemented in the year are described on pages 44 and 45 and included two medically underwritten insured buy-ins, each of which fully de-risked approximately 25% of current pensioner liabilities. Approximately 50% of current UK liabilities for pensions already in payment (approximately £50m) are therefore fully de-risked.

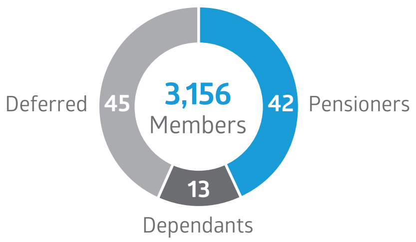
Drivers of pension deficit movement



Finance Director's Review

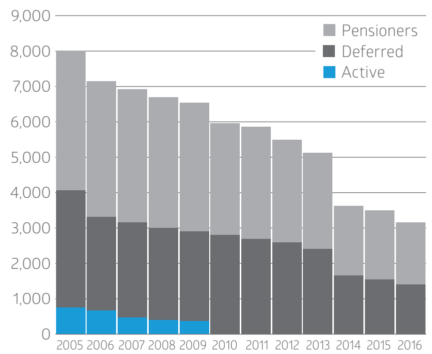
Pension Insights

UK membership today
%



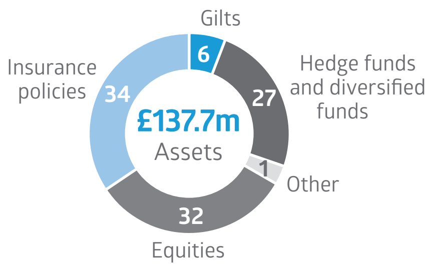
- The pie chart shows the current split of the membership of the UK pension scheme by membership category as at 31 March 2016.
- The membership profile has changed over the last decade with 55% of members being either pensioners or dependants compared to 49% in 2006.

Trends in UK scheme membership



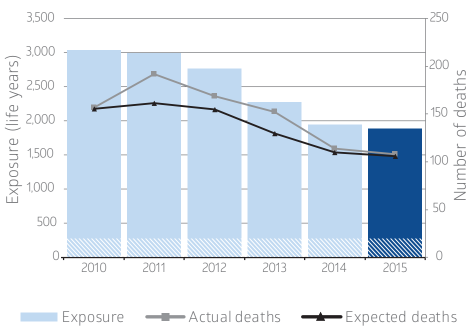
- Active members fell to zero as all three schemes were closed to future accrual by 2010.
- The bar chart shows the evolution of the total membership over the last six years and the numbers in each category.
- Total membership has fallen by 47% or 2,807 since 2010 or 61% since 2005.
- The step change in 2014 followed the merger of the three UK schemes when 1,316 members had their benefits paid out in full in wind up lump sums.
- A small pots exercise completed in 2016 and an additional 207 members had their benefits paid out in full.
- Of the remaining 3,156 members, approximately 500-600 will have their benefits discharged as a lump sum on retirement or dependency.

UK assets
%



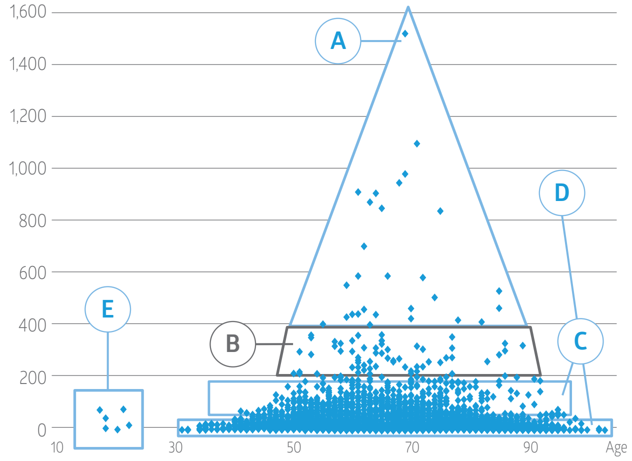
- Given the relative maturity of the scheme, and following the medically under-written insured buy-ins, 67% of assets are now invested in insurance policies, corporate bonds, liability driven investments and diversified growth funds. They are held primarily to generate an income stream that supports the ongoing annual pension payments (currently circa £9.5m including cash lump sums on retirement).
- The overall target for UK portfolio returns is 5.5%. The actual UK return in the year was a loss of £8.5m (or 5.4% loss).
- It should be noted that the diversified growth funds have characteristics of both protection assets (returns are lower and less volatile than equities) and growth assets (return targets are higher than simple gilts and bonds).

Mortality and mortality exposure

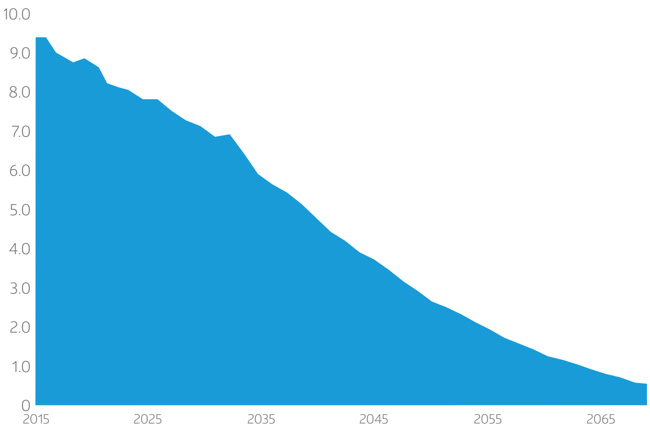


- The chart to the left shows a comparison between expected and mortality in the UK scheme based on the assumptions underlying the March 2016 Annual Report and the actual mortality experience.
- The chart also shows the number of life years that could be expected to die each year (referred to as 'Exposure').
- The fall in Exposure over the years has largely been driven by the significant falls in membership numbers resulting from of the scheme merger and various small pots exercises as well as mortality itself and the age of the membership.
- The chart clearly shows that even based on the current strong mortality assumptions, actual experience has been higher than expected in every year shown. If mortality continued at a higher rate than assumed, all else being equal, the level of future pension payments would fall.

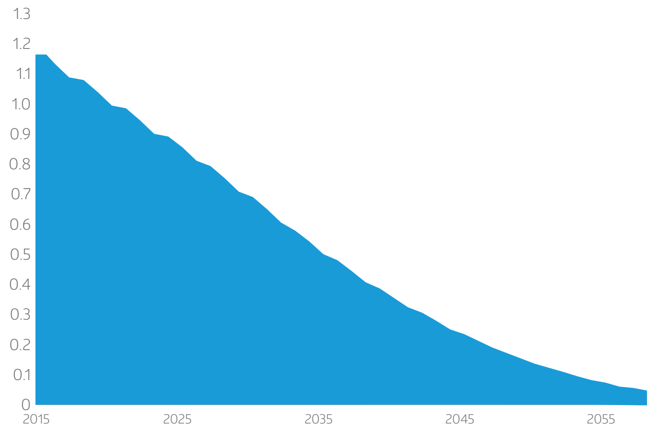
Targeted UK pensions strategy
£'000



Discounted future scheme cash flows – UK
£m



Discounted future scheme cash flows – Germany
£m



The chart on the upper left shows a breakdown for UK scheme members, by age on the x-axis and calculated pension pot on the y-axis. Each point represents one member. It can be seen that there are a small number of members with large pots and a large number with small pots. Liabilities and risks are concentrated in the members with the large pots whereas administrative and governance costs are concentrated in the members with small pots. The shapes on the chart, as described below, represent differential strategic options available to the Group to manage risk and exposure from the defined benefit legacy scheme in the UK:

A. Small number of members with large pensions in excess of £20k per annum. These were de-risked in full during the year when the Group completed its first medically underwritten insured buy-in of approximately £25m of liabilities;

B. The next tier down of pensions above £10k per annum. A further attractive opportunity arose for another medically underwritten insured buy-in and this was also completed during the year.

C. A larger number of members who are able to take advantage of the new retirement flexibilities offered by recent changes in legislation. The Group will ensure that all members are aware of their new options. It should be emphasised that these are member options and cannot be forced by the Group;

D. Members whose pension pots make them eligible for the new trivial commutation allowance limit of £10,000, available after age 55, which allow small pots to be paid out in full. The exercise in the year paid out 207 small pot members with 500-600 to be carried out when the members retire; and

E. A small number of young dependent pensioners whose liability will cease when they reach the age of maturity.

The two lower charts show discounted future cash flows for the UK and German schemes. Both show mature schemes that have passed peak funding and are therefore exposed to less risk than schemes that have not yet reached that point.

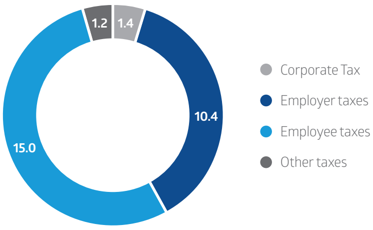
Finance Director's Review

Taxation
Renold makes a significant economic contribution in the countries where it operates. Not only through direct investment and employment but also through the various taxation payments and social contributions borne by the Group or collected on behalf of, and paid to, the relevant tax authorities.

Globally, Renold employs 2,232 people and paid employer tax and social security contributions of £10.6m in respect of wages and salaries in the year. The Group also collected and paid significantly more employee taxes and social security contributions on behalf of the tax authorities.

Total tax contributions
The table below analyses the types of tax paid by the Group by type and by jurisdiction.

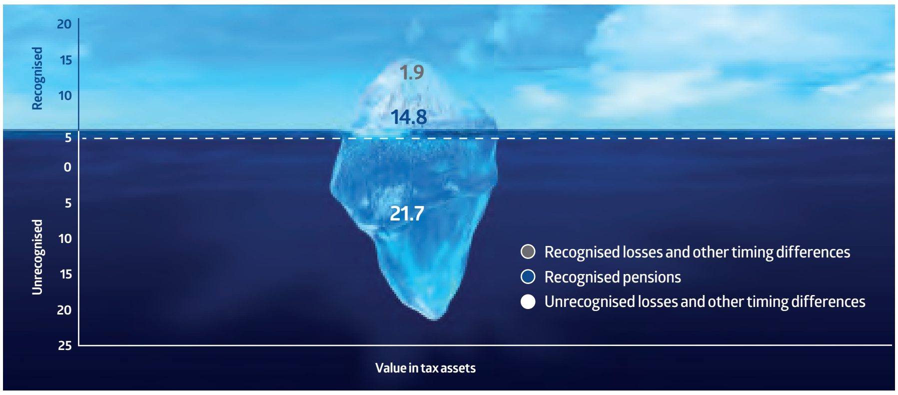
Cash tax contribution by type
£m



The Group also paid £2.5m directly in relation to other taxes such as capital taxes and net VAT. The actual gross amounts collected on behalf of and paid to the tax authorities was significantly more than this.

The Group's approach to taxation does not include aggressive tax strategies. However, we do aim to mitigate the burden of taxation in a responsible manner including managing relationships with tax authorities on the basis of full disclosure, co-operation and adherence to the tax rules in force. The most simple and least contentious method by which the Group aims to pay a fair share of taxes is to ensure that the Group can make full use of accrued tax losses and capital asset deductions.

The primary reason why the Group has relatively low cash taxes is the previous poor trading record in a number of territories. The Group continued to invest in these businesses and as a result has



continued to make a significant economic contribution in those territories via continued employment and investment despite the challenging trading conditions. As a consequence, in certain territories the Group has accumulated tax losses that can be used to offset future taxable profits generated in those same territories.

STEP 2020 aims to improve business processes and manufacturing efficiency within existing businesses. The Group therefore invests in capital expenditure and research and development projects, taking advantage of tax incentives that arise naturally from these forms of expenditure.

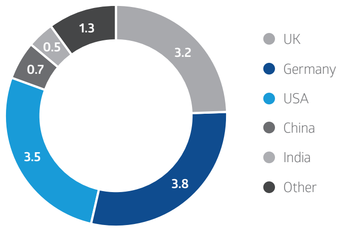
The iceberg graphic above highlights the value of the tax assets available to the Group.

Deferred tax assets
The iceberg shows the total of deferred tax assets for the Group split between those recognised in the financial statements of £16.7m (2015: £17.1m) and those that are not recognised of £21.7m (2015: £22.5m). The Group is actively looking at ways to use these assets. A significant proportion relate directly to and partly offset our pension deficit.

It also emphasises the value hiding beneath the surface in the form of unrecognised assets. The total value of tax losses in a number of locations is not fully recognised in the balance sheet. Accounting standards require "reasonable certainty" that assets will be utilised in order to recognise them. The Group's policy on "reasonable certainty" is set out on page 171.

The Group paid £1.0m in corporate tax on profits in the period as the Group continues to benefit from the utilisation of tax assets held in certain territories which have been brought forward from prior years.

Total cash taxes paid by jurisdiction
£m



The Audit Committee annually reviews the Group's tax strategy to monitor compliance with these policies, ensuring tax activities remain within the low risk appetite the Board has set for taxation.

Finance Director's summary
In difficult trading conditions we have managed to keep on track with our STEP 2020 Strategic Plan. Our breakeven point has been lowered further and our operating margin maintained despite the 8.9% fall in underlying Group revenue.

We continue to make revenue expenditure and capital investments to support further progress. We were also able to fund our first bolt on acquisition from our existing financial resources. Further de-risking of pension schemes was achieved in three separate territories and our new five year financing facility is an excellent platform for future developments.

Brian Tenner
Finance Director

Risk

Active risk management is a key business process at Renold. In the current uncertain markets with macroeconomic volatility, widespread votalility in geographies and market sectors, as well as extreme movements in financial markets, its relevance to safeguarding shareholder value is even more critical.

Our Risk report should be read in conjunction with the Viability Statement on page 55

Our approach to risk

The management of risk in the business is fundamental to the ability of the Group to successfully deliver the Step 2020 Strategic Plan.

Renold's risk management framework is designed to identify and assess the probability and consequences of risks occurring, to manage the actions necessary to reduce those risks, and to mitigate their potential impact.

The Board has overall responsibility and oversight of the risk management framework and is also responsible for setting the parameters of acceptable and unacceptable risk (often referred to as 'risk appetite').

Renold's risk appetite

The Board acknowledges that the Group is exposed to risk during the normal course of business. Renold must be willing to accept an appropriate level of risk in order to achieve its strategic objectives. The Board's attitude to risk management and its appetite for risk can be described as 'tending to risk averse'. This reflects the relative maturity and stability of our markets and products and also the current financial performance and condition of the Group.

For further information on internal audit see the Audit Committee Report on pages 76 to 83

Risk management framework

As described in the chart below, we apply a combination of bottom up and top down approaches in our risk management framework.

The Board

- Sets the 'Tone at the Top' – the culture adopted in respect of risk
- Responsible for Risk Management and Internal Control Processes
- Sets direction for key focus areas (e.g. Health and Safety)
- Defines acceptable levels of risk (referred to as our 'Risk Appetite')
- Monitors compliance with our Risk Appetite and completion of action plans

Audit Committee

- Supports the Board in review of risk management process
- Particular emphasis on monitoring completion of risk mitigation actions

Executive Risk Management and Monitoring Committee

- Critique of local risk registers
- Challenge and review of completed actions
- Shares best practice risks and solutions across the Group

Internal audit

- Reviews local risk management process
- Reviews status of risk management actions

Business units

- Detailed local risk registers and action plans
- Ongoing action management and tracking
- Embedding Group culture and risk appetite at a local level
- Process for global alerts to share emerging risks and best practice

Our risk management process: The Executive Risk Management and Monitoring Committee

The Board reviews the principal risks and uncertainties together with the actions taken and relevant mitigating controls. The Group Executive Risk Management and Monitoring Committee (ERMMC) is a subcommittee of the main Board. The ERMMC is chaired by the Group Chief Executive and meets at least four times per year.

The ERMMC is comprised of the Executive Directors. The Chairman invites attendance to the ERMMC of any employee as appropriate depending upon the nature of the risks to be considered at any one time. The Group Business Systems Director, the Group HR Director, the Group Head of Risk and Assurance and the Group Legal Manager and Company Secretary currently attend by invitation.

Each ERMMC meeting is informed by a detailed risk management status report. This report provides an insight on new risks and progress on mitigating actions on all risks. Other topical risk issues also feature on the standing agenda. For example, a small contained fire in one facility's oil quench tank was used as a case study to identify similar risks in other facilities and the actions required to mitigate those risks. The ERMMC is also provided with information in the form of reports on health and safety, treasury, insurance and material litigation.

All ERMMC minutes and the risk status reports are reviewed and discussed by the Audit Committee. The Audit Committee subsequently reports to the Board.

Risk

How we assess risk

Our approach combines sharing best practice across sites, expert guidance from the Group Head of Risk and Assurance, and local ‘on the ground’ experience and knowledge of specific risk factors.

Risk workshops involving local and functional staff are used to develop risk profiles and action plans. The Group Head of Risk and Assurance facilitates the end to end risk management process, ensuring consistency of approach and compliance with Group Policy.

The Group has now built up a Renold specific risk library of common risks. These were very helpful as part of the acquisition due diligence on our purchase of the Aventics Tooth Chain business.

Risks are assessed against the framework defined in the Group Risk Management Policy. The Policy aims to address:

- → The probability of a risk crystallising;
- → The potential impact if the risk crystallised.

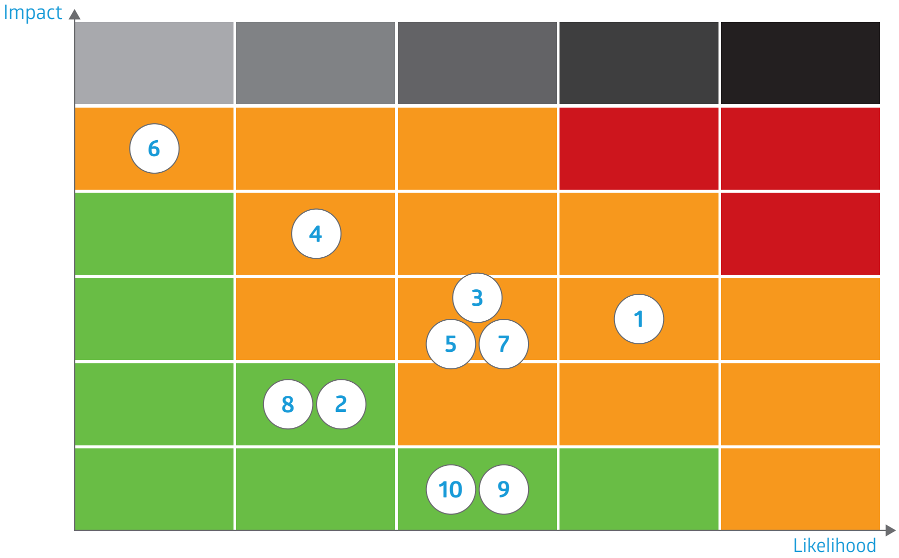
These are scored and then placed on the risk heat map, which is a matrix of probability and impact, shown above. Our model also considers each risk from two different perspectives:

- → The extent of inherent risk (i.e. before any mitigating controls or actions);
- → The extent of residual risk (i.e. after mitigating controls and actions).

Mitigation can influence risk probability, impact or, in some cases, both of these.

Over the last four years, the Group has deployed an online Integrated Risk Management System (IRMS) across the world. This is used to capture risk profiles and their probability and impact characteristics. The IRMS directly feeds the production of the management reports mentioned above.

Risk heat map as at 31 March 2016



How we manage risk

Having identified the risks the business faces and having scored them against the Risk Appetite set by the Board, our Group Policy then provides guidance on how to manage those risks, depending on where they sit on the risk heat map.

The ‘heat map’ shows the four bandings in the different shades of risks as set out below as well as expected actions and responses to risks in these areas:

- → Green: within appetite. Ongoing monitoring in place.
- → Amber: marginally out of appetite. Some actions and controls are likely to have already been completed with more due for completion in the medium term.
- → Red: significantly out of appetite. High combination of residual probability and impact. Expect regular monitoring and completion of significant mitigating actions and controls in the short term.
- → Grey: risks that are deemed to have such an impact that they could theoretically impact the ability of the business to continue in existence. If any, they would need consideration in assessing the Directors' Viability Statement.
- → Management actions are focused on those risks deemed not yet within appetite to reduce the likelihood that a risk will arise and/or mitigate any impact. It should be noted that there is no level of acceptable health and safety risk. That topic will always be under active management.

The IRMS is used to track actions and automatically links these to the associated risks. The IRMS therefore operates as a live management tool that assists staff in actions management and also in the production of real time risk status reports.

Use of the IRMS was extended during the year to capture environment, health and safety hazard assessments.

Key: Risk Heat Map

1 Economic/Political Volatility	3 Aquisitions/Business Development	5 Use of IT	7 People	9 Pensions
2 Strategy	4 Health & Safety	6 Business Continuation	8 Liquidity/Banking	10 Legal

Principal Risks and Uncertainties

Principal risks and uncertainties

The Board has carried out a robust assessment of the principal risks facing the business. This is a dynamic activity that reflects significant changes in our operating environment.

As noted above, the Executive Risk Management and Monitoring Committee monitors the ongoing identification and assessment of risks, reviews all risks in the IRMS and reports material risks to the Audit Committee.

Set out on pages 49 to 54 are the principal risks and uncertainties which could have a material impact on the Group. The numbers correspond to the risk identified on the heat map.

These risks have changed over the year as the Board has critically reassessed the risks we face in light of the Group's progress on its STEP 2020 Strategic Plan and the volatility in our end markets. As a result, a new risk reflecting the start of the acquisition phase of STEP 2020 has become an additional risk this year. This phase of the strategy includes selective bolt-on acquisitions and has begun with the acquisition of the Aventics Tooth Chain business. Some other risks listed in the previous year have been merged and now form part of the Macro-Economic and Political Volatility risk.

We indicate whether or not we consider the probability or impact of the risks materialising are increasing, decreasing or constant and set out the corresponding mitigating actions that have been taken by the Group. We also show which of our strategic objectives could be impacted by the risk.

It is worth noting that additional risks, as yet unknown, or which are currently regarded as immaterial could also affect future performance particularly in times of internal and external change.

1 Macro-Economic and Political Volatility

2016 TREND

2015 TREND

Detailed risk

Material changes in prevailing macro-economic or political conditions could have a detrimental impact on business performance. We operate in 18 countries and sell to customers in over 100 and therefore we are necessarily exposed to economic and political risks in these territories.

Of particular note at present is the ongoing feature of suppressed commodity prices which have a negative impact on demand in the whole supply chain. This ranges from extraction or production of raw materials (such as iron ore mines) to the processing industries associated with them (such as steel mills) and also to those supporting the supply chain (such as electricity production or plant maintenance companies).

Foreign exchange volatility is also a current active risk that can also impact customer buying patterns, leading to lower demand or the need to rapidly switch supply chains.

The political issues affecting the UK and Europe are also impacting business sentiment and hence demand additional consideration. The question of Britain's membership of the EU (Brexit) is one facet of this and additional assessment of this is set out on page 54.

Link to Strategic Objectives 2 7

Potential impact

Adverse macro-economic or political changes in any of our key territories (USA, UK, Germany, Australia) could have a material negative effect on the Group's financial performance and condition, particularly impacting demand and revenue. This is one beneficiary of our objective to lower our breakeven point.

Approximately 35% of the Group's sales value is spent on raw materials with steel being the primary purchase.

Steel prices experienced by the Group have been relatively stable recently following previous periods of considerable volatility. Unrecovered cost increases would have a material effect on the Group's financial performance.

Existing mitigation controls

- Our diversified geographic footprint inherently exposes us to more countries where risks arise but conversely mitigates the risk of over-exposure in any one country.
- Actions to lower the Group's overall breakeven point also serve to reduce the impact of any global economic slowdown (clearly evidenced with a £16.2m drop in sales hitting the bottom line by only £1.3m).
- A focus on "predict and respond", for example, sales forecasting and raw material price monitoring.
- Strong core banking group with multi-currency debt facility.
- Operation of a net cash flow hedging strategy approved by the Board, which provided cover over a four quarter period on a rolling reducing basis for major currencies, has been extended to six quarters of coverage at slightly higher levels.

Read more about our Macro Political & Economic Volatility in the specific context of "Brexit" on page 54

Principal Risks and Uncertainties

2 Strategy Execution

2016 TREND
2015 TREND

Detailed risk

The Group's strategy requires the co-ordinated delivery of a number of complex projects. These often require collaboration across geographies, markets and functions and depend on the capabilities of our people, processes and systems.

Link to Strategic Objectives 2 3 4 5 6 7

Potential impact

The inter-linked nature of many of the projects means that issues on one project can impact many others and either lead to additional cost and/or slow down the delivery of the anticipated benefits.

Ultimately, if not managed and executed successfully and efficiently, the delivery of the Group's strategic objectives and long-term growth in shareholder value could be compromised.

Existing mitigation controls

- The STEP 2020 Strategic Plan has been developed to deliver a turnaround in performance and to make that performance more stable and less exposed to revenue volatility.
- The Board reviews progress against the different STEP 2020 projects in each of its meetings. This is based on a regularly updated report from the CEO which groups the individual projects into themes linked directly to our strategic objectives.
- Major projects are all managed in accordance with best practice project management techniques with at least one member of the Executive team on the relevant Steering Committees.

3 Acquisitions and Business Development

2016 TREND
2015 TREND

Detailed risk

While not currently actively pursuing acquisitions, the Board has stated that where an opportunity arises, Renold will consider it on a case by case basis. This was the situation with the Tooth Chain acquisition during the year.

Link to Strategic Objectives 2 5 7

Potential impact

Any acquisition involves risks at various stages of the project life cycle.

During the Acquisition phase, value can be lost through over-paying, missing key issues in due diligence or potential value leakage through poor contract negotiation. Value can also be lost through a poorly planned or executed integration phase. Finally, failure to deliver anticipated benefits during the 'business as usual' phase can also lead to a loss of value.

Existing mitigation controls

- Monitoring of specific acquisition targets; Business Acquisition Process incorporating Concept Evaluation, Business Case, Indicative Offer/ Heads of Terms, Due Diligence (covering a range of criteria), Integration Planning and Execution and Post Integration Appraisal which in turn feeds back to the Business Acquisition Process.
- Use of third party specialists as necessary subject to the specifics of each acquisition.
- Formation of top-down cross functional business integration project teams and plans. These specifically address any issues or risks identified during the Acquisition phase.
- Deployment of detailed benefits realisation plans.

Read more about our recent acquisition on page 08 to 09

Key: Trend Impact

Low impact · Medium impact · High impact

Trend Direction

Increasing · Unchanged · Decreasing

Pictured: At our Gears facility in the UK, pairing of large worm gear sets used in coal crushers.

4 Health and Safety in the Workplace

2016 TREND

2015 TREND

Detailed risk

The risk of death or serious injury to employees or third parties associated with Renold's worldwide operation. A lack of robust safety processes and procedures could result in accidents involving Renold employees and others on Renold premises.

The risk assessment reflects the fact that increased management focus and responses to audit findings have led to a significant improvement in our health and safety KPIs.

Link to Strategic Objectives 1

Potential impact

Accidents caused by a lack of robust safety procedures could harm our employees. This is unacceptable. In addition, accidents could result in civil or criminal liability for both the Group and the Directors and officers of the Group and Group companies. Any incident has the potential to be a cause of business interruption and serious reputational damage.

Existing mitigation controls

- Groupwide health and safety policies contained within a documented management system have been rolled out across the Group.
- Health and safety audits and enhanced reporting have been implemented at all sites. Senior management training globally.
- The Group has employed a full time HSE Assurance Manager since 2013.
- Continual risk assessments to ensure awareness of risks.
- Live tracking of accident rates and root cause analysis via the IRMS, Monthly Board Reporting and review across a range of KPIs.
- Specific initiatives include the launch of both the BAT safety logo and the Annual H&S Awards Scheme to recognise success.

Read more about our Health & Safety Awards on pages 56 and 57

5 Effective Deployment and Utilisation of Information Technology Systems

2016 TREND

2015 TREND

Detailed risk

Like all modern businesses, Renold relies on IT systems in all aspects of its activities, from engineering design, to computer controlled manufacturing, to time and attendance payroll, to monitoring and reporting performance.

The Group is presently implementing a global ERP system to replace numerous legacy systems which inherently brings with it the risks associated with a large scale change programme.

The risk that IT is not effectively utilised in support of delivering the Group's strategic objectives e.g. process standardisation and to underpin active and accurate management decisions.

The Group's legacy systems are less robust and less efficient than new systems and hence more susceptible to failure. Equally, some older systems do not allow data mining for more effective root cause analysis of business issues.

Link to Strategic Objectives 3 4 5

Potential impact

Interruption or failure of these IT systems would negatively impact or indeed prevent some business activities from occurring. If the interruption was long lasting, significant damage could be done to the business.

An unsuccessful implementation of the global ERP system at an individual site could seriously impact that site's and possibly the Group's performance.

The risk is assessed as increasing as we have now entered the implementation phase whereas the prior year was the planning phase. A robust implementation methodology will allow this to be reduced in the near term.

Existing mitigation controls

- Short term stabilisation of existing hardware and legacy software platforms.
- Governance and control arrangement operating over the Group's ERP implementation programme.
- Use of specialist external consultants on this project and recruitment of experienced personnel.
- Phased implementation rather than 'big bang.'
- Project assurance and lessons learned reviews to continuously improve the quality of successive roll outs.
- Template blueprint agreed to form the basis of the implementations.
- Steering Committee in operation with cascading project management disciplines.

Principal Risks and Uncertainties

6 Prolonged Loss of a Manufacturing Site

2016 TREND
2015 TREND

Detailed risk

A catastrophic loss of the use of all or a portion of any of Renold's factories or distribution centres. This could result from an accident, a strike by employees, fire, severe weather or other cause outside management control.

Link to Strategic Objectives 5 7

Potential impact

In the short or long term, any of these could adversely affect the Group's ability to meet the demands of its customers.

Specifically, this could entail significant repair costs or costs of alternate supply while repairs are made. A significant proportion of the Group's revenue is on relatively short lead times and a break in our supply chain would mean this business is lost. All of this translates into lower sales and profits.

Existing mitigation controls

- Preventative maintenance programmes and new investments to reduce risk of interruption of manufacturing.
- Group Fire Safety Policy being enhanced, to prevent, detect and contain a fire.
- Alternate manufacturing capacity exists for a substantial portion of the Group's product range.
- Core sites maintain a Business Continuity Plan for use in the event of a serious business disruption.
- Inventory maintained to absorb and flatten out raw material supply and production volatility.
- The Group has comprehensive insurance policies to mitigate the impact of a number of these risks.

7 People and Change

2016 TREND
2015 TREND

Detailed risk

The Group's operations are dependent upon the ability to attract and retain the right people with an appropriate range of skills and experience. In order to implement the many challenging change initiatives required by our STEP 2020 Strategic Plan, including growing the business, the Group needs fit for purpose incentives and retention mechanisms to ensure key employees will remain with the Group.

Finally, succession planning and the ability to swiftly replace staff retiring or leaving is also critical to avoid losing momentum in STEP 2020. In the short or long term this could adversely affect the Group's ability to meet the demands of its customers.

Link to Strategic Objectives 1 4 6

Potential impact

Failure to retain, attract or motivate the required calibre of employees will negatively impact operational and financial performance. The delivery of STEP 2020 and our strategic goals may also be delayed.

Existing mitigation controls

- Competitive reward programmes, focused training and development, and a talent retention programme.
- Ongoing reviews of succession plans based on business needs.
- Informal performance management and training programmes. Formal personal development review process to be rolled out in the new financial year.
- Management team strengthened with new capability from external hires and internal promotions.
- The Renold Values were launched in 2015.

Read more about our Values Statement on page 60

Key: Trend Impact

Low impact · Medium impact · High impact

Trend Direction

Increasing · Unchanged · Decreasing

8 Liquidity, Foreign Exchange and Banking Arrangements

Detailed risk
A lack of sufficient liquidity and flexibility in banking arrangements could inhibit the Group's ability to invest for the future or, in extremes, restrict day to day operations.

In the past, banking markets and Renold's own performance have made access to debt facilities difficult. Volatility in foreign exchange rates can have a direct impact on profitability in the short term and longer term can impact competitiveness and demand for the Group's products.

Link to Strategic Objectives 4 5 7

Potential impact
- Potentially cause under investment and sub-optimal short term decision making;
- Limiting investment could prevent efficiency savings and reduce competitiveness; and
- In an extreme situation, the Group's ability to operate as a going concern could also be jeopardised.

Read more about our Treasury Management on page 42

Existing mitigation controls
- The Group's primary banking facility expires May 2020 and is fully available given current levels of profitability.
- The facility includes additional draw down capability, accessible as long as financial covenants are complied with.
- Six quarters of rolling forward FX cover.

9 Pensions Deficit Volatility

Detailed risk
The principal pensions risk is that short term cash funding requirements of legacy pension scheme diverts much needed investment away from the Group's operations.

Secondly, the size of the reported balance sheet deficit can operate as a disincentive to potential investors or other stakeholders. Thirdly, balance sheet deficits can fluctuate based on market conditions outside the control of management.

Link to Strategic Objectives 7

Potential impact
Given the Group's cash needs to invest in the business, the pace of performance improvement could be slowed if cash has to be diverted to the pension schemes.

The balance sheet pension deficit and its volatility could act as a disincentive to potential investors and could reduce the Group's ability to raise new equity or debt financing.

Read more about approach to our Pensions on pages 43 to 45

Existing mitigation controls
- The Pension Strategy has been updated to 2020.
- The major UK pension cash flows (50% of all defined benefit pension cash costs) are stable under the 25 year asset backed funding scheme put in place during 2013. A further 25% of the annual cash flows are pensions in payment in Germany in a mature scheme that has passed its peak funding requirement. All pension risks are actively managed in line with the Group's risk management system covering investment and liability management issues.

10 Regulatory and Legal Compliance

Detailed risk
The risk of censure, fine or business prohibition as a result of any part of the Group failing to comply with regulatory or legal obligations.

Risks related to regulatory and legislative changes include the inability of the Group to comply with current, changing or new requirements.

Many of the Group's business activities are subject to increasing regulation and enforcement by relevant authorities.

Link to Strategic Objectives 7

Potential impact
Failure by the Group or its representatives to abide by applicable laws and regulations could result in:
- Administrative, civil or criminal liability;
- Significant fines and penalties;
- Suspension of the Group from trading; and
- Reputational damage.

Existing mitigation controls
- Communication of a clear compliance culture.
- Risk assessments and ongoing compliance reviews at least annually at all major locations.
- Published up to date policies and procedures with clear guidance and training issued to all employees.
- Monitoring of compliance with nominated accountable managers in each business unit.

Principal Risks and Uncertainties

"Brexit": the risk of a British exit from the European Union.

The upcoming referendum on Britain's membership of the European Union (EU) is a live issue for most international industrial companies. There are many conflicting views on what the impact of a decision to leave would be in both the short term and the medium to long term.

Indeed there are also conflicting views on what the impact of a decision to stay would be. The uncertainty arising as a result of the process leading up to the referendum is itself an issue.

The Board has considered each issue from a risk perspective as well as the risk of the uncertainty caused by the Brexit debate.

Rather than try to predict the outcome of the referendum or its impact on each issue, the Board has focused on assessing whether the Group will be able to manage under the various potential outcomes. In many ways Brexit impacts or exacerbates risk already identified and under management by the Group. These risks and associated strategic objectives are set out below:

Risks	Impacted Strategic Objective
Current risks → Macroeconomic and Political Volatility → Strategy execution → Liquidity and foreign exchange volatility → Regulatory and legal compliance **Brexit specific risks** → Heightened uncertainty	2 Generating margin enhancing growth 5 Lowering our breakeven point 7 Strengthening and de-risking our balance sheet

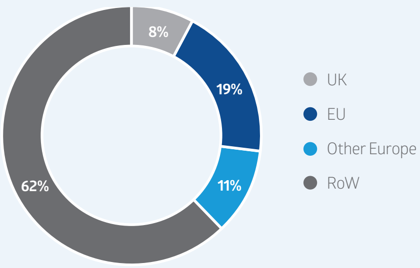
The Group's diverse sales and manufacturing territories as well as the low sector and customer concentration mean that the Group is already partly insulated from a catastrophic event in one territory. However, as the charts below show, the Group derives a significant proportion of its external sales revenue from either the UK or EU countries. The Group also sources an even higher proportion of its manufactured products from those territories. The third graphic emphasises the scale of the trading relationship between the UK and Europe from a Renold perspective. The graphic shows the value and proportion of Group sales to Europe manufactured in the UK and vice versa. As such the Group is both a net exporter from the UK and from the EU. Any assessment of the impact of Brexit on the Group can therefore be seen in the context of whether or not the impact on a net exporter is perceived as positive or negative.

Foreign exchange risk is managed in the short term through an ongoing, rolling programme of forward foreign exchange contracts. Any permanent longer term impact on the attractiveness or otherwise of an exporting or importing country would have to be managed via the Group's diverse geographical footprint. While this could be expensive and take time, the Group would not have to set up from scratch in any of the current countries that might be impacted by Brexit.

The Board does not have a specific view on the answer to the Brexit question. However, like most manufacturing businesses, the Board believes that uncertainty itself is bad for business, particularly when it is significant in potential scale and impact. Therefore, the Board does consider that the existing uncertainty in the run up to Brexit is potentially adversely impacting customers' buying patterns, particularly on longer term capital projects. To the extent that a vote for Brexit would extend this uncertainty in the short to medium term, this would be seen in a negative light.

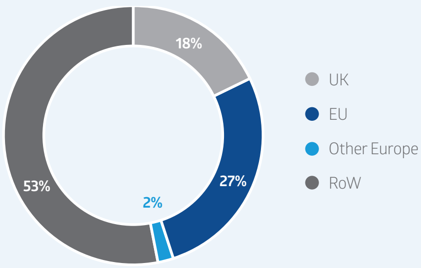
External sales

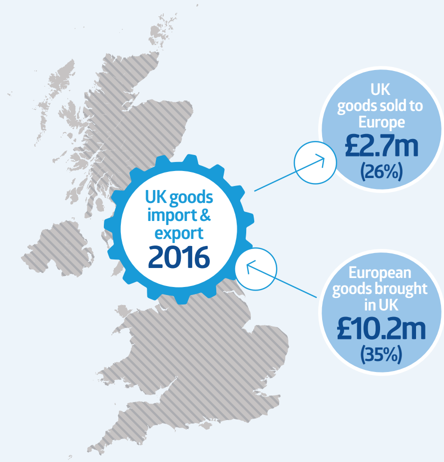
Proportion of sales within UK / EU / World

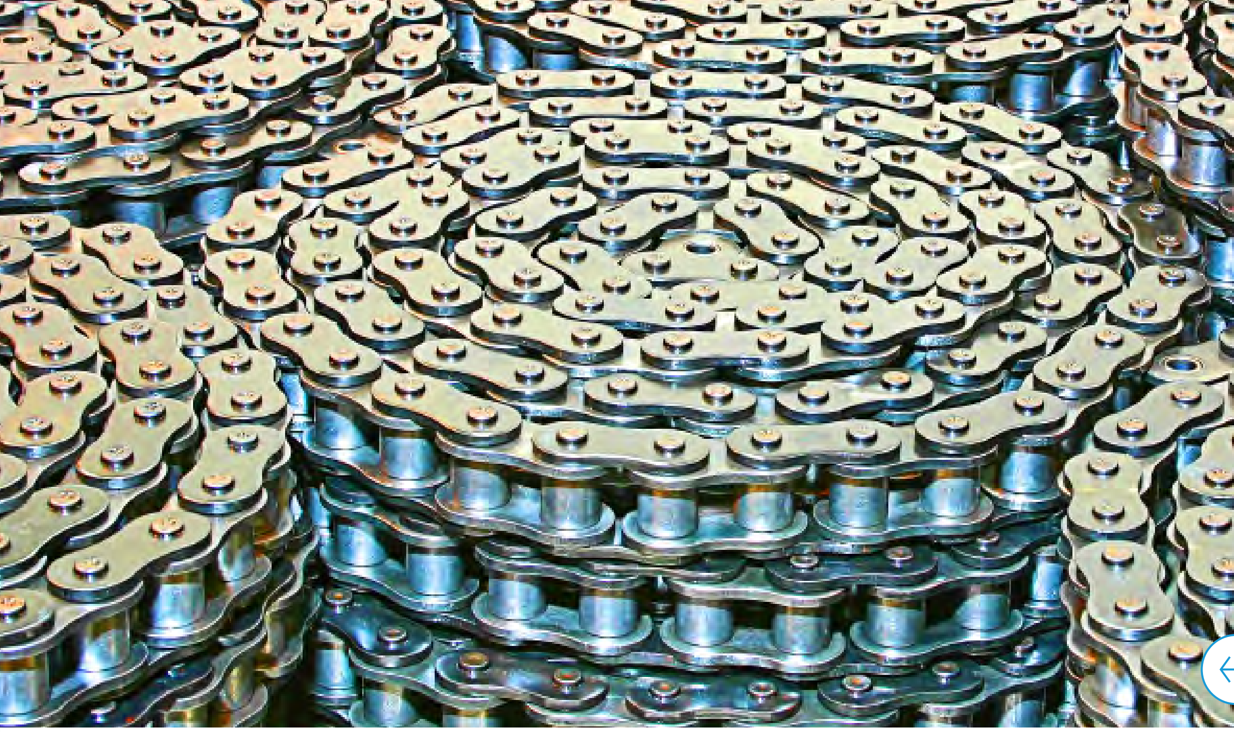


Manufacturing source for sales

Exports / imports to and from UK / EU / RoW







Pictured: Transmission chain manufactured to ensure consistent quality and good performance.

Viability Statement

The revised UK Corporate Governance Code requires the Directors to assess the prospects of the Group over a period significantly longer than 12 months from the date of approval of the financial statements. The 12 month requirement was the basis for assessing the going concern basis.

The Group's STEP 2020 Strategic Plan covers the four year period to March 2020. The Group's core financing facility expires in May 2020 but, following normal market practice, is likely to be re-negotiated 12 months earlier in 2019. The Board determined that the three year period to March 2019 was the appropriate and relevant period over which to perform the viability review as it would be based on a set of forecasts already contained in the Group's Strategic Plan but also reflected the possible desire to re-finance in 2019. The Board is not aware of any reason why the Group would not be able to re-finance in 2019 on comparable market based terms at that time.

As in prior years, the Board and Audit Committee have continued to review and assess the Group's ongoing risk appetite, register of principal risks and progress on actions to mitigate the probability and impact of risks crystallising. The internal control structures and processes described on pages 68 to 74 also serve to mitigate overexposure to single risk events that could threaten the Group's longer term viability. While all risks have the potential to impact longer term viability, the principal risks deemed more relevant for a reasonable assessment of viability are set out below:

- Strategy Execution: the risk of the Group's inability to successfully implement STEP 2020 which could lead to the Group continuing to experience volatile financial results and weak levels of cash generation. This has the additional potential impact of making it difficult to re-finance the Group in 2019.
- Macro-economic and political volatility: uncertainty driven by global events is undoubtedly suppressing demand. These events range from the Euro crisis, to Grexit, to Brexit (see page 54) to migration, to the US elections and further. As an international manufacturing business the Group is dependent on stable trading environments to deliver our products and shareholder value. A catastrophic failure in the Eurozone or the European Union, for example, could seriously undermine the Group's longer term prospects.

The Board has continued to review the STEP 2020 Strategic Plan during the current year. This included an additional detailed review of our markets, competitors and product strategies in addition to financial forecasts. The detailed review assessed the results of stress tests on financial forecasts and also financing options around our acquisition strategy in Phase 3 of STEP 2020. In these stress tests a number of scenarios were reviewed including one in which sales levels were a further 10% below the year ended 31 March 2016 and a second in which sales growth was limited to being 50% below future growth plans. The Board thereby assessed the potential impact of the risks noted above which could affect solvency or liquidity in "severe but plausible" scenarios over the three year period and concluded that the business would remain viable.

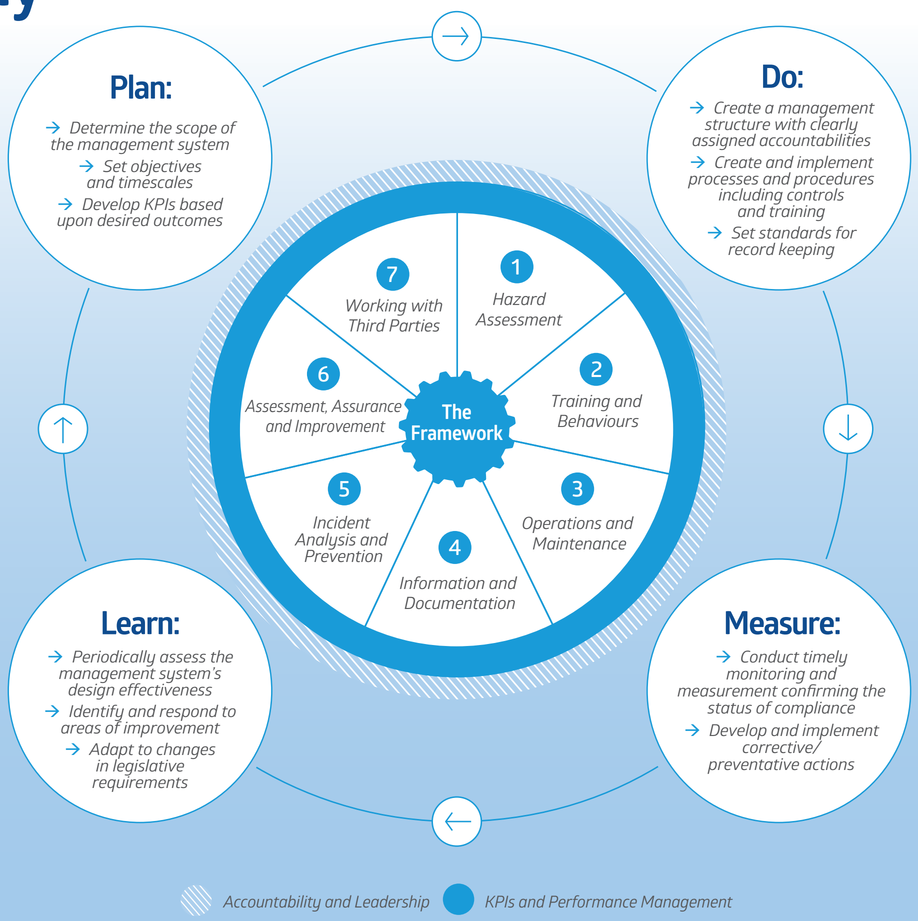
The Group maintains a conservative approach to borrowing and while our banking covenants have leverage limits of 2.5x Adjusted EBITDA, the Board makes a point of seeking always to operate within an internally imposed 2.0x leverage limit which ensures there is access to a short term borrowing buffer to cope with any short term financial shocks.

The Group's currently expanded capital investment programme was also included in viability assessments to confirm the degree and period for which it could be curtailed without doing permanent long term damage to the business. Current capital spend plans of approximately £12.0m p.a. are almost double what could reasonably be described as 'maintenance' capital spend and hence provide additional comfort.

Based on the results of the processes described above and the Board's overall comprehensive and proactive approach to risk management, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

Health and Safety

We firmly believe that a safe business is a well run and profitable business. Our health and safety KPIs show considerable improvement this year as a result of significant work to change our health and safety culture and working practices.



Key strategic objective

Renold places significant emphasis on the safety of its employees and those impacted by our activities. No activity is so critical or urgent that it may be done in an unsafe and uncontrolled manner. Safety at Renold remains paramount.

Significantly improving our health and safety performance is Renold's number one strategic objective. Health and safety is also reflected in our assessment of Principal Risks and Uncertainties.

This year we are reporting on health and safety matters in this separate section of our Annual Report to highlight its importance in the business.

Health and safety governance

Governance structures are clearly defined. These include a Group Health and Safety policy which is reviewed annually. Cascading from this is the Group Health and Safety Management Framework (the Framework) which defines the Board's expectations regarding health and safety control and performance. Management across all material locations are required to adhere to the Framework. This contains principles and expectations describing a set of outcomes and provides a structure to manage health and safety. The Framework is consistent with internationally recognised standards, including OHSAS 18001, with accredited certification held by all of our major production facilities.

The Framework consists of eight core components, which include setting a supportive leadership tone, with sub processes, covering for example, hazard assessment, incident management and the management of third parties. The internationally adopted model of Plan-Do-Measure-Learn cycle is a key aspect of the Framework.

We use a web based Integrated Risk Management System (IRMS) which provides aligned processes and data mining functionality. This allows sites to manage accident reporting, opportunities for improvement, hazard assessment and all action tracking. Performance data for the Board and to support site reviews is derived from the system.

The hazard assessment reporting feature provides both a consistent and transparent view of the ongoing health and safety risks at both site and Group level. The online hazard assessment module, launched last year, supports our drive to deliver improvements to our health and safety risk management processes. During the year a major Groupwide exercise was undertaken to review and refine hazard assessments, evaluating in excess of 8,600 individual foreseeable hazards. Aligned action plans are in place and tracked via the IRMS, with approaching 1,000 risk improvement actions reported as implemented during the year. A similar number of general safety improvements were also implemented in the period.

An independent programme of audits is in place, which requires all material sites to be audited within a 12 month period. This assesses compliance and performance against the Framework. Each audit typically takes a week to perform, to allow a robust assessment of compliance against the Framework. The assurance results along with other typical KPIs are reported each month to the Board and reviewed under a standing agenda item. There is particular focus on any serious accidents and the quality of accident investigations, ensuring that true root causes are identified and addressed.

Improvement initiatives

The following examples of health and safety initiatives and specific site improvements are indicative of the broad range of positive changes which continue to be made.

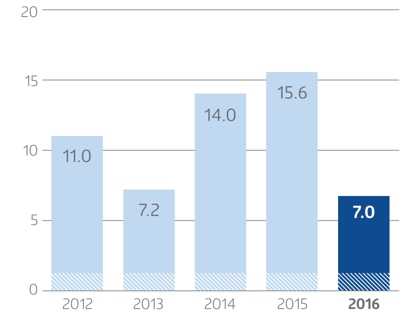
- Renold's Health and Safety Awards scheme is now an important part of the calendar for all sites.
- The BAT logo (shown to the right) continues to be used by all sites to reinforce the message: Be safe; Act safe; Think safe.
- At a number of sites, personal protective equipment requirements have been reviewed and we have ensured that clear communication of standards is observed.
- All core production sites have introduced a new standardised health and safety information board, which includes themes which align to the Framework and the Health and Safety Awards.
- Replacement guarding has been placed over machinery to prevent strike hazards from materials.
- Mandated standards relevant to fire safety have been developed and are being rolled out.
- Guidance has been issued regarding workplace transport hazard management.
- Following a review of accident root causes and trends, at our Einbeck, Germany site, 5,000 parts bins have been replaced and new glove protection is being trialled, designed to reduce the risk of finger injuries.

Improved Groupwide performance

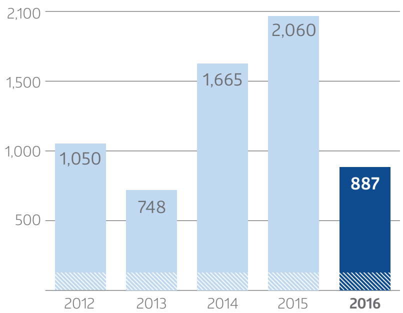
The Group uses a number of KPIs to monitor performance. Each Audit Committee meeting considers a comprehensive report from the Group Risk Management function, which includes a rolling analysis of a range of KPIs along with other relevant criteria. Examples are provided on this page showing performance for the five years to 31 March 2016. The Audit Committee then reports to the Board.

During the year the Group has seen a considerable improvement in accident KPIs. We are confident that this rate of improvement can be maintained, via the established programme of continuous improvement.

Lost time accident frequency rates[1]



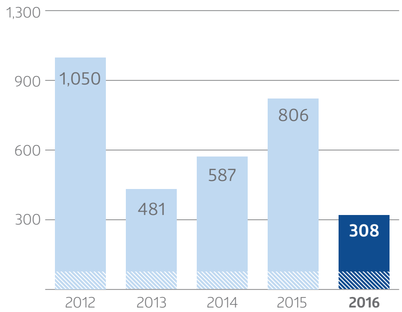
Trend of reportable injury rates[2]



1 Average lost time accident frequency rate = (no. of lost time accidents in the 12 month period/total hours worked in the 12 month period) x 1,000,000.

2 Average trend of reportable injury rates = (no. of accidents greater than three lost days in the 12 month period) x 1,000,000. Note that whilst accidents greater than seven days are reportable events in the UK, Renold monitors both three and seven lost day categories.

Working days lost



Renold Health and Safety Awards Scheme

The annual Health and Safety Awards Scheme was launched during 2014. The scheme rules encourage continuous improvement and align to core parts of the Framework. There is particular emphasis on innovative initiatives which are designed to and actually nurture support behaviours. During the first year of the scheme five sites received an award. Recognising the further improvements made, there were eight awards made in 2015.

The Group continues to embed its visual identity logo to reinforce a simple message; Be safe, Act safe and Think safe – BAT. This can be seen within the design of an award trophy below.

Corporate Social Responsibility

Our Commitments

We believe that our commitment to corporate social responsibility is integral to ensuring the protection of the long term interests of our shareholders.

- Provide a rewarding and safe working environment
- Work in accordance with our values
- Act in ethical manner in all our business relationships
- Work with the communities in which we operate
- Minimise the environmental impact of our products and processes

The Board is mindful of the importance to the business of its responsibility to stakeholders and the wider community. We recognise our duty to behave responsibly towards all stakeholders in our business, including shareholders, employees, customers, suppliers and communities in which we operate.

Our approach to Corporate Social Responsibility has three key elements: our people, our community and our environment. The commitment to our people includes the provision of a rewarding and safe environment for our employees and the way in which we work according to our Values.

Detailed information in relation to health and safety matters is reported upon at pages 56 and 57 of this Annual Report.

The Board has overall responsibility for corporate social responsibility with the Chief Executive taking direct leadership responsibility supported by the regional and business unit Executive teams.

Aligned to this is our continuous commitment to uphold good corporate governance principles, in respect of which further details are set out in our Corporate Governance Report at pages 66 to 74.

Our employees

The Group requires motivated, talented employees, with a clear understanding of their role within the business in order to deliver our strategic objectives. Consequently, Renold is actively focused on the delivery of actions in the following areas:

- Talent acquisition and optimisation of organisation structures
  - Attracting, recruiting and retaining talented individuals and optimising our organisational structures to enable them to operate effectively.
- Values, behaviours and engagement
  - Establishing a values driven working environment that actively engages employees.
- Creating a high performance culture
  - Recognising and rewarding strong performance and identifying opportunities for learning and development.
- Compliance
  - Ensuring compliance with employment regulations wherever we operate.

In line with the STEP 2020 Strategic Plan, the Group has continued to build upon the foundation laid down in previous years and to make progress in each of these key areas.

Talent acquisition and optimisation of organisation structures

The Group has continued to review and strengthen the senior management team and organisation structures over the last year, with new appointments into key roles including Global Managing Director – Chain, Managing Director Chain – Americas and Managing Director Renold Crofts – South Africa.

As the structure and composition of the senior team becomes ever more clearly established the Group has been able to focus on acquiring increased capability in critical roles at the next level of management.

As a result, a number of key appointments have been made including, but not limited to, Site Director – Hangzhou, Finance Director – India, Finance Director – Einbeck and Vice President Manufacturing – Chain Americas.

The business continues to develop and evolve our recruitment processes to enable a supply of high calibre people at the right time into well-defined roles with clear deliverables and accountabilities. This includes an improved process for the definition and activation of new roles, the appropriate utilisation of competency based assessment methodology, pre-employment ability testing and psychometric questionnaires.

Demonstrating
People

Renold also has programmes to develop "home grown" talent.

We continue to operate our apprenticeship programmes, particularly in the UK and Germany.

The UK currently has six apprentices within our Torque Transmission business and is planning to add a further two in the coming year. Our Chain business in Einbeck, Germany, has 20 apprentices working across a broad range of levels and disciplines including engineering, technical, administration and logistics functions. As this programme evolves, opportunities for these apprentices to be utilised across the wider international geography of the Group will be sought. A recent example will see one of our German engineering apprentices spending eight weeks supporting our Chain business in Australia.

Renold has also introduced our Future Leaders Graduate Programme in the past year. Through an assessment process designed to objectively identify graduates with future leadership potential, we employed five graduates onto the programme, in the UK.

Renold Graduate Programme

Graduates will be sought to join the Group's manufacturing operations and its commercial, business systems, finance and engineering functions. New graduates will have real roles, with real responsibility in the business from day one. They will also participate in a structured two year training programme which will develop their skills in key management and leadership areas, be involved in critical business projects and have regular exposure to the senior leadership team. We expect this programme to be one of the key processes through which the business ensures that we internally develop our leaders of the future.

Each of these graduate Future Leaders has had real jobs in the organisation from their first day of employment and are participants in a structured programme of training and development with 12 training modules being delivered by external experts over a two year period. These modules aim to provide participants with a broad range of skills and knowledge to act as a base upon which they can further develop as their careers progress.

The Group intends to continue this Future Leaders – Graduate Programme on an annual basis. Over time, as we develop and embed our understanding of how to best operate such programmes, it is expected that the intake of graduates onto this programme will be extended to key regions outside the UK in a similar manner.

At a senior management level we have undertaken a review of succession issues, identified areas of potential risk or opportunity and begun the process of developing plans to address these. In the future we expect to carry out further succession planning activity, at the appropriate level, in other key areas of the business.

Corporate Social Responsibility

Values, behaviour and engagement

We reported last year on the implementation of a statement of Renold's Values and Behaviours across the Group.

We have continued to work to embed our Values and Behaviours into the business since their launch. In a number of our regions we have used the Values and Behaviours as the basis for further local employee engagement activity with employees, seeking to identify areas for development and improvement locally.

Our Values are used to assist in the process of recruitment and performance management, helping the Group ensure that new employees are aware of and aligned with the Values of the Group and that our standards of behaviour are maintained on a day to day basis.

Creating a high performance culture

The importance of setting clear expectations and targets for employees and regularly reviewing these is crucial to enable our people to deliver their best.

The Company is launching an updated Performance and Development Review process which will enable this to take place across the business more effectively. This process will support the setting and recording of goals and expectations and provide a consistent mechanism for measuring and monitoring employee performance against these expectations. Simultaneously this process will encourage the identification of development needs (including coaching, training and other development opportunities) to enable enhanced performance against expectations in the future. Straightforward action plans to address issues arising from these reviews will be created and regularly reviewed to ensure progress.

The Performance and Development Review process will be phased in across the Group beginning with senior and other key management roles.

Read more about our strategic objective "Developing our people" on pages 30 and 31

Our Values

- Operate with integrity
- Value our people
- Work together to achieve excellence
- Accept accountability
- Be open-minded

Compliance

Arrangements for consulting and involving Group employees on matters affecting their interests at work are developed in ways appropriate to each business. A variety of approaches is adopted aimed at encouraging the involvement of employees in effective communication and consultation, and the contribution of productive ideas at all levels.

Employment policies are designed to provide equal opportunities irrespective of race, caste, national origin, religion, age, disability, gender, marital status, sexual orientation or political affiliation.

Group policy is to ensure that disabled applicants for employment are given full and fair consideration having regard to their particular aptitudes and abilities, and that existing disabled employees are given equal access to training, career development and promotion opportunities. In the event of existing employees becoming disabled, all reasonable means would be explored to achieve retention in employment in the same or an alternative capacity, including arranging appropriate training.

We monitor developments in employment law that may affect our employees in the regions in which we operate and make adjustments as necessary.

In particular we have recently introduced processes to ensure that we are, and will continue to remain, entirely compliant with the new National Living Wage and National Minimum Wage requirements in the UK. Renold are also aware of the necessity to develop proposals to enable the Group to be compliant with gender pay gap reporting legislation requiring employers to calculate their gender pay gap from April 2017 and formally report the details by April 2018.

Diversity

The Group is committed to equal opportunities and operates a non-discriminatory working environment. We expect staff and job applicants to be treated equally regardless of age, race, religion, disability, gender or sexuality.

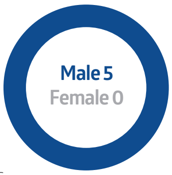
As at 31 March 2016, the Group employed 2,187 people including 326 in the UK. Of the total number of employees, 358 (being 16%) are female. The Company recognises the need to encourage and support more gender diversity throughout the employee population as well as at Board level: details of the Board's diversity policy are set out in the Nomination Committee report at pages 84 and 85.

We set out in the charts opposite, a breakdown of the gender of our Board members, and, in accordance with new reporting requirements introduced last year, the number of 'senior managers' (including directors of the Company's subsidiary companies) and employees as at 31 March 2016. A senior manager is defined in the legislation as an employee who has responsibility for planning, directing or controlling the activities of the company or a strategically significant part of the company. Whilst falling within

Pictured: Our chain facility in Einbeck, Germany employs 420 people.

Board*

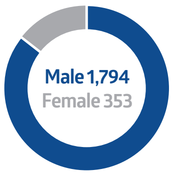
- Male
- Female



* The Non-Executive Directors are not employees.

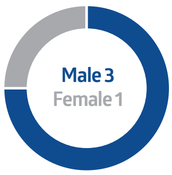
Other Employees

- Male
- Female



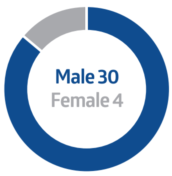
Group Executive

- Male
- Female



Senior Management

- Male
- Female



the definition of 'senior manager', the most senior leadership population (below the Board), the Group Executive, is shown in a separate chart.

Business integrity and ethics

We operate the business in an ethical and responsible manner and we expect our employees and business operations to conduct themselves ethically, and to be honest, fair and courteous in their dealings.

The highest standards of ethical business conduct are required of our employees in the performance of their duties. Employees may not engage in conduct or activity that may raise questions as to Renold's honesty, impartiality, reputation or otherwise cause embarrassment to the Group. Our employees are required to neither offer nor accept improper and/or illegal gifts, hospitality or payments in accordance with the Group Gifts and Hospitality policy.

Every Renold employee has the responsibility to ask questions, seek guidance and report suspected violations of the Group's code of ethics. A free of charge, independent whistle blowing hotline continues to be available to all employees across the Group, enabling them to report any concerns about theft, fraud and other malpractice in the workplace.

The Group is also committed to compliance with anti-corruption laws in all countries and operates a zero tolerance policy.

The Group Anti-Corruption policy forms part of that commitment, together with the Gifts and Hospitality policy, both of which are designed to assist Renold employees in meeting corporate and individual obligations under anti-corruption laws. Implementation of these policies followed the coming into force of the UK Bribery Act in 2011.

Each business unit is required to maintain a register of gifts and hospitality which is submitted and reviewed by the Group Finance and Legal functions on a biannual basis. Sites will be challenged where any gift or hospitality appears in the first instance to have been given or received outside of the terms of the Gifts and Hospitality Policy.

Other control processes and updates to formal contractual arrangements with agents and distributors have been put in place to ensure compliance with the requirements of the UK Bribery Act.

In addition, an annual training programme is in place for all members of staff whose roles involve working in environments or activities where there is a perceived risk. The training is also undertaken by external parties, such as agents.

The underlying objective in all these measures is to maintain the highest standards of integrity throughout the business and ensure that all business dealings are transparent.

Our principles are also reflected in the statement of Values which can be found on page 60.

Corporate Social Responsibility

Our community

We aim to be a part of the communities in which we work and seek to assist local projects with support where possible. The Group is not currently in a position to provide extensive financial support to local projects, however, support is given in other ways.

This year we have recognised the enthusiasm of many of our employees in carrying out fundraising activities for various charities and introduced, as a result, a new charitable matching policy. Where employees raise money for their preferred charity whilst in the workplace, Renold will match the sum raised and so doubling the ultimate donation.

We also encourage volunteering and working with local educational institutions in the promotion and raising of awareness of engineering and manufacturing.

Legislation in India requires companies of a certain size to spend a percentage of profit on CSR initiatives. As a result, in the next financial year, Renold Chain India will be financing an appropriate project once approval has been given by the local authorities. It is anticipated that the project will be either a sanitation facility in a government school located near the site or medical equipment to a local health centre, subject to the approval of the local authorities.

Human rights

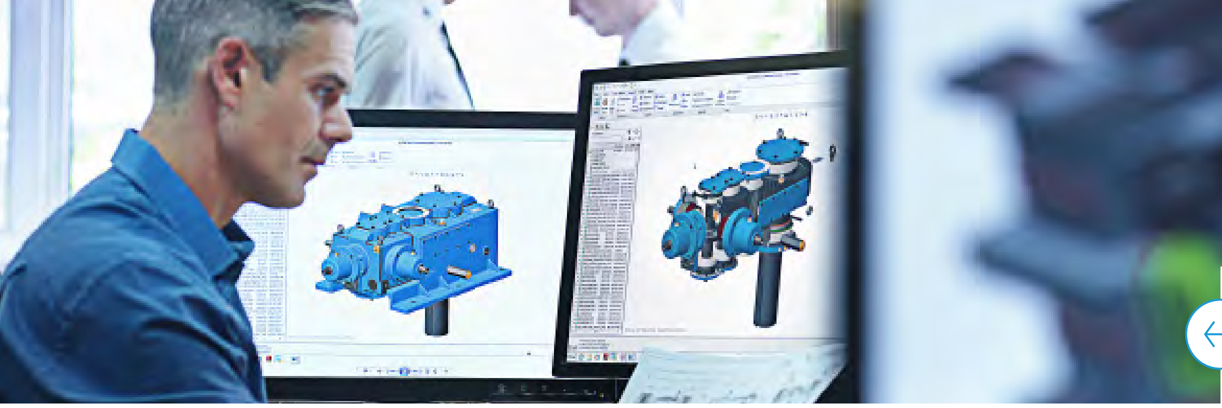
The Group is required to make a disclosure in relation to human rights. The Board has overall responsibility for ensuring the Group upholds and promotes respect for human rights and has adopted the definition of human rights within the European Convention on Human Rights: the concept of human beings as having universal rights, or status, regardless of legal jurisdiction or other localising factors, such as ethnicity, nationality, and sex.

The Group respects all human rights and in conducting its business regards the right to non-discrimination and fair treatment as the most relevant to its key stakeholder groups, these being customers, employees and suppliers. The Group's employment policies and procedures reflect principles of equal treatment. Respect for the individual is also enshrined in Renold's statement of Values and Behaviours.

The Group has not been made aware of any incident in which the organisation's activities have resulted in an abuse of human rights.

We are delighted to be a supporter of the Museum of Science and Industry (MSI) in Manchester, having been involved in the Manchester Science Festival Supporters Circle with MSI in October 2015.

Renold also featured in a "Pedal Power" exhibition at MSI which charted Manchester's rich cycling heritage and included a tribute to Hans Renold who founded Renold in 1879. Although Swiss born, Hans Renold moved to Manchester at the age of 21. He was the inventor of bush roller chain and the precursor to the modern bicycle chain which he altruistically let the cycling industry use for free in their designs. We are also very pleased to contribute samples of chain to MSI for its current programme of interactive shows for school children. One of the shows tells the story of how Hans Renold's bush roller chain was used to create the world's first safety bicycle in 1885.



Pictured: 3D modelling in use at our Gears facility in the UK.

Following the introduction of the UK Modern Slavery Act 2015, we will be publishing a statement on our website which sets out the steps being taken by the Group to ensure that slavery and human trafficking are not taking place in the business or the supply chain relating to our goods. The Group is committed to ensuring that our business and business partners do not undertake any activity which contravenes the Modern Slavery Act.

Our environment

We are committed to minimising the environmental impact of our products and our processes. Across all our operations, we meet all legislative requirements concerning environmental related issues, including those relating to energy usage. As a part of the Group's commitment to minimising the impacts of its business operations on the environment, we co-operate with regulators, suppliers and customers to develop and achieve improved standards of environmental protection.

Greenhouse gas emissions

Renold continues to comply with its obligations under the carbon reporting requirements of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

During the year, the Group has extended the use of the already globally implemented Integrated Risk Management web based IT system, which is now used at all Renold locations to declare energy usage. This new energy consumption database makes data more readily available. Data is activity being mined in order to further target energy reduction projects.

The table below shows the Group's GHG data in tonnes for the last three financial years across 22 locations in 14 countries, derived from the consumption data collected and the DEFRA published conversion factor tables.

The main contributors to GHG emissions arise from our use of electricity and fuels, such as natural gas and fuel oil, burnt on our premises.

The Group continues to reduce emissions year on year. In the period, roof replacement projects, smarter production processes and commissioning more efficient machinery have all had a positive impact on emissions as demonstrated in the table.

Total annual GHG emissions and emissions intensity by scope

Total annual GHG emissions[1] (tCO_2e)

	Year ending 31 March 2014	2015	2016
Scope 1[2]	11,175	9,750	8,097
Scope 2[3]	21,353	20,503	18,012
Emissions Intensity[4]	176.8	165.8	158.1

Notes

1 The calculation methodology is based on the Greenhouse Gas Protocol developed jointly by the World Resources Institute and the World Business Council for Sustainable Development.

2 Scope 1 emissions are from those direct sources that are owned by the Group (e.g. from direct combustion of natural gas within our facilities' boilers and heaters). Fugitive gases are not included.

3 Scope 2 emissions comprise those emissions for which the Group is indirectly responsible, excluding transmission and distribution losses (e.g. from the electricity we purchase to operate machinery or equipment). An amendment made during 2015 to the Greenhouse Gas Protocol incorporates two new calculation methodologies for scope 2 emissions. There are no contractual instruments in place for the purchase of renewable energy. Hence, we report the same figure when applying the new market and location based methodologies.

4 The UK Government guidance was considered when selecting the Company's chosen intensity measurement which is total emissions reported normalised to £m external revenue for the financial year ending 31 March 2016.

Energy Saving Opportunities Scheme (ESOS)

ESOS is a mandatory energy assessment scheme for organisations in the UK that meet the qualification criteria. The Environment Agency is the UK scheme administrator.

Renold qualifies for ESOS and must carry out ESOS assessments every four years. These assessments are audits of the energy used in our buildings, industrial processes and transport to identify cost-effective energy saving measures.

To deliver our obligations under phase 1 of the ESOS legislation we opted to undertake an ESOS Energy Survey. A specialist consultancy was appointed to assist the Company in completing the survey. Our final report presenting the findings was submitted to the Environment Agency during July. The findings are being used to inform the development of a series of energy reduction and management measures.

Strategic Report approval

The Strategic Report, on pages 12 to 63, incorporates: Chief Executive's Review, Our Strategy, Our Business Model, Market Review, Q & A with Chief Executive, Key Performance Indicators, Our Performance, Finance Director's Review, Health and Safety, Corporate Social Responsibility, Risks and Principal Risks and Uncertainties, and was approved by the Board on 31 May 2016.

For and on behalf of the Board

Louise Brace
Company Secretary
31 May 2016

Governance

Pictured: High quality, high specification helical gears manufactured by our Gears facility in the UK.

Pictured: Worm thread grinding of large worm gears for use in coal pulverisers in coal fired power stations.

Contents

Governance *in Action*

The UK Corporate Governance Code is based on underlying principles of accountability, transparency, probity and focus on the success of a company over the longer term. These principles are equally applicable to effective board practice as they are to all aspects of our business.

Corporate Governance Report
Chairman's Letter

"The highest standards of corporate governance and behaviour must and do underpin the way the Board works."

Mark Harper
Chairman

Introduction
I am pleased to present the Corporate Governance report for the year ended 31 March 2016 on behalf of the Board.

In this report, we explain the Group's approach to corporate governance and provide the information required of us by the UK Corporate Governance Code 2014 (2014 Code) which applies to reporting periods beginning on or after 1 October 2014. Disclosure is therefore provided against the requirements of the 2014 Code in the 2016 Annual Report and Accounts.

The Board continues to review the requirements of corporate governance, this year considering the revisions made by the Financial Reporting Council in the 2014 Code. In particular, the Board has focused on the changes to risk reporting and the viability statement in accordance with provision C2.2 of the 2014 Code.

A detailed list of contents of the Corporate Governance report can be found on page 65. The Group's principal risks and uncertainties are described in the Strategic Report and this section of the Annual Report and Accounts also forms part of the Corporate Governance report.

The Board continues to be mindful of its obligation to set the right 'tone from the top', the importance of which was emphasised in the changes brought into the 2014 Code. The Board operates to the highest standards of ethical business conduct and Renold requires the same from all employees in the performance of their duties. These principles are rightly reflected in the statement of our Values.

Aside from matters of corporate governance and ethics, the key priority for the Board remains the delivery of the STEP 2020 Strategic Plan. At page 70 of our Corporate Governance report we set out the areas of focus for the Board this year in a new format that highlights the links between the issues considered and the Group's strategic objectives.

Annual General Meeting
Our Annual General Meeting will be held at 11am on Wednesday 20 July 2016 at The Manchester Airport Marriott Hotel, Hale Road, Hale Barns, Manchester, WA15 8XW. We are pleased to receive feedback from shareholders at all times and I would encourage our shareholders to attend the AGM.

Read more about the AGM and communications with shareholders on page 75

Compliance with the 2014 Code
The Group is committed to high standards of corporate governance in order to facilitate efficient, effective and entrepreneurial management of the Company. The Board acknowledges its contribution to achieving management accountability, improving risk management and ultimately to creating shareholder value over the longer term.

The 2014 Code sets out guidance for companies with a premium listing in the form of main principles and specific provisions of good governance. The rules of the FCA require UK listed companies to disclose how they have applied those principles and whether they have complied with the provisions throughout the financial year.

The obligation of all listed companies is to comply with the provisions of the UK Corporate Governance Code, or to explain why it has not done so. The Board's compliance statement is therefore made with reference to the 2014 Code which applies to the Company's reporting period. The Board reviews its compliance with the Governance Code regularly and considers that the Company has complied with all provisions set out in the 2014 Code that are applicable to it throughout the year ended 31 March 2016, except where highlighted in this report.

The 2014 Code is available to view on the FRC's website at www.frc.org.uk.

Board of Directors

The Board provides entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed.

On these pages, we set out the age, tenure and biographical details of each Board member and the Company Secretary.

Mark Harper, Chairman

Committee memberships (N)

Appointment to the Board: May 2012

Experience

Mark, aged 60, was appointed to the Board as a Non-Executive Director and Chairman-elect on 1 May 2012. He took on the role of Chairman at the close of the Annual General Meeting on 12 July 2012. His appointment was extended on 1 May 2015 to May 2018. Prior to joining Renold, Mark became the Chief Executive of Filtrona plc at the time of its demerger from Bunzl plc in June 2005 and led a successful period of growth until his retirement in May 2011. He also held a number of senior operational management positions within Bunzl plc, being appointed to the Bunzl plc Board in September 2004 and has previously acted as a Non-Executive Director of BBA Aviation plc.

Robert Purcell, Chief Executive

Committee memberships (E)

Appointment to the Board: January 2013

Experience

Robert, aged 54, joined the Group on 21 January 2013 as Chief Executive. Prior to joining Renold, Robert was Managing Director of Filtrona plc's Protection and Finishing Products Division. He has also held a Managing Director role at Low and Bonar plc within its technical textiles business. His early career was in operational management within Courtaulds plc, during which time he gained an MBA from the Cranfield School of Management.

Brian Tenner, Finance Director

Committee memberships (E)

Appointment to the Board: September 2010

Experience

Brian, aged 47, joined the Group in September 2010 as Finance Director. Until 31 August 2010, he was Group Finance Director and a member of the Board of Scapa Group plc. Prior to this, he was Group Finance Director for the former British Nuclear Group. Brian held various Finance Director posts within National Grid and his first industry role was as Head of Investor Relations of Lattice Group plc. His early career was spent with PricewaterhouseCoopers where he qualified as a chartered accountant and he completed several extended international assignments and a wide range of consulting and corporate finance projects.

Ian Griffiths, Non-Executive Director

Committee memberships (A) (N) (R)

Appointment to the Board: January 2010

Experience

Ian, aged 65, was appointed to the Board in January 2010 and to the chair of the Remuneration Committee in November 2010. His appointment to both was extended in January 2016. Ian was appointed as Non-Executive Director of Hydro International plc, a Company admitted to trading on the AIM Market of the London Stock Exchange, in October 2014. He was previously Managing Director of Royal Mail Letters and a Director of Royal Mail Holdings plc. He has also been a Non-Executive Director of Ultra Electronics Holdings plc and held Executive Director roles at GKN plc and GKN Holdings plc where he was Group Managing Director, GKN Automotive.

John Allkins, Senior Independent Non-Executive Director

Committee memberships (A) (N) (R)

Appointment to the Board: April 2008

Experience

John, aged 66, was appointed to the Board and to the chair of the Audit Committee in April 2008 and became the Senior Independent Non-Executive Director on 21 January 2013. John brings strong relevant technical experience to the role having served as the finance director of the publicly quoted companies MyTravel Group plc and Equant NV. Since 2007, he has served as a Non-Executive Director on a number of boards of public and private companies and is currently a Non-Executive Director of Fairpoint Group plc, Punch Taverns plc and Nobina AB. John is a fellow of the Chartered Institute of Management Accountants.

Louise Brace, Group Legal Manager and Company Secretary

Appointment as Company Secretary

November 2012

Experience

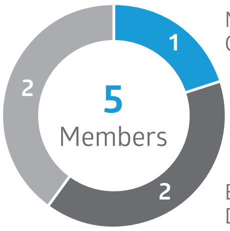
Louise, aged 43, joined Renold as Group Legal Manager in June 2012 and was appointed Company Secretary in November 2012. Louise qualified as a solicitor at a leading City law firm in 1998 and specialised in London market insurance litigation until 2003. She then held senior roles in private practice at Addleshaw Goddard LLP and Pannone LLP, advising in relation to commercial litigation and dispute resolution.

Committee memberships key:

- (A) Audit Committee
- (N) Nomination Committee
- (R) Remuneration Committee
- (E) Executive Risk Management and Monitoring Committee

Governance
Board composition, responsibilities and activities

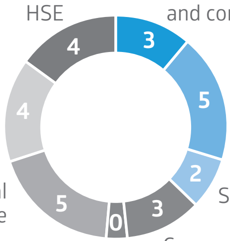
Membership of the Board
There have been no changes to the composition of the Board during the year ended 31 March 2016, there being a balance of Executive and Non-Executive Directors. Currently, the Board comprises a Non-Executive Chairman, two Non-Executive Directors and two Executive Directors as shown below.



The Board's consideration of its composition in the context of its diversity is more fully detailed in the Nomination Committee Report on pages 84 and 85, together with a statement on the Board's diversity policy.

Experience of the Board
The members of the Board maintain the appropriate balance of status, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities and to ensure the Board is of a sufficient size that the requirements of the business can be met.

The below graphic shows the number of Directors with significant experience in the areas listed.



Responsibilities of the Board
The Board is collectively responsible for the effective oversight of the Group and its businesses.

In addition, it is responsible for strategic business planning, including reviewing succession planning and risk management and the development of Group policies in areas such as health, safety and environmental matters, Directors' and senior managers' remuneration and ethics. The Executive Directors have authority to deal with all other matters affecting the Group.

The Board has approved a schedule of reserved matters to ensure that it takes all major strategy, policy and investment decisions affecting the Group. As part of the Board's oversight of operations, it must ensure maintenance of a sound system of internal control and risk management.

Feedback is provided to the Board following presentations to investors and meetings with shareholders in order to ensure that its members, and in particular Non-Executive Directors, develop an understanding of the views of major shareholders about their Company.

Individual director's key responsibilities
The roles of Chairman and Chief Executive are separated with a clear division of responsibilities set out in writing and agreed by the Board.

Title	Responsibility
Chairman Mark Harper	To ensure the effectiveness of the Board in setting the direction of the Company and the agenda of the Board.
Chief Executive Robert Purcell	To manage the business and implement the strategy agreed by the Board.
Finance Director Brian Tenner	To ensure sound financial management of the Group's business and provide strategic and financial guidance to ensure that the Company's financial commitments are met.
Senior Independent Non-Executive Director John Allkins	In addition to this role as an independent Non-Executive Director, to ensure that the views of each Non-Executive Director are given due consideration and act as a sounding board for the Chairman.
Independent Non-Executive Director Ian Griffiths	To constructively challenge the Executive Directors and help develop proposals on strategy including satisfying themselves on the integrity of financial information and ensuring financial controls and systems of risk management are robust and defensible.

Board members are able to seek independent legal or other professional advice in respect of their duties as they may require at the Company's expense, and have access to the advice and services of the Company Secretary, who ensures that Board procedures are complied with.

Board and Committee membership and attendance

The Board meets on a regular basis with an agenda and necessary papers for discussion distributed electronically in advance of each meeting via board portal software, Diligent. Agenda items are agreed in advance and set out in an annual planning schedule. The meetings are scheduled to coincide with the internal financial reporting timetable of the Company and key events including interim and final results, and the AGM.

The table below shows the number of meetings of the Board and its Committees during the year and individual attendance by Board and Committee members at those meetings. There are eight core meetings held each year. In addition, the Board met for separate full days to discuss the further evolution of the STEP 2020 Strategic Plan and to conclude the external audit tender process. All Directors attended all core scheduled Board meetings, as can be seen in the table of attendance.

	Brian Tenner*	John Allkins	Ian Griffiths	Mark Harper*	Robert Purcell*
Board (10 meetings)	10	10	10	9**	10
Audit Committee (6 meetings)	6	6	6	5	6
Nomination Committee (3 meetings)	–	3	3	3	3
Remuneration Committee (7 meetings)	4	7	7	6	6
ERMM Committee (4 meetings)	4	–	–	–	4

* Robert Purcell, Mark Harper and Brian Tenner attended Remuneration Committee and/or Audit Committee meetings or parts thereof by invitation.

** An additional Board and Audit Committee meeting to conclude the external audit tender was held at the end of the tender process. Mark Harper was unable to attend the meeting in person, however, his decision on the tender process was made known to the rest of the Board.

Risk monitoring

The Board has overall responsibility for implementing the Group's system of internal control including financial, operational and regulatory compliance controls and risk management systems. The Board is also responsible for reviewing internal control effectiveness and compliance in accordance with the FRC's 'Internal Control: Revised Guidance for Directors on the Combined Code (October 2005)'.

The ongoing process for the review of the system of internal controls by the Directors has been in place for the whole of the year ended 31 March 2016 and up to the date of approval of this report and the financial statements.

Internal controls and the risk management processes are reviewed on a regular basis by the Audit Committee, which reports directly to the Board. This review includes a report from the Executive Risk Management and Monitoring Committee (ERMMC) after each meeting to the Audit Committee.

Further details about the composition and activities of the ERMMC and the Group's risk management framework can be found on pages 48 to 55 of the Strategic Report. A description of the Audit Committee's oversight of the ERMMC can be found in the Audit Committee Report on page 80.

Governance
Board composition, responsibilities and activities

Board focus during the year
During the year ended 31 March 2016, the Board has provided its main focus on the following matters.

Strategic Objective
Key on page 20

	Overview	Activity in year		Strategic Objective
Governance and risk	→ Implementation and reviewing compliance with the requirements of the UK Corporate Governance Code → Ensure a sound system of internal control and risk management including review of the Group risk profile	→ Oversight of the external audit and tax services tender process → Consideration of the 2014 Code: the new Viability Statement and agreeing the Group's risk profile, principal risks and uncertainties	→ Reviewed the effectiveness of the risk management and internal control systems → Conducting and reviewing an evaluation of the effectiveness of the Board and its Committees	1, 7
Strategy	→ Responsibility for approval of the Group's strategic aims and objectives and review of performance → Approval of major capital projects and oversight of benefits expectation and delivery	→ Board Strategy day held to debate and discuss the STEP 2020 Strategic Plan → Continued review of STEP 2020 and supporting the Chief Executive in the evolution of the Group's Strategic Plan → ERP effectiveness and commencement of new ERP implementation → Considered organic growth opportunities such as geographical expansion	→ Reviewed customer service enhancement initiatives → Oversight over acquisition of the Tooth Chain business → Received presentations from Group senior management on operations and continued implementation of STEP 2020 across the divisions and functions	1, 5, 2, 6, 3, 7, 4
Leadership	→ Responsibility for the overall leadership of the Group and setting the Group's Values → Setting the 'tone at the top'	→ Health and safety performance → Succession planning in relation to the Board and senior management	→ Organisational development	1, 6
Financial stewardship	→ Approval of financial reporting and controls → Approval of relevant policies	→ Approval of the annual operating and capital expenditure budgets → Review of monthly business performance reports → Review of dividend policy → Review and approval of the half year and full year results and related announcements → Review and approval of the delegated authorities matrix	→ Review and approval of the Group Treasury Policy → Review and approval of the Group Tax Strategy → Review of pension scheme de-risking initiatives → Specific approval for major capital investment projects → Reviewed matters affecting the Group involving material litigation or disputes	2, 5, 7
Shareholder relations	→ Ensuring a satisfactory dialogue with shareholders, including approval of key information to shareholders	→ Received and discussed a presentation in relation to feedback from roadshows and presentations to shareholders	→ Approval of Annual Report and Accounts and information to shareholders for AGM	

Expected Board focus for next year
The Board will continue to review the areas set out in the chart on page 70. In addition, it is anticipated that the following areas will receive focus by the Board for the year ended 31 March 2017:

- Initiatives to support organic growth
- Any potential acquisitions
- Any new major restructuring projects arising in the year

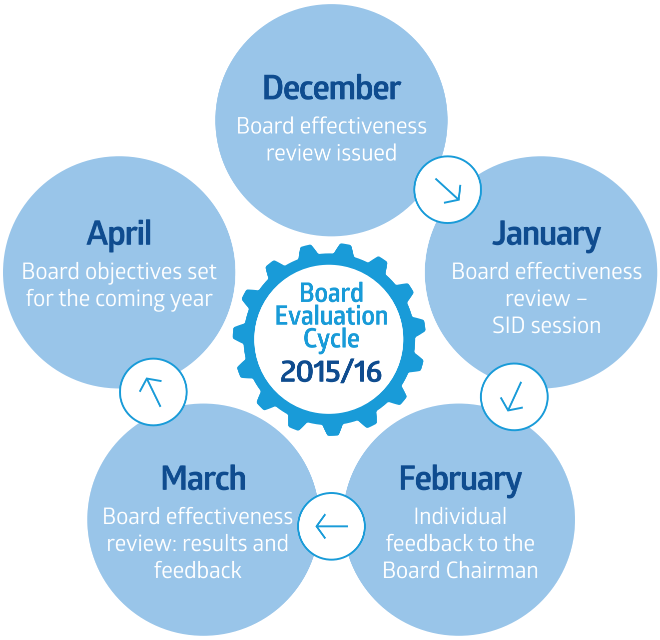
Director induction and development
The training needs of the Board are discussed as part of the Board performance evaluation process. Updates are provided to the Board at regular intervals in order to refresh the Directors' knowledge. Training is arranged primarily by the Company Secretary in consultation with the Chairman. During the period, the Board has received an update from Deloitte LLP in relation to the 2014 Code. Remuneration advisers, PwC, have also presented updates to the Remuneration Committee, including in relation to market trends in executive remuneration.

The Company has a detailed framework for the induction of new Directors. This includes the issuing of all key documents relating to the new Director's role on the Board, as well as site visits and face-to-face meetings with senior executives. Throughout the year the Executive Directors have continued to visit Renold sites around the world including: the USA, India, France, Switzerland, Germany, Australia, New Zealand, Malaysia and China. The Board itself also met during the year at both of Renold's manufacturing sites in the USA and at a UK manufacturing site.

Non-Executive Director independence
The Non-Executive Directors throughout the year are considered to be independent in character and judgement. The Board is of the opinion that all of the Directors take decisions objectively and in the best interests of the Company and that no individual or small group of individuals can dominate the Board's decision taking. The balance between Non-Executive and Executive Directors allows independent challenge to the Executive Directors and senior management.

Board evaluation and effectiveness
The Board is supportive of the principle of evaluation of the Board, as set out in paragraph B.6 of the 2014 Code, and recognises that evaluation of its performance is important in enabling it to realise its maximum potential. A formal process for evaluating the performance of the Board, its members and its Committees is planned and is conducted annually. This process gives the Directors the opportunity to identify areas for improvement both jointly and individually through the use of questionnaires and/or open discussion. An evaluation of the Chairman is also carried out annually, led by the Senior Independent Non-Executive Director.

In addition, evaluations of the Audit Committee, the Nomination Committee and the Remuneration Committee were also carried out during the year.



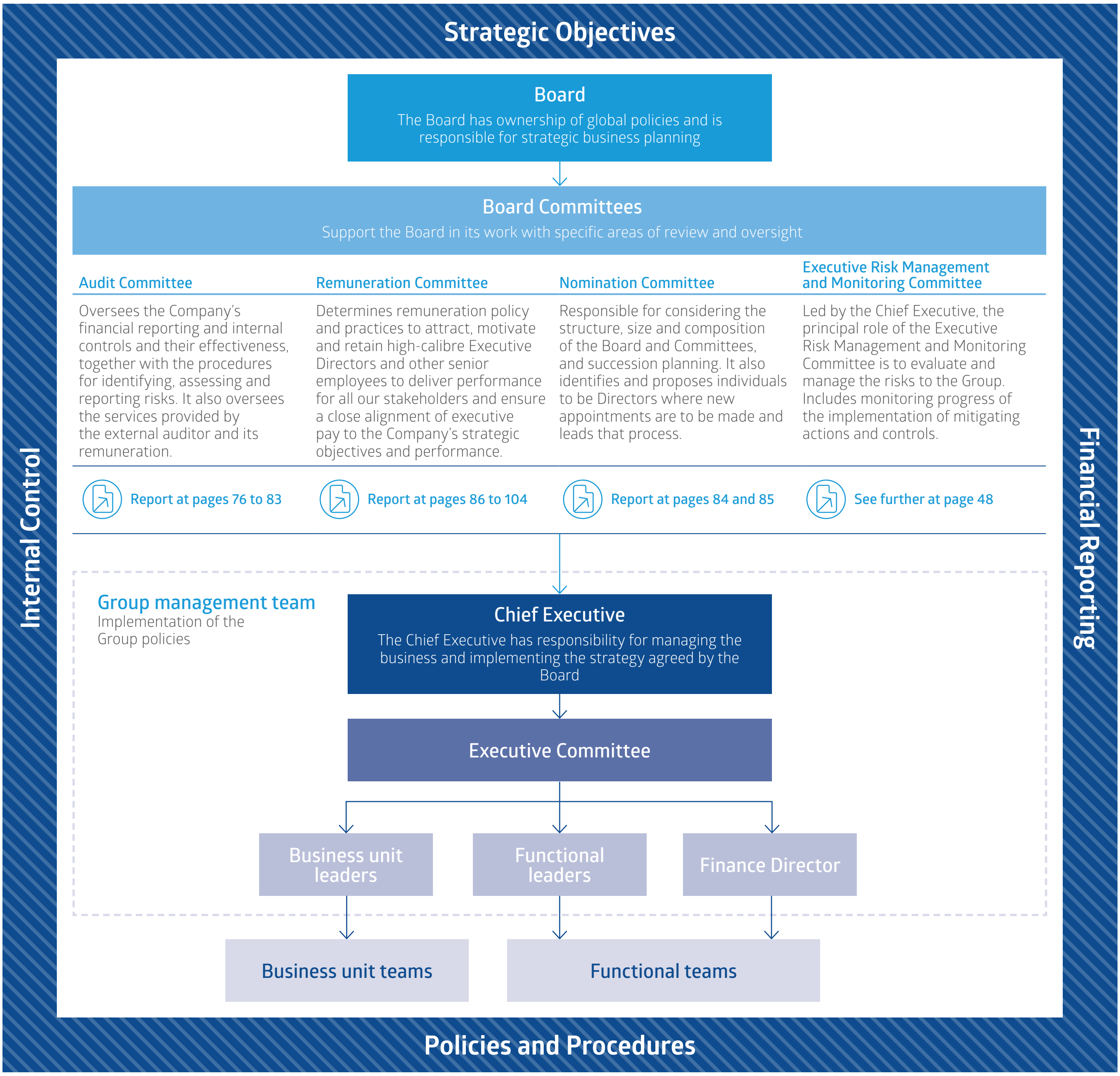
The evaluation process commences with the completion of a written questionnaire for each separate review, compilation of a summary of the results and feedback obtained and then discussion between the participants. The subsequent Board discussion highlighted a number of areas where objectives might be set by the Board and practical issues for consideration. The Board has continued to allocate separate time for review and consideration of the STEP 2020 Strategic Plan.

In accordance with the 2014 Code, the evaluation process also included a number of discussions during the year between the Chairman and the Non-Executive Directors, without the Executive Directors present, to discuss feedback arising from the process and the performance of each Executive Director. The Senior Independent Director also met with the other Directors as part of the Chairman's performance evaluation process.

Election of Directors
The 2014 Code recommends that all Directors of FTSE 350 companies should be subject to annual election by shareholders. This provision is not applicable to the Company. However, with a view to complying voluntarily with all terms of the Governance Code where practical, the Board considered this provision during the year ended 31 March 2014 and agreed that all Non-Executive Directors will be subject to annual election. Given that there are only five Directors on the Board, it would not be practicable for the two Executive Directors to be subject to an annual election process in addition to the three Non-Executive Directors.

Governance
Governance structure

The schematic below sets out the principal committees and organisational structures through which the Board discharges its duty to put in place appropriate policies, procedures and controls to ensure strong financial stewardship of the Group.



Biographical and experience details of the current Directors appear on page 67. Further details of the Directors' service contracts and letters of appointment are set out in the Directors' Remuneration Report.

Working together to achieve excellence

Pictured: The engineering team regularly meets to discuss current specification and quality in order to continuously improve our products for optimum usage at the customer applications.

The key features of the Group's governance structures, as shown in the schematic on the prior page are as follows:

- The Board has approved a Corporate Governance Compliance Statement which contains terms of reference for the Board and each of the Board Committees. The terms of reference are available on the Company's website at www.renold.com. Internal controls are in place at both local and Group level;
- The ERMMC which oversees, on behalf of the Audit Committee and ultimately the Board, that appropriate policies are implemented to identify and evaluate risks;
- An internal audit function which assists management and the Audit Committee in the fulfilment of the Board's responsibility for ensuring that the Group's financial and accounting systems provide accurate and up-to-date information about its current financial position whilst also permitting the accurate preparation of financial statements;
- An organisational structure which supports clear lines of communication and tiered levels of authority;
- A schedule of matters reserved for the Board's approval to ensure it maintains control over appropriate strategic, financial, organisational and compliance issues;
- The preparation of detailed annual financial plans covering profit and cash flow and the balance sheet, which are approved by the Board;
- The review of detailed regular reports comparing actual performance with plans and of updated financial forecasts;
- Procedures for the appraisal, approval and control of capital investment proposals;
- Procedures for the appraisal, approval and control of acquisitions and disposals; and
- Access for all Group employees to a free of charge, independent whistle blowing hotline enabling them to report any concerns about theft, fraud or other malpractice in the workplace.

The Board and its Committees

- The Board delegates authority to various Committees to deal with specific aspects of corporate governance.
- These Committees are summarised above. Details about the structure and activities of each are set out in the separate Committee reports. The Committees communicate and work together where required.
- Committee membership may not be refreshed as frequently as would be the case for a company with a larger board. However, the Board is satisfied that no undue reliance is placed on particular individuals.
- Terms of reference for each Committee, together with the schedule of matters reserved for the Board, are available on the Company's website at www.renold.com.
- Louise Brace, the Company Secretary, has acted as secretary to the Committees during the year ended 31 March 2016.

Read more about the membership of the Board and its Committees and attendance during the year on page 69

Renold Internal Control Statement

- Authorisations: legal, treasury, financial signing authorities
- Contracting principles statement
- Claims and disputes statement
- Our Values
- Ethics statement
- Political donations statement
- Confidential information statement
- Fraud response statement
- Share dealing policy
- Communications policy
- Corporate social responsibility policy
- Charitable donations policy
- Treasury dealing statement
- Appointment of external advisors and consultants
- Pensions statement

Governance
Governance structure

Internal control
During the year ended 31 March 2016, the responsibility to review internal control effectiveness was discharged by the Audit Committee and reported to the Board as follows:

- Receiving and considering regular reports from the internal audit function on the status of internal control across the Group;
- Reviewed the internal audit function's findings, annual audit plan and the resources available to it to perform its work;
- Reviewing the external auditor's findings on internal financial control; and
- Monitoring the adequacy and timeliness of management's response to identified audit findings.

The executive team is accountable to the Directors for implementing Board policies on internal control and for monitoring and reporting to the Board that it has done so.

Group internal controls are designed to mitigate rather than eliminate the risks identified and can provide only reasonable and not absolute assurance against material misstatement or loss.

In addition, the Renold Internal Control Statement (summarised in the chart on page 73) contains details of such matters as Group signing authorities, contracting principles and an ethics policy to ensure that all Group employees conduct business on behalf of the Group on the same basis and in accordance with approved policies and procedures. This has been approved by the Board and has been fully rolled out across the Group. Separate Group policies also address anti-corruption and gifts and hospitality.

Financial reporting
There are also in place internal control systems in relation to the Company's financial reporting process and the Group's process for preparation of consolidated accounts. These systems include policies and procedures that: relate to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS; require representatives of the businesses to certify that their reported information gives a true and fair view of the state of affairs of the business and its results for the period; and review and reconcile reported data. The Audit Committee is responsible for overseeing these internal control systems.

Governance in action: Fair, balanced and understandable
The Annual Report and Accounts (ARA) taken as a whole must be fair, balanced and understandable. The fair, balanced and understandable requirement is reviewed in the first instance by the Disclosure Committee and subsequently the Audit Committee and the Board as shown below.

Fair, balanced and understandable

Disclosure Committee

- Contributors to the ARA briefed on the requirements of the governance code with specific emphasis on the FBU requirement
- 'Cold readers' (senior managers knowledgeable about the business but otherwise not significantly involved in the preparation of the ARA) review and feedback comments which are incorporated accordingly
- A documented verification file of all substantive facts and assertions is maintained and reviewed for completeness prior to finalisation of the ARA
- Disclosure committee presents its findings and recommendations to the audit committee to be made

→

Audit Committee

- Review of draft ARA and provides comments
- Advises the Board on the adequacy of the processes required to confirm the FBU requirement for the ARA.

→

Board

- Review of draft ARA and provides comments
- Responsibility for final FBU statement (on page 108) of the ARA

→

Fair, Balanced Understandable

Read more in the Audit Committee Report on pages 76 to 83

Communications with shareholders

Communications with shareholders

Communications with shareholders are given high priority and are made in a number of ways. The Board is accountable to shareholders and therefore it is important for the Board to appreciate the requirements of shareholders and equally that shareholders understand how the actions of the Board and short term financial performance relate to the achievement of longer term goals. The Non-Executive Directors make themselves available to meet shareholders on request, attend shareholder visits at Company sites and are available for discussions with analysts and the Company's broker.

The reporting calendar is driven by the publication of interim and final results each year, in which the Board reports to shareholders on its management of the Company. Formal regulatory news service announcements are also made in accordance with the Company's reporting obligations. Comments on Group financial performance in the context of the business risks faced and objectives and plans for the future are set out in the Strategic Report on pages 47 to 54.

The Company continues to keep shareholders informed of its strategy and progress at other times during the year, presentations being given by the Executive Directors to analysts and updates provided to the London Stock Exchange and shareholders via the Company's website at www.renold.com. The Board receives feedback from the Company's brokers throughout the year. In addition, the Chief Executive and Finance Director meet with major shareholders and potential investors to discuss Group strategy and performance and update the Board as a whole accordingly at each meeting. The Board also receives reports prior to each Board meeting which set out the main changes to the composition of the Company's share register.

The Senior Independent Non-Executive Director does not generally attend meetings with shareholders although he makes himself available to attend such meetings if and when required. Whilst the Company is not in compliance with paragraph E1.1 of the 2014 Code, the Chairman ensures that the Chief Executive and Finance Director provide feedback to the Board following presentations to investors, and meetings with shareholders and analysts' and brokers' briefings are circulated to all Directors in order to ensure that Board members, and in particular Non-Executive Directors, develop an understanding of the views of major shareholders about their Company.

Annual General Meeting

The Annual General Meeting provides an opportunity for communication with private and institutional investors. shareholders are encouraged to attend the Annual General Meeting and we welcome their participation.

At the Annual General Meeting, the Chairman of the Board and the two Non-Executive Directors who respectively chair the Audit and Remuneration Committees, together with the Executive Directors, will be available to answer questions. The Chairman of the Board is also Chairman of the Nomination Committee and the Chief Executive chairs the Executive Risk Management and Monitoring Committee.

Notice of the Annual General Meeting is sent to shareholders at least 20 business days before the meeting. Details of the proxy votes lodged on each resolution are made available and shareholders are invited to talk informally to the Directors after the formal proceedings.

The Annual General Meeting will be held at 11am on Wednesday 20 July 2016 at the Manchester Airport Marriott Hotel, Hale Road, Hale Barns, Manchester, WA15 8XW.

The Notice of Meeting will be sent to shareholders prior to the AGM. This will set out a detailed explanation of each item of business for consideration at the AGM. shareholders who are unable to attend the AGM are encouraged to vote before the meeting by using the Proxy Card which will be sent with the Notice of Meeting.

All resolutions were passed at last year's AGM with votes in support all exceeding 96% other than the special resolution to authorise political donations which was passed with a vote of 82%.

Audit Committee Report

John Allkins
Audit Committee Chairman

"In the current uncertain markets we have increased our focus on risk management and further enhancements to our control environment. We also ensure that good governance is maintained over our major business change projects. This is how the Audit Committee plays its role in supporting the delivery of our STEP 2020 Strategic Plan."

Key objectives

In support of the Board's duty of stewardship, the Committee aims to ensure appropriate corporate governance is applied to the Group's systems of internal control, risk management, financial reporting, internal audit and other compliance matters such as UK anti-bribery legislation. We monitor the integrity of financial information published externally for use by shareholders. We also ensure that the integrity of the financial statements is supported by an effective external audit.

We monitor that effective project control operates and targeted benefits are delivered from major change initiatives. We also support the efforts of the Executive team to continuously improve the financial control and risk monitoring environment. Our approach is to ensure that risk management operates to pre-empt potential business issues and that embedded proactive financial controls prevent or mitigate unnecessary losses that may flow if a business risk does crystallise.

Governance

The terms of reference of the Audit Committee appear on the Company website at www.renold.com.

Responsibilities

- Reviewing the Group's financial results, announcements and financial statements;
- Reporting to the Board on the appropriateness of existing accounting policies and their application across the Group;
- As a matter of course, confirming that the Going Concern basis remains appropriate for the financial statements. This activity has recently been expanded to include advising the Board on the new Viability Statement;
- Advising the Board on the application of any new or modified accounting and reporting standards;
- Advising the Board on the adequacy of the processes required to confirm that the Annual Report and Accounts, when taken as a whole, are fair, balanced and understandable and include the information necessary to allow shareholders to assess the Group's performance, business model and strategy;
- Overseeing the Internal Audit function by reviewing the annual internal audit plan, identifying specific areas of focus for new or emerging business risks and receiving internal audit reports;
- Oversight of the relationship with the external auditor, including the appointment and, where appropriate, re-appointment of the external auditor;
- Assessing and making recommendations to the Board on the activities and performance of the Group's Executive Risk Management and Monitoring Committee (ERMMC) including reviewing the Integrated Risk Management System (IRMS);
- Reviewing and reporting to the Board on the Group's internal control and compliance processes;
- Reviewing the procedures for responding to whistle blowing, fraud or potential breaches of anti-bribery legislation. This includes oversight of any and all reports summarising the concerns raised, how they were investigated and the response to the same; and
- Reporting to the Board at regular intervals on how the Committee is discharging its responsibilities.

Pictured: High volume helical gears produced by our Gears facility in the UK for use in the automotive industry.

Composition

The Committee was chaired by me during the year. The second member of the Committee is Ian Griffiths, also an independent Non-Executive Director.

The composition of the Committee therefore remains unchanged in the year and complies with the requirements of the Governance Code for a smaller company, this being to have two independent Non-Executive members.

Audit Committee members and meetings attended		
Names	Position	Meetings attended
John Allkins	Chairman	6 of 6
Ian Griffiths	Non-Executive Director	6 of 6

Biographical details and experience of members are set out on page 67.

Expertise

The Committee members have been selected to give an appropriate range of financial, operational, commercial and risk management expertise to allow the Committee to fulfil its duties. The Board considers that I have recent and relevant financial experience as required by the Governance Code to perform the role of Committee Chairman.

Committee meetings

The Committee meets at least four times each year. During the year ended 31 March 2016 the Committee met six times. The extra meetings compared to the prior year was in respect of the tendering for global audit and tax advisory services held in June 2015. The meetings are attended by the independent Non-Executive Directors (the members), the Company Secretary and, by invitation, the Chairman, the Chief Executive, the Group Finance Director and the Group Head of Risk and Assurance. Full details of Director attendance during the year are set out in the table of all Committee meetings on page 69.

From time to time, other members of the Group's management team are invited to attend to present or respond to queries on particular areas of focus. Our external auditor, Deloitte and previously up to July 2015, Ernst & Young LLP (EY), also attended the majority of Committee meetings. Each meeting so attended includes an opportunity for the external auditor to raise any matters in confidence which they consider should be brought to the attention of the Committee without the Executive Directors being present. Similarly, the Group Head of Risk and Assurance has a regular opportunity to address the Committee without the Executive Directors being present.

Main activities of the Committee during the year

Audit tender

The Governance Code requires FTSE 350 companies to put the contract for audit services out to tender at least once every ten years which, in the case of Renold, would have been for the year ended 31 March 2017. The Board is generally minded to match the best practice requirements for FTSE 350 companies, even when not strictly required for Renold. The Committee reviewed the timeframe for an audit tender that would comply with the Governance Code and decided that the best interests of the Group would be better served by accelerating the tender process for the external audit by one year.

During the year, therefore, the Committee carried out two separate tender processes to appoint a new Global Auditor and a new Global Tax advisor. The Committee consciously took the decision to separate these two service lines which previously had both been provided by the Group's former Global Auditor. This decision was taken in the light of ongoing changes and emerging regulations regarding auditor independence and the restriction on the provision of non-audit services by a group auditor.

Both tender processes were run on a competitive basis and considered a long list of potential service providers before three firms were invited to formally tender for each role. Both short and long lists included firms from outside the 'Big Four'. The firms participating in the two tenders were aware that the Group intended to appoint separate firms as auditor and tax advisers.

The assessment criteria included:

- → Quality of service;
- → Qualifications;
- → Expertise;
- → Independence;
- → Effectiveness; and
- → Scale of international network to support the Group.

The tender process included the provision of a virtual data room, meetings with Non-Executive Directors, Executive Directors and Divisional and Finance Management. A number of visits to key manufacturing and office locations were undertaken by the tendering firms.

We were pleased with the efforts expended by the firms. The quality of all formal tenders was excellent and more than one firm could have been appointed to each role.

Deloitte were successful in winning the audit tender and PricewaterhouseCoopers LLP (PwC) in winning the tax advisory tender. A resolution to appoint Deloitte as the new Global Auditor was included and passed in the Ordinary Business of the Annual General Meeting held on 21 July 2015.

Significant issues considered in relation to the financial statements

The Committee monitors the integrity of the Company's financial information and other formal documents relating to its financial performance and makes appropriate recommendations to the Board before publication.

A key factor in the integrity of financial statements is ensuring that suitable and compliant accounting policies are adopted and applied consistently on a year-on-year basis and across the Group. In this respect, the Committee also considers significant estimates and judgements made by management in preparing the financial statements.

The Committee's considerations are supported by input from other assurance providers, for example, the Group's actuarial advisers, the Group Internal Audit and Assurance team as well as our Global Auditor.

Summarised in the table below are some of the significant issues the Committee considered during the year in relation to the financial statements. These are separated into items of particular focus this year and recurring items that the Committee regularly addresses. The table also sets out the KPIs impacted by each of these issues in the financial statements, their relevance to the financial statements and an assessment of the degree of judgement required in concluding on each item.

Review matters	Relevant KPIs	Relevance	Judgement required
Exceptional items	Adjusted results RoS%	→ Adjusted operating profit impact £3.1m → RoS impact 1.9%	Moderate
Pension accounting	Financing charges Net assets	→ IAS 19 finance charge £2.0m → Net pension liability £82.9m	Low
Intangible asset valuations	Adjusted results Net assets	→ Amortisation charge £1.8m → Net intangible assets £50.0m	High
Inventory valuations	Inventory value Working capital ratio Net assets	→ Net inventory value £36.3m → WC% of sales 20.3% → Net assets £10.5m	Low
Acquisition accounting	Exceptional charges Intangible assets	→ Exceptional charges £0.4m → Intangible assets recognised in year £4.2m → Future amortisation charges £0.8m p.a.	Moderate

Pictured: A large worm wheel being set up for drilling at our Gears facility in the UK.

Defined benefit pension accounting

(recurring annual item: See Note 20 to the financial statements)

Defined benefit pension scheme accounting is a complex matter. The values disclosed can fluctuate materially, particularly in a period of significant changes in gilt yields and interest rates. The values disclosed are also sensitive to a range of assumptions where judgement is required.

This is illustrated in the table below:

Assumption sensitivity	Change in liability
Impact of 0.25% change in UK discount rates	£6.6m to £7.0m
Impact of 0.25% change in UK inflation rate	£4.3m to £4.4m
Impact of 1 year higher of lower life expectancy in UK	£8.9m

However, most judgements are based on known published data or indices and hence the level of judgement is assessed as 'Low'.

As has been the case for a number of years, the Committee reviews management estimates which are produced following independent actuarial advice and are compared to third party benchmarks on the reasonableness of the assumptions used. We ensure the Group's underlying assumptions and methodology used in deriving them are unchanged year on year. In respect of the relatively high mortality assumption, the Committee considered extensive scheme specific data which underpins and supports the level of mortality assumed by the Group. The Committee was satisfied that the assumptions are within an acceptable range and no changes were made to management assumptions. The Committee also reviewed the net gains and charges associated with closure of the German defined benefit pension scheme and the termination of the Australian scheme. The figures were independently calculated by professional actuaries in both cases and given their significant size and nature, the Committee concluded that they should be separately disclosed as exceptional items.

The Committee has also encouraged additional disclosure of forward looking financial information in respect of defined benefit pension schemes. Typically graphical in nature, this is designed to give greater clarity of the risks, issues and opportunities in what is a complex area of accounting: see pages 43 to 45 of the Finance Director's Review.

The Committee considered again but continues to conclude that the financing charges and administration costs of the closed defined benefit pension schemes should, for the purposes of assessing underlying performance as reported in adjusted operating profit and adjusted EPS, be excluded from these calculations. The costs involved relate to closed legacy pension schemes that have no bearing or relevance to understanding the underlying performance of the ongoing business: see Note 20 to the financial statements.

Review of carrying value of intangible assets, deferred tax assets and investments in subsidiary undertakings

(recurring annual item: see Note 7, Note 17 and Note 20 to the financial statements)

The Group holds a number of valuable intangible assets such as goodwill and deferred tax. In addition, the parent company and other subsidiary holding companies hold investments in various subsidiaries (which are relevant in their individual statutory accounts as opposed to the consolidated financial statements).

The judgements on the carrying value of these assets are normally a key area for Committee scrutiny as carrying values are based on estimates of future profitability over a number of years and hence are highly sensitive to the assumptions used.

These are areas where management estimates play a key role in supporting the carrying values reported in the balance sheet. The Committee reviews the assumptions underlying the discounted cash flow calculations and the likelihood of long term recovery of the asset values. The details of the impairment reviews and the sensitivities performed are in Note 7. Short term cash flows are confirmed by reference to the Board approved budget for the following year and sense checked against the longer term Strategic Plan. This is also a key area of focus for the external auditor.

As part of the review of defined benefit pension accounting the Committee also reviews the carrying value and recoverability of the deferred tax assets, the corollary of the gross pension deficit. The Committee was satisfied that the extended duration of the pension liabilities in Germany and the UK, and their priority in recognition, justified the extended recovery periods for the associated deferred tax assets which were also fully supported by expectations of future taxable profitability.

Audit Committee Report

Review of inventory valuation and provisioning

(recurring annual item: see Note 13 to the financial statements)

As a manufacturer, the Group adds value to raw materials as part of its normal production processes. In order to provide shorter lead times and better customer service the Group also holds a significant amount of stock. Inventory therefore represents a material component of the Group's balance sheet. The basis of valuation always includes the allocation of amounts for labour and overhead costs which require the exercise of management judgement. However, the overall process is governed by well known accounting methodologies for the absorption of labour and overheads into stock and hence the overall level of judgement required is assessed as low.

The Committee reviews in some detail both the valuation bases and the application of the Group's policy on providing for slow moving and obsolete stock. The Committee reviews both the rules governing the automatic generation of provisions based on the age of stock and any management judgemental overrides. The Committee is satisfied that the net book value shown in Note 13 is appropriate and that any management judgements formed in arriving at those values are reasonable.

Review of acquisition accounting

(current year focus item: see Note 7 to the financial statements)

Acquisition accounting requires the acquirer to fair value the assets and liabilities acquired as at the date of acquisition even if certain assets were not recorded in the balance sheet of the selling entity. The value of goodwill is the difference between the total expected consideration to be paid and the value of the aggregate of the fair value of the individually separable assets and liabilities.

Fair values are set by reference to estimated future cash flows and also involve applying the accounting policies of the acquirer instead of the seller. These valuation bases therefore must include management judgements. As part of the acquisition of the Tooth Chain business (see Note 7) the Committee reviewed the separately identified intangible and tangible assets and their underlying valuation bases to ensure that they were compliant with accounting rules (IFRS GAAP) and based on reasonable assumptions, which aligned with the plans for the Tooth Chain business.

Reporting of exceptional items

(current year focus item: see Note 2(c) to the financial statements)

The STEP 2020 Strategic Plan envisages and requires a number of years of restructuring activity within the Group. Each year the Committee focuses on and challenges management's allocation of costs between exceptional items and ordinary items. We ensure that the exceptional charges genuinely need to be excluded so as to allow users of the accounts to form an accurate assessment of the performance of the underlying business.

We concluded that the net charges were sufficiently material and not related to the underlying business so as to require separate disclosure.

Review of the new Viability Statement

(current year focus item: see page 55)

The 2014 Corporate Governance Code (2014 Code), which provides new requirements in governance and reporting, applies to the Company for the first time this year. In accordance with provision C2.2 of the 2014 Code, the Board is required to assess the prospects of the Company over a period longer than 12 months from the approval of the financial statements.

In addition to the Going Concern report, the Committee has helped the Board prepare the viability statement and the period over which it will apply. The Committee considered the STEP 2020 Strategic Plan and sensitivities against the Plan in preparing the viability statement as well as the appropriateness of the three year review period. The Company's current position and principal risks were also reviewed in detail by the Committee prior to advising the Board.

The Company's full viability statement can be found on page 55 of the Strategic Report.

Other matters reviewed by the Committee:

- Corporate risk reporting processes and action plans;
- The annual process for control self-assurance and reporting;
- Reviewing medium term financial planning assumptions; and
- The ongoing programme to improve the efficiency of financial control processes in the business.

Internal control, risk and compliance

We regularly evaluate the integrity of financial reporting and the robustness of internal controls to ensure compliance with applicable legal and internal requirements. We also review the Group's policies and procedures for identifying material business risks and action plans aimed at reducing the likelihood of risks crystallising and mitigating the impact if they do.

The ERMMC receive regular reports from the Group Head of Risk and Assurance, to convey the status of risk profiles and actions arising from the risk assessment process. The ERMMC reports the results of its discussions to the Committee.

The Group's management team makes regular use of the IRMS which is delivered via the Group's intranet. This system facilitates both the identification of risks and their relative priority in each functional area or each geographic location. The system also allows users to develop and implement action plans to mitigate those risks. The system has extensive reporting functionality that allows senior management and the ERMMC to review progress in mitigating the risks faced by the Group.

Further details of our internal control and risk management systems, including the financial reporting process, can be found on pages 47 and 48 and page 74. Our primary risk factors are shown in the Strategic Report on pages 49 to 54.

Confidential reporting procedures and whistle blowing

The stewardship of the Group's assets and the integrity of the financial statements are further supported by confidential reporting and whistle blowing procedures. The Committee reviews these procedures once a year to ensure that appropriate processes are in place to treat complaints confidentially and implement proportionate and independent investigation in all cases. The Committee is diligent in ensuring a high degree of visibility and accessibility of whistle blowing communications methods to all staff, including first hand inspection during site visits.

The Committee was satisfied through detailed discussion that all whistle blowing reports received during the year were properly investigated. In all cases, no material issues were identified at a Group or subsidiary level and were, in the main, related to local employee relations matters. The Committee considers the number and nature of reports received in the year to be small in number and scale of risk in comparison to businesses of a similar size and geographical distribution.

Internal audit

The Committee receives and considers reports on the control environment from the Group Head of Risk and Assurance. These reports highlight key improvement themes and recommend areas for business focus, with additional observations provided around root cause analysis and cultural and behavioural themes. In addition, the Committee has visibility of management responses and action tracking via the Group's IRMS at each meeting. The audit plan, which contains mandatory, risk-based and cyclical reviews, was approved by the Committee in February 2014, and was built around focus areas such as organisational change, major projects, security, business resilience and capital spend.

The annual Internal Audit plan is built on a risk-based approach for the majority of work, but also includes an element to ensure coverage of key operations and processes over a defined period. The inherent risk of each process is assessed and in turn is used to inform audit frequency, with elements of higher risk processes being audited on a more frequent basis. The Committee supports this approach and comments on particular areas of focus or concern that we wish to see addressed. In the new financial year, the plan will include site financial control audits, site Health and Safety audits and project assurance associated with the Group's new global IT system (ERP) implementation.

External audit

The Committee is responsible for overseeing relations with the external auditor, including the approval of fees, and makes recommendations to the Board on their appointment and, where appropriate, reappointment based upon reviews of audit effectiveness.

Details of total remuneration for the auditor for the year, including audit services, audit related services and other non-audit services, can be found in Note 2(b) of the consolidated financial statements.

Auditor independence and objectivity

The independence of the external auditor is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Auditor independence and objectivity is safeguarded by limiting the nature and value of non-audit services performed by the external auditor. The Group has a policy of not recruiting senior employees of the external auditor, who have worked on the audit in the past two years, to senior financial positions within the Group, and the rotation of the lead engagement partner at least every five years. The current lead engagement partner was appointed during the audit tender process in June 2015 and this is therefore the first year they have been in post.

Pictured: Our Tooth Chain facility in Gronau, Germany employs 62 people.

Audit Committee Report

Non-audit services provided by the external auditor

The Committee is responsible for ensuring that an appropriate relationship is maintained between the Group and the external auditor. Non-audit services can only be provided by the external auditor if there is no potential conflict of interest or material risk of values being included in the financial statements that have been both advised on and audited by the external auditor.

To safeguard the independence and objectivity of the auditor, the Committee has approved a policy on non-audit services provided by the auditor in line with professional practice and in accordance with ethical standards published by the Audit Practices Board. Control of non-audit services is exercised by ensuring that all non-audit services where fees exceed an agreed limit are subject to the prior approval of the Committee. The policy is available on the website at www.renold.com.

During the year ended 31 March 2016, the Committee continued with the appointment of other accountancy firms to provide non-audit services to the Group and anticipates that this will continue during the year ending 31 March 2017.

Total non-audit services provided by Deloitte during the year ended 31 March 2016 were £nil (2015: £nil). It should be noted that Deloitte took office in July 2015 and since they were not the external auditor in 2015 there were no restrictions on the amount or services that could be provided by them and hence the data presented above is for information purposes only. Total audit and audit related fees include the statutory audit fee and fees paid to Deloitte for other services which the external auditor is required to perform. Examples might include reporting to banking partners in territories where no statutory accounts are required to be prepared. Non-audit fees represent all other services provided by Deloitte not included in the above. There were no significant non-audit services provided by Deloitte in the year.

During the year ended 31 March 2016, total non-audit services provided by the previous auditor EY, who held office until July 2015, were £nil (2015: £0.2m) which comprised nil% (2015: 25%) of total audit and audit related fees. There were no non-audit services provided by EY during the year. Significant non-audit services provided by EY in the prior year included tax advisory and compliance services (£0.1m) that were provided in territories where it would have been prohibitive for the Group to employ its own full time tax manager.

The Committee was previously of the view that some overseas tax advisory and compliance services could most efficiently be provided by the external auditor as much of the information used in preparing computations and returns is derived from audited financial information. In order to maintain the external auditor's independence and objectivity, in the prior year Group and local management reviewed and considered EY's findings and EY did not make any decisions on behalf of management.

Mindful of impending changes in regulations relating to the provision of non-audit services by the Group's auditor and following the audit and tax advisory tenders, the Committee now requires that these tax services are provided by separate firms. The objective is to achieve a smooth transition to the proposed new limits on non-audit services provided by the external auditor and thereby avoid a disruptive major step change.

The Committee also discussed the overall level of fees and considered them appropriate given the current size of the Group. The Committee is satisfied that the level and scope of non-audit services undertaken by the external auditor does not impair its independence or objectivity and considers that the Company receives particular benefit from the advice provided by its external auditor, given its wide and detailed knowledge of the Group and its international operations.

Audit focus

To ensure appropriate focus on key risk areas identified by the Committee, the proposed external audit plan is challenged before the audit commences to ensure that Deloitte have developed appropriately targeted audit procedures. These are closely aligned with the current year focus items noted above in the section Main activities of the Committee during the year. They also reflect the relative changes in profitability and materiality of each of the Group's operating units during the year (in some cases as a result of the ongoing restructuring activities).

Assessment of effectiveness of external audit

The Committee has a formal system for evaluating the performance and independence of the external auditor. This system involves active dialogue with the Lead Engagement Partner, a formal questionnaire and feedback process involving senior management in direct contact with the audit team, and Deloitte's response to accounting, financial control and audit issues as these arise.

The Committee conducts an annual review of the structure and approach taken in the external audit, the level of non-audit fees, and the effectiveness, independence and objectivity of the external auditor. This includes consideration of:

- The global external audit process;
- The auditor's performance;
- The expertise of the firm and our relationship with them; and
- The results of the questionnaire process noted above.

The results of the review are discussed with the external auditor.

Pictured: In addition to the DMG Mori-Seiki machine shown on page 15, the NTX2000 will also streamline the production process.

Following this year's annual review, the Committee was satisfied with the effectiveness, independence and objectivity of the external auditor. As noted below, the Committee has made a recommendation to the Board to re-appoint Deloitte as the Group's Global Auditor and a resolution to that effect will be included in the Ordinary Business of the Annual General Meeting scheduled on Wednesday 20 July 2016. There are no contractual obligations restricting the choice of external auditor, nor entered into any auditor liability agreements.

Audit information

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditor is unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Fair, balanced and understandable: the role of the Disclosure Committee

As part of the process of ensuring that all disclosures made by the Company are timely, accurate and importantly meet the 'fair, balanced and understandable' requirement arising under the FCA's Listing and Disclosure and Transparency Rules, the Group maintains a Disclosure Committee whose membership includes the Chairman of the Audit Committee (as Chair), the Group Finance Director, the Group Chief Accountant and the Company Secretary.

The consideration of the fair, balanced and understandable requirement is shown in the graphic on page 74. In summary, the Disclosure Committee carried out the following activities:

- All those contributing to the Annual Report and Accounts were briefed on the requirements of the Governance Code with specific emphasis on the fair, balanced and understandable requirement;
- A number of senior managers who were knowledgeable about the business but otherwise not significantly involved in the preparation of the Annual Report and Accounts, each performed an independent review of the draft Annual Report. The feedback and comments received as a result were reviewed and amendments made accordingly; and
- As in previous years, a documented verification file of all substantive facts and assertions is maintained and reviewed for completeness prior to finalisation of the Annual Report and Accounts.

The Disclosure Committee presents its findings and recommendations to the Audit Committee as part of its review of processes to enable the fair, balanced and understandable statement to be made.

We welcome feedback from shareholders on this report and I will be available at the AGM to answer questions.

John Allkins
On behalf of the Audit Committee
31 May 2016

Nomination Committee Report

Mark Harper
Nomination Committee Chairman

"The Nomination Committee's primary focus during the year has been to review the Company's succession planning for directors and senior management. Following this exercise, the recruitment process for a new Non-Executive Director will commence in the current financial year."

I am pleased to present the Nomination Committee Report for the year ended 31 March 2016 and to update shareholders in relation to the activities of the Committee in furtherance of the principles below.

Nomination Committee members and meetings attended		
Names	Position	Meetings attended
Mark Harper	Chairman	3 of 3
John Allkins	Non-Executive Director	3 of 3
Ian Griffiths	Non-Executive Director	3 of 3

In accordance with the 2014 Code, the Committee is responsible for considering the size, structure and composition of the Board. This includes assessing skills, knowledge, experience and diversity of Board members and any resulting recommendations for change. In the event of a change to the Board, the Committee will lead the process for new appointments. The Committee is also required to give full consideration to succession planning for directors and other senior executives.

Succession planning

I reported last year that a key discussion point for the Committee for this year would be succession planning. The Board is mindful of its obligations under the 2014 Code in relation to succession planning and I can report that a detailed review of succession planning for the Board and senior management took place during the year. The discussion as it relates to senior management concluded that good progress had been made on succession planning as a result of the continued strengthening of the management team led by the Chief Executive but that further progress was required. Discussions relating to Board succession are summarised in the following Board composition section of this report.

Board composition

The Committee considers that the current capability and financial burden imposed by the Board has been appropriate in the current reporting period. This view reflects the need to deliver excellent corporate governance while balancing the need for cost control during the Restructuring Phase of STEP 2020.

As the Group transitions into the Organic Growth and Acquisition phases of STEP 2020, the Committee has reviewed further the composition of the Board and, in light of the succession planning review also completed in the year, made a recommendation to the Board for the appointment of an additional Non-Executive Director. The Committee considers that whilst the Group and Board have continued to benefit from the stability and continuity of membership of the current Board during the year, additional skills and ideas could be brought to the Board at this time to match our strategic progression. The recruitment of an additional Non-Executive Director will also potentially provide succession for the Audit Committee Chairman role given that John Allkins has served for eight years in this role. The candidate pool will therefore comprise suitably qualified individuals.

The Committee's recommendation for recruitment was approved by the Board and the process will commence during the current financial year. This report sets out below our policy on appointments to the Board and I will provide an update to shareholders on the recruitment accordingly in the next Annual Report and Accounts. A Regulatory News Announcement will also be made via the London Stock Exchange when the process is complete.

Role of the Nomination Committee

The Committee has delegated authority from the Board. The duties of the Committee include the following:

- To review the structure, size and composition of the Board and recommend any proposed changes;
- Where new appointments of Executive and/or Non-Executive Directors are to be made, to lead that process and identify and nominate candidates to the Board; and
- To give full consideration to succession planning for Directors and other senior executives, taking account of the challenges and opportunities facing the Company.

The Committee's terms of reference are available on the Company website at www.renold.com.

Composition of the Nomination Committee

- The Committee is chaired by Mark Harper, Chairman of the Board
- The two Non-Executive Directors are members of the Committee and have been so throughout the year.
- The Committee meets during the year as required.

Diversity

Both the Board and the Committee continue to be mindful of the issue of diversity, a formal Board diversity policy having been discussed and adopted last year. In any future changes to its composition, the Board will ensure that issues of diversity, including gender will be taken into account alongside the overriding objective of appointing the best possible candidate for the role.

The Board does not believe it is appropriate to set measurable objectives for the implementation of the policy at this time.

As an international business with operations in multiple locations we employ a very diverse workforce with a broad range of ethnicity which extends to senior management and leadership posts in the various territories. We prefer to appoint local people to management posts where possible.

Appointments to the Board

In accordance with the provisions of the 2014 Code, when reviewing the Board's structure, the Committee's primary objective is to ensure that the Executive and Non-Executive Directors have the relevant skills, knowledge and experience to create a balanced and effective Board and to support the Group in delivering its overall strategic objectives. This is in parallel with ensuring that the costs and composition of the Board reflect the size of business and also the current stage of development of the business. Our policy extends to ensuring that the various sub-committees of the Board also have an appropriate range of skills and experience to deliver their terms of reference.

In addition to skills and experience, we will also consider factors such as how an individual's personal attributes would complement and enhance the diversity on the Board. For the appointment of Non-Executive Directors, additional factors for consideration include independence and time commitment.

In selecting candidates for the short-list for any appointment, the Board always considers candidates from a wide range of backgrounds and on merit and against objective criteria.

The Board is aware of the need to consider the benefits of diversity on the Board in all its aspects. The Board recognises that gender is one important aspect of diversity and while all current members of the Board are male, the Company Secretary, who is also the Group's most senior legal professional, is female. An analysis of the gender of all employees is set out in the Strategic Report on pages 60 and 61.

Other than in relation to gender and ethnicity, the current Board is diverse in terms of the different skill sets of each member. These include professional qualifications and career work experience but also wider experience relevant to our global business, most of the Board members having worked and lived overseas for significant periods for example. For further information, see the charts set out on page 68. It is envisaged that the new Board appointee will add to this diverse skill set.

The process for making appointments to the Board commences with the evaluation process described above. The Committee will then seek to identify suitable candidates usually with the use of external recruitment consultants or, where appropriate, the use of open advertising. The Board supports the engagement of executive search firms who have signed up to the Voluntary Code of Conduct on gender diversity and best practice. Recruitment consultancy services have been provided by Korn Ferry Whitehead Mann and Odgers Berndtson, who themselves are signatories to the Voluntary Code of Conduct. None of these firms have any other connection to the Company.

Effectiveness review

During the year, the Committee has also carried out its annual evaluation. Again, this has proved a useful exercise in reviewing the Committee's work and concluding that it continues to work effectively.

Mark Harper
On behalf of the Nomination Committee
31 May 2016

Directors' Remuneration Report
Annual Statement

"We have carried out a review of the Directors' Remuneration Policy to ensure it continues to align executive pay to the Company's strategy and delivers appropriate pay for the performance achieved. This report explains the changes we have made in response and for which we are seeking shareholder approval this year."

Ian Griffiths
Remuneration
Committee Chairman

As Chairman of the Remuneration Committee I present the Directors' Remuneration Report for the year ended 31 March 2016[1].

Review of remuneration

The Committee undertook an extensive review of the Directors' Remuneration Policy during the year. A benchmarking exercise was carried out by PwC, the Committee's adviser, using comparators in the industrial sector of comparable size to the Company to ensure we continue to have a good awareness of where our remuneration is positioned as compared to our competitors.

The findings of the remuneration review were that our Chief Executive is paid a base salary below the market lower quartile, whereas most of the senior management team who tend to be more recent hires are more competitively remunerated. The position of the Chief Executive is likely to have worsened since the data point of the survey, as the Committee have avoided paying salary increases to the senior team and to the wider employee base to minimise fixed costs. The total remuneration lay between lower quartile and median on an expected value basis due to an annual bonus (100% of salary maximum) opportunity and LTIP (100% of salary maximum) opportunity which is broadly aligned with the market when expressed as a percentage of salary.

The Committee are ever cognisant of the need to provide the right balance of fixed versus variable pay and a reward framework that only pays out for strong performance over the long term. In addition, we are also mindful of the need to ensure we continue to remunerate the senior team appropriately given the competitive market for talent.

While market conditions do remain tough, we firmly believe that the right Chief Executive, Robert Purcell, is in place to deliver on the STEP 2020 Strategic Plan and therefore want to ensure that he is appropriately incentivised and aligned to focus him over the coming years to deliver on that strategy.

While the principles of the policy and the overall structure of remuneration remain unchanged, the Committee has determined that additional focus should be placed on long term performance. Therefore, the LTIP opportunity for the Chief Executive has been enhanced by 100% of salary to 200% of salary. At the same time, an absolute TSR[2] condition has been introduced into the LTIP for the Chief Executive only and will account for 50% of the total award whilst the adjusted EPS[3] condition will continue to account for 50% of the award. The achievement of adjusted EPS minimum targets will be a trigger for the TSR condition to be measured. The level of stretch required in order to achieve maximum vesting under the LTIP will be increased to reflect the higher incentive potential.

In addition, the shareholding requirement has been increased for the Chief Executive from the current level of 100% of salary to 200% of salary.

The Committee believes that an increase in LTIP opportunity for the Chief Executive ensures that the total remuneration package is market competitive with companies of a similar size, while avoiding worsening the Company's cash position through higher salaries and/or bonuses. The higher LTIP opportunity will only become payable if the minimum threshold EPS improvement target is delivered. This is consistent with delivery of the STEP 2020 medium term goal of mid-teens operating margins.

As part of the review undertaken, the Committee decided that all fixed elements of pay and annual bonus arrangements will remain unchanged for the Chief Executive. All elements of remuneration will remain unchanged for the Group Finance Director.

The Committee intends to perform a full review of the remuneration policy in three to four years at the maturity of the STEP 2020 Strategic Plan. In particular, at that time, the Committee intends to reduce the quantum of the Chief Executive's LTIP as part of a rebalancing of the overall remuneration package to more market-typical levels following delivery of the STEP 2020 Strategic Plan.

This report provides further detail on the remuneration review and the changes proposed.

[1] The remuneration report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

[2] Refer to the Glossary on page 171 for definition of TSR.

[3] Refer to the Glossary on page 171 for definition of EPS.

Pictured: Hand dressing of worm wheel prior to pairing with a worm shaft at our Gears facility in the UK.

Key remuneration outcomes for the year

The key outcomes under the elements of variable pay for the year are:

- Annual bonus: The Company faced challenging market conditions during the year due to the significant global slowdown in industrial markets. Despite this, the Company made an acceptable adjusted profit this year, albeit lower than original expectations. Because of the performance shortfall, no annual bonus payments were earned by the Executive Directors for the year ended 31 March 2016.

  The Committee determined this outcome having formally assessed performance against EBITDA and Net Debt targets set at the beginning of the year as follows. The adjusted EBITDA for the year ended 31 March 2016 of £20.2m was below the threshold of £22.9m required for any payment of bonus. Average Net Debt during the year was £24.7m, which was significantly better than the threshold of £26.0m and represented an 80% achievement against maximum performance. However, the matrix structure of the bonus scheme means that if either criterion fails to achieve the minimum threshold then no payment can be made for any criteria.

- Performance Share Plan (PSP): The first awards granted under the PSP, which was approved by shareholders at the 2013 AGM, are due to vest in July 2016. The Awards granted in 2013 required 50% growth per year in adjusted EPS for maximum vesting. Growth of 50% per annum in adjusted EPS has been achieved in the three year period ended 31 March 2016 and therefore the Awards are due to vest in full.
- 2004 Option Plans: Option awards granted to Robert Purcell in 2013 vested in full during January 2016 as the share price condition attached to these awards was achieved at the maximum performance level.

Conclusion

The rules of the PSP will be amended to incorporate the changes described following the Committee's review of remuneration and a resolution to approve the changes will be put to shareholders at the 2016 AGM.

The Committee reviews shareholder voting on the remuneration report each year. We are focused on clear reporting of past remuneration and future policy and we welcome feedback from shareholders. I will be available at the AGM to answer any questions about the Committee and its work.

Ian Griffiths
Remuneration Committee Chairman
31 May 2016

Read more about the STEP 2020 Strategic Plan on page 17

Our report is structured in several sections following the Annual Statement:

- We have added two new sections. The first sets out the responsibilities and work undertaken by the Remuneration Committee. The second At a Glance section gives an easily accessible overview of this year's Directors' Remuneration Report.
- The Directors' Remuneration Policy sets out the Company's policy on Directors' remuneration and is intended to apply for three years from the 2016 AGM.
- The Annual Report on Remuneration shows the implementation of the Directors' Remuneration Policy in 2016 and how it is proposed to be applied in 2017. The Annual Report on Remuneration together with this letter is subject to an advisory shareholder vote at the 2016 AGM.

Directors' Remuneration Report
The Committee and its Activities

This section describes the membership of the Committee, its key responsibilities and principal activities during the year. It forms part of the Annual Report on Remuneration section of the Directors' Remuneration Report.

Committee membership
All members of the Committee are independent. Members of the Committee during the year are set out below and further biographical details can be found on page 67:

- Ian Griffiths (Chairman)
- John Allkins

The Company Secretary attends all Committee meetings and is secretary to the Committee. The Executive Directors, the Chairman of the Board and the Group HR Director attend meetings by invitation. PwC, the external advisers to the Committee, also attend meetings by invitation. Further details in relation to PwC's engagement as adviser to the Committee can be found below. No Director is involved in deciding his own remuneration, whether determined by the Committee, or in the case of the Non-Executive Directors, by the Board.

An evaluation of the Committee was undertaken during the year ended 31 March 2016 and this review concluded the Committee has operated effectively.

The terms of reference of the Committee are available on the Company's website at www.renold.com. None of the Committee members has any personal financial interest (other than as shareholders) in the matters to be decided or any conflict of interest, cross-directorships or day-to-day involvement in the running of the business.

The Company's auditor is required to report on certain parts of the Directors' Remuneration Report and to state whether in its opinion those parts of the report have been properly prepared in accordance with the relevant accounting regulations. Audited sections of the report are indicated accordingly.

Key responsibilities of the Committee
- The Committee determines on behalf of the Board, and within agreed terms of reference set by the Board, the overall remuneration packages for the Executive Directors and the Chairman, and the terms of the service contracts and all other terms and conditions of employment of the Executive Directors.
- The key aim is to ensure that executive pay is strongly aligned to the Company's business priorities and the interests of shareholders. Our policy is also designed to attract, motivate and retain individuals who will deliver strong performance for all of our stakeholders. The Committee takes into account the pay and employment conditions of employees within the Group when determining Executive Directors' remuneration.

Adviser to the Committee
During the year, the Committee received independent advice from PwC in relation to market practice to inform the review of remuneration reporting, operation of the Company's share plans and information on market trends in executive remuneration. Total fees for services provided over the year amounted to £21,700 plus VAT. The fees are in respect of provision of benchmarking data for Executive Directors, advice on incentive design and on the review of executive remuneration carried out during the year.

PwC was appointed by the Committee in 2014 following an assessment and interview process and has advised on various issues including remuneration policy, the Regulations and updating the Committee on trends in compensation matters. Fees charged have been on a time-spent basis. PwC is a member of the Remuneration Consultants Group and adheres to that group's Code of Conduct. PwC has provided internal audit, tax and pensions related services to the Company. The Committee has chosen to retain PwC as its adviser.

The Committee is satisfied that the advice given on executive remuneration is objective and independent and that no conflict of interest arises as a result of these other services.

In addition to external advice received from PwC, the Committee consulted and received reports from the Group Finance Director and the Group HR Director. At all times, the Committee recognises the need to identify and manage conflicts of interest when receiving reports from, or consulting with, the Executive Directors or members of senior management.

Pictured: Laced lifting chain manufactured at our Chain facility in Einbeck, Germany.

Committee activities

The Committee's terms of reference require meetings to be held at least twice a year. This year, the Committee met on seven occasions to discuss the following themes and agenda items in accordance with its terms of reference:

Theme	Agenda items
Best practice	Review of the current UK corporate governance environment and the implications for the Company
Annual Report on Remuneration	Consideration and approval of the Annual Report on Remuneration to be put to shareholders
Executive Directors	Reviewing the base salaries payable to each of the Executive Directors
	Reviewing performance under the annual bonus and consideration of any bonuses payable for the financial year ended 31 March 2016
	Approving the annual bonus structure and performance targets for the financial year ending 31 March 2017
	Approving the awards made under the Company's PSP during the year
Committee performance	Reviewing the Committee's performance
Performance of external advisers	Reviewing the performance of PwC and retaining them as external remuneration consultants
Remuneration review	Carried out market benchmarking exercise for Executive Directors and senior management
	Considered alternative structures of remuneration for Executive Directors
Policy	Reviewed quantum of annual bonus and PSP awards for Executive Directors
	Considered and approved amendments to leaver terms in the light of market practice
	Reviewed and amended shareholding requirements for the Chief Executive

In addition, the Executive Directors and the Chairman reviewed the remuneration arrangements of the Non-Executive Directors.

Directors' Remuneration Report
At a Glance

Our remuneration principles and elements of remuneration

Principle	Attract, retain and motivate executives to deliver high performance	Align executive pay to company strategy and performance
Elements	Fixed pay: Base salary, Pension, Other benefits	Short term variable: Annual bonus Long term variable: PSP
Purpose	Provide appropriate level of minimum pay commensurate with role.	Drive annual company performance Align to earnings generation and shareholder value

OVERARCHING PRINCIPLES OF SIMPLICITY AND TRANSPARENCY

Changes to remuneration policy operating since the 2014 AGM

The following amendments have been made to the Directors' Remuneration Policy applying to Executive Directors effective from the 2014 AGM:

Element	Operation of component	Maximum potential value	Performance metrics used, weighting and time period applicable
Fixed pay (base salary, benefits and pension)	No change	No change	No change
Annual bonus	No change	No change: Remains at 100% of base salary	No change
PSP	No change	Chief Executive: Increase from 100% to 200% of base salary	Introduction of an absolute TSR condition for the Chief Executive only and will account for 50% of the total award while the adjusted EPS minimum targets will be a trigger for the TSR condition to be measured The level of stretch required in order to achieve maximum vesting will be increased to reflect the higher incentive potential
Shareholding requirement	No change	Chief Executive: Increase from 100% to 200% of base salary	None

Pictured: Inspection of helical gears prior to heat treatment at our Gears facility in the UK.

How we have performed this year

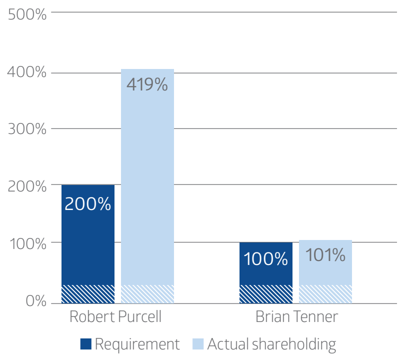
Element	Measure	Threshold target	Maximum target	Actual
Bonus	Adjusted EBITDA Average Net Debt	£22.9m £25.5m	£25.9m £24.0m	£20.2m £24.2m
PSP	Growth in adjusted EPS	30% p.a. growth	50% p.a. growth	50% p.a. growth

Single total figure of remuneration for Executive Directors

Executive Directors	Salary (£'000)	Benefits (£'000)	Bonus (£'000)	LTIP (£'000)	Pensions (£'000)	Total 2016 (£'000)	Total 2015 (£'000)
Robert Purcell	300	16	–	585	45	**946**	561
Brian Tenner	185	11	–	216	28	**440**	485

Shareholdings as at 31 March 2016

%



This chart shows the shareholding requirement for each of the Executive Directors and their actual shareholdings as at 31 March 2016.

Directors' Remuneration Report
Directors' Remuneration Policy

Introduction
This section of the Directors' Remuneration Report (from pages 92 to 98) sets out the Company's policy for the remuneration of its Directors. The application of the policy is set out in the next section on pages 99 to 104.

The current Directors' Remuneration Policy was approved by shareholders at the AGM on 22 July 2014 and took effect from that date. Following a review of remuneration carried out during the year ended 31 March 2016, the Committee is proposing a new Directors' Remuneration Policy for shareholder approval at the 2016 AGM, which will apply for the three years beginning on that date.

Remuneration principles for Executive Directors
Our Directors' Remuneration Policy has been designed to deliver two key aims, which remain unchanged since the previous policy was approved by shareholders at the 2014 AGM:

To attract, motivate and retain executives who will deliver high performance for all our stakeholders.
We believe the mix of our remuneration package provides an appropriate and balanced set of rewards. Executive reward at Renold is relatively modest compared to our peer group and this has been validated by independent third parties.

This is consistent with the key strategic objective of lowering our breakeven point – this applies to executive pay as much as it does to any business expenditure. However, we are careful to ensure appropriate incentive opportunities remain for sustainable improvements in business performance.

To ensure a close alignment of executive pay to the Company's strategic objectives and performance.
We review our incentive plans each year to ensure they remain closely aligned with the Company's strategic objectives and shareholders' interests, while continuing to motivate and engage the Executive team to achieve stretching targets.

In addition, we aim to make the remuneration framework for Executive Directors relatively simple – the incentive plans are therefore limited to an annual bonus and the PSP.

Policy table
Based on our view of current market practice, and the principles of our remuneration policy, we have established the remuneration policy set out in this report. The following table summarises the fixed and variable elements of remuneration for the Executive Directors.

Remuneration element	Purpose and link to corporate strategy	Operation of the element	Maximum potential value and payment at threshold/review basis	Performance metrics
Base salary	Competitive salaries to attract, retain and motivate those responsible for executing strategy while ensuring the Company pays no more than is necessary.	Paid in 12 equal monthly instalments during the year. The policy is to provide fourth quartile base salary for comparable jobs in manufacturing companies of a similar size, influenced by: → Role, experience and performance; → Changes in broader workforce salary; and → Salaries payable in similar companies.	Reviewed annually and typically set on 1 August each year. Annual rate for each Executive Director is set out in the Annual Report on Remuneration. Salaries have been frozen for a number of years and this will continue compared to modest inflation linked increases for the wider employee population. Higher increases may be awarded following recruitment into a role at a below-market rate until the individual is aligned with market levels or due to a change in role or responsibilities.	None.

Pictured: M3 in action at our Couplings facility in the UK, our first site to go live.

Remuneration element	Purpose and link to corporate strategy	Operation of the element	Maximum potential value and payment at threshold/review basis	Performance metrics
Benefits	As base salary above. Benefits are non-pensionable.	Paid monthly or as required for one-off events, consisting of: → Fully expensed company car (or cash equivalent); → Private medical insurance; → Lump sum death-in-service benefit of five times base salary. The same level of death-in-service benefit is available to most UK staff and at two times for those opting out of the Company pension scheme. Reasonable relocation expenses will be provided in line with market practice. The Committee may change the benefits offered in line with local market practice or business needs.	Car benefit is reviewed annually and set on 1 August each year to a maximum of £11,000 per annum cash allowance or equivalent lease value. The maximum opportunity for other benefits is defined by the nature of the benefit itself and the cost of providing it. As the cost of providing such insurance benefits varies according to premium rates and the cost of other benefits is dependent on market rates and other factors, there is no formal maximum monetary value.	None.
Pension	As base salary above.	The Executive Directors are not members of the Company pension scheme and have their own pension arrangements. The Company makes pension provision in the form of annual contributions to personal pension arrangements or cash supplements in lieu of pension.	Cash allowances equivalent to 15% of base salary.	None.

Directors' Remuneration Report
Directors' Remuneration Policy

Remuneration element	Purpose and link to corporate strategy	Operation of the element	Maximum potential value and payment at threshold/review basis	Performance metrics
Annual bonus	To incentivise delivery of the corporate strategy and reward delivery of superior performance. Bonuses are not pensionable.	Annual bonuses are paid shortly after the end of the financial year end to which they relate. Bonuses are normally payable in cash but the Committee has flexibility to introduce a share based deferral if deemed appropriate. Maximum bonus payments are made only on the achievement of outstanding performance. Performance targets are set at the start of the financial year and the level of bonus paid is determined by the Committee after the year end based on performance against target. Part or all of the cash bonus may be forfeited or clawed back should exceptional circumstances occur. Such circumstances would include: fraud, misconduct, significant misstatement of financial results or incorrect calculation of performance conditions.	Maximum annual bonus payable is 100% of base salary. No bonuses will be payable unless a minimum level of financial performance has been achieved. Threshold performance results in nil bonus being awarded and on-target performance results in up to 50% of the maximum bonus being awarded.	The bonus may be based on a range of financial, non-financial and personal targets as set by the Committee from year to year. Financial targets will comprise at least half of the bonus. Details of the targets will be set out in the Annual Report on Remuneration following the end of each financial year. The Committee has the right to exercise its discretion fairly and reasonably in assessing the bonus outcome, including making adjustments for exceptional events occurring during the year. The Committee has the discretion to vary the performance metrics over the life of this policy.
PSP	To incentivise delivery of long-term shareholder value.	Key features of the PSP are: → Conditional share awards or nil-cost options. → Outstanding commitments to issue new shares under all share plans are subject to a maximum of 10% of the Company's issued share capital in any ten year period. → The PSP includes the ability to grant options under an HM Revenue & Customs approved schedule. → Part or the whole of the PSP award can be recovered prior to vesting should exceptional circumstances occur. Such circumstances would include: fraud, misconduct, significant misstatement of financial results or incorrect calculation of performance conditions.	A maximum annual grant is permitted of 200% of base salary each year. Vesting is dependent on performance conditions. On achievement of threshold performance 25% of the award vests.	For the Chief Executive, there is an absolute TSR condition that will account for 50% of the total award. The adjusted EPS minimum targets will be a threshold trigger for the TSR condition to be measured. The performance condition for the Group Finance Director is based on growth in adjusted EPS which must be met over a three year period. In exceptional circumstances, the Committee has discretion to change the performance measures, targets and weightings between measures during the performance period if there is a significant event which causes the Committee to believe that the original conditions are no longer appropriate. Any amendments would be such that the new conditions are not materially less difficult to satisfy than the original conditions. The Committee also has discretion to reduce the percentage that vests in cases where it believes the outcome of the performance conditions is not a fair reflection of the Company's performance.

Remuneration element	Purpose and link to corporate strategy	Operation of the element	Maximum potential value and payment at threshold/review basis	Performance metrics
Shareholding requirement	To strengthen the alignment between the interests of Executive Directors and those of shareholders.	Executive Directors have five years to build the minimum holding. Unvested PSP or deferred shares are not taken into account. Share price is measured at the end of each financial year. All PSP or deferred share awards vesting (net of income tax and National Insurance contributions) must be retained until the shareholding requirement is met.	Chief Executive - 200% of base salary. Other Executive Directors – 100% of base salary.	None.

Notes to the Policy table

Performance measures and targets for the annual bonus plan and the PSP

The performance targets are determined annually by the Committee. The following table sets out the performance measures for the annual bonus and PSP, together with relevant definitions and how each measure supports strategy.

Element	Performance measure	Definition	How measure supports strategy
Annual bonus	Adjusted EBITDA	Earnings before interest, tax, depreciation, amortisation, closed defined benefit pension scheme charges and costs and excludes exceptional items.	→ Central to overall strategy → Very closely tied to strategic medium term goal of mid-teens operating margins → Driver of shareholder value → Adjustments ensure areas outside management control are excluded
	Average net debt	The net sum of external borrowings, finance leases and cash and cash equivalents, measured each month end to produce a simple annual average (excludes preference stock from targets and results).	→ Ensures continuous focus on cash and working capital management throughout year
PSP	Compound Annual Growth Rate (CAGR) in adjusted EPS Total shareholder returns	EPS excluding exceptional items, pension administration costs, IAS 19 financing charges and the tax thereon. Based on absolute share price targets.	→ Align executives with goals for long term growth → EPS is a driver of shareholder value → TSR is a measure of increases in shareholder value → Transparent and accessible measure for assessing corporate performance → Award in shares ensures further alignment with shareholders

The Committee considers that the annual bonus performance targets are commercially and price sensitive in respect of the Group and that it would be detrimental to the interests of the Group to disclose them in advance. Performance targets will be disclosed retrospectively.

Directors' Remuneration Report
Directors' Remuneration Policy

Shareholder views
The Committee constantly welcomes the views of shareholders in respect of pay policy as well as those views expressed on behalf of shareholders by their respective proxy advisers. The Committee documents all remuneration related comments made at the Company's AGM and feedback received during consultation with shareholders throughout the year. Any feedback received is fully considered by the Committee and amendments made to remuneration policy where thought necessary.

Discretion of the Committee
The Committee has discretion in various areas of policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend the implementation of policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

Differences in remuneration policy for all employees
All employees of the Group are entitled to base salary and benefits. The Group operates a number of pension plans for employees which it operates in line with local market practice. Some employees in senior roles are entitled to participate in an annual bonus scheme. The maximum opportunity available is based on the seniority and responsibility of the role.

Conditional share awards or nil-cost options are only available to senior executives and Executive Directors.

Statement of consideration of employment conditions elsewhere in the Group
The Committee invites the HR Director to present at a meeting on the proposals for salary increases for the employee population generally and on any other changes to remuneration policy within the Group. The Committee has frozen any salary increases for Executive Directors which is therefore lower than the increases available to employees.

The HR Director consults with the Committee on the performance metrics for Executive Directors' bonuses and to the extent to which these should be cascaded to other employees. The Committee approves the overall annual bonus cost to the Group each year. The Committee has oversight over the grant of all PSP awards across the Group.

The Group does not specifically invite employees to comment on the Directors' Remuneration Policy but any comments made by employees are taken into account.

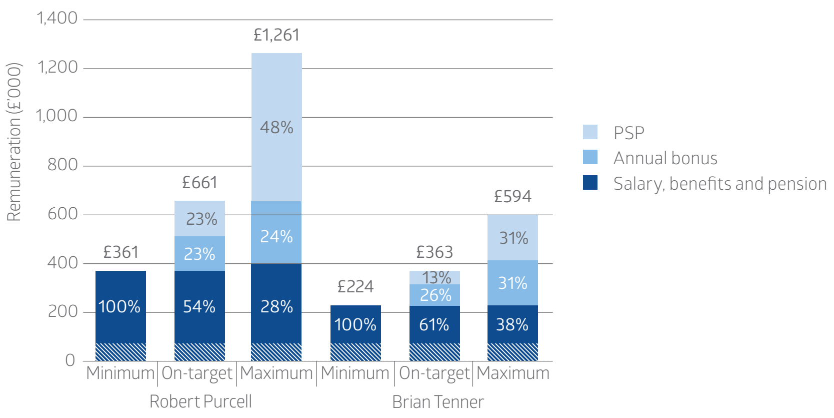
The Committee is provided with data on the remuneration structure for senior management in the three tiers below Executive Director and uses this information to work with the human resources team to ensure consistency of approach throughout the Group.

Total remuneration opportunity
The chart below demonstrates the total amount of remuneration payable to the Chief Executive, Robert Purcell and Finance Director, Brian Tenner, under the proposed remuneration policy for the year ending 31 March 2017 should they achieve minimum, on-target or maximum performance. The amounts shown represent £'000s and for share related elements are the face value of awards.

The chart shows that at minimum levels of performance the Executive Directors' only form of remuneration is the fixed element of base pay, benefits in kind and pension contributions. For performance above threshold the variable element of pay for the Chief Executive increases to approximately 38% of total reward or 61% of the fixed elements of pay noted.

The Executive Directors' base salaries are assessed independently of the ability to earn variable awards under the annual and long term incentive plans and hence future bonus opportunities are not a consideration when setting base pay.

Total remuneration



Pictured: Tools used in production of our products at our Gears site in the UK.

Service contracts, remuneration and exit payments

As a matter of policy, the length of service contracts and notice periods is determined by the Committee at the time of appointment in light of prevailing market practice. Details of the Executive Directors' terms of appointment and notice periods are as follows:

	Date of contract	Expiry date of current term/notice period
Robert Purcell	21 January 2013	No specified term/terminable on 12 months' notice
Brian Tenner	1 September 2010	No specified term/terminable on 12 months' notice

Other than normal payments due during notice periods, there are no express provisions for compensation on early termination of the Executive Directors' contracts. In the event of early termination, the Company's policy is to act fairly in all circumstances. The Committee has noted the Association of British Insurers' and National Association of Pension Funds' joint statement on Executive Contracts and Severance. None of the Executive Directors' contracts provide for compensation in the event of a change of control of the Company. Copies of the service contracts are available for inspection by shareholders at the Company's registered office.

Change of control

In the event of a change of control, any outstanding awards under the PSP may vest. Awards will become exercisable immediately. The proportion of award vesting will be determined by the Committee based on the proportion of the performance period completed and the extent to which the performance condition has been met at the date the change of control occurs.

The Committee has discretion to waive any performance condition if it considers this appropriate in the particular circumstances.

Leavers

The Committee's policy for exit payments on a leaver event involving an Executive Director is:

Item	Policy	Details
Salary, pension and benefits	A maximum of 12 months' salary, pension and benefits may be payable.	Payments may be subject to mitigation if the leaver finds alternative employment.
Annual bonus	No annual bonus normally payable, unless the Committee uses its discretion to treat as a good leaver.	Good leavers are entitled to receive a bonus based on performance to date of termination, pro-rated for the period of service to termination.
PSP	The Committee will use its discretion to determine whether the individual should be treated as a good leaver or a bad leaver. In the event of death, retirement, ill-health or disability, an individual will be treated as a good leaver. Bad leavers will forfeit outstanding PSP awards.	Good leavers' awards shall ordinarily vest at the normal vesting date, pro-rata based on the proportion of the vesting period completed and based on the extent to which the performance condition has been met. In the event of death, awards vest immediately subject to time pro-rating and assessment of performance. The Committee has discretion to accelerate vesting to date of cessation for other good leavers. Awards may be exercised within a six month period following date of leaving or vesting if later. In the case of death, the award may be exercised within a 12 month period following death.

In determining whether an individual should be treated as a good leaver or a bad leaver, and in assessing the extent to which any award will vest, the Committee will consider the specific circumstances of the departure, the individual's performance prior to departure and the performance of the Company.

Directors' Remuneration Report

Directors' Remuneration Policy

Approach to recruitment remuneration

In the event of the appointment of a new Director the same principles would apply as they do today to the existing Directors.

The remuneration package of any new Executive Director would therefore include the elements and maximum award size set out on pages 92 to 95 in accordance with the Company's remuneration policy and be subject to the same discretions.

The Committee's approach to recruitment remuneration is to set the base salary level in accordance with the remuneration policy and having taken into account the individual's experience, the nature of the role and their existing remuneration package.

Where it is necessary to 'buy out' an individual's awards from a previous employer, the Committee will seek to match the value, timing of vesting and type of these awards with replacement awards. Any buy out awards would be an additional element of remuneration to the normal maxima as set out in the Policy table on pages 92 to 95.

Details of the Company's approach to the remuneration of Non-Executive Directors are set out below.

External Non-Executive directorships

The Board encourages Executive Directors to broaden their experience outside the Company by taking up a non-executive directorship.

Non-Executive Directors

Appointment details and fees of the Non-Executive Directors are set out below:

Name	Date of appointment	Unexpired term (months)	Date of election/ last re-election	Contractual fees
Mark Harper	1 May 2012[1]	25	21 July 2015	£110,000
John Allkins	17 April 2008[2]	11	21 July 2015	£43,000[3]
Ian Griffiths	13 January 2010[4]	33	21 July 2015	£38,000

1 Mark Harper's appointment was renewed with effect from 1 May 2015 for a period of three years in line with best practice guidelines.

2 John Allkins' appointment was renewed with effect from 17 April 2014 for a period of three years in line with best practice guidelines.

3 John Allkins' fee includes an additional £2,500 payable with effect from 21 January 2013 as a result of his appointment as the Senior Independent Non-Executive Director.

4 Ian Griffiths' appointment was renewed on 14 January 2016 for a period of three years in line with best practice guidelines.

The Company's policy for Non-Executive Directors' remuneration is managed by the Board. Their remuneration is confined to fees alone, with no performance-related element. Reasonable expenses are also reimbursed as incurred.

Fees for the Non-Executive Directors are determined by the Chairman and the Executive Directors. The level of fees is reviewed from time to time with regard to fees paid in comparable organisations and the time commitment required. The Chairman's remuneration is determined by the Committee and the Board and is subject to the same basis of review as the other Non-Executive Directors.

The letters of appointment for each of the Non-Executive Directors confirm that their appointment is for a specified term and that reappointment is not automatic. When making a decision on reappointment, the Board reviews the Non-Executive Director's attendance and performance at meetings and the composition and skill of the Board as a whole. Each Non-Executive Director is appointed for an initial period of three years, subject to earlier termination by either party. Thereafter, the appointment may be renewed, provided that both the Non-Executive Director and the Board agree. Their respective appointments continue on an annual basis, subject to re-election at each AGM. The letters of appointment contain no provision for payment or compensation on early termination. Copies of the individual letters of appointment are available for inspection by shareholders at the Company's registered office.

Pictured: The DMG Mori-Seiki machines will streamline our production process.

Directors' Remuneration Report
Annual Report on Remuneration

"The stretching target of 50% CAGR over three years was met in full for the LTIPs granted in 2013. However, in difficult markets, the threshold level for this year's profitability was missed. Even though net debt performance was significantly better than threshold, the matrix structure of the annual bonus plan meant no bonuses were payable."

Ian Griffiths
Remuneration Committee Chairman

Introduction
This section of the Directors' Remuneration Report sets out the remuneration paid to Directors for the financial year ending 31 March 2016. This section, together with the description of the composition of the Committee, which is set out on page 88 of the report, constitutes the Annual Report on Remuneration. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM on 20 July 2016.

Directors' remuneration
Total remuneration – single total figure table (audited information)
The total remuneration for each Director for the period and for the prior year is set out below:

Executive Directors		Salary (£'000)	Benefits (£'000)	Bonus (£'000)[1]	LTIP (£'000)[2]	Pensions (£'000)	Total (£'000)
Robert Purcell	**2016**	**300**	**16**[3]	–	**585**[4]	**45**	**946**
	2015	300	15	201	–	45	561
Brian Tenner	**2016**	**185**	**11**	–	**216**[5]	**28**	**440**
	2015	185	11	124	137[6]	28	485

Non-Executive Directors' fees	2016 £'000	2015 £'000	Change £'000
Mark Harper	**110**	110	–
John Allkins	**43**	43	–
Ian Griffiths	**38**	38	–

1 Further details in relation to the annual bonus paid to Executive Directors are on page 100 within the Directors' Remuneration Report.

2 Further details of awards to the Executive Directors under the 2004 Option Plans and PSP are on pages 100 and 101. The LTIP uses the closing share price on the day of vesting less the option exercise price to calculate the value of the award.

3 The increase in benefits in the year is due to a change of company car for Robert Purcell in accordance with the Directors' Remuneration Policy.

4(a) Of the 1,145,038 options awarded to Robert Purcell on 21 January 2013 under the 2004 Options Plan with an exercise price of 26.20p, 100% (the maximum award) vested on 21 January 2016 as the mid-market price of the Company's shares on the five preceding trading days was 49.70p. The closing mid-market price on 20 January 2016, which was the last trading day prior to vesting on 21 January 2016, was 46.75p, the total value therefore being £235,000.

4(b) Of the 1,065,089 options awarded to Robert Purcell on 25 July 2013 under the PSP, 100% (the maximum award) will vest on 25 July 2016, the performance conditions measured to 31 March 2016 having been achieved in full. The indicative value of the PSP award is £350,000. The value is calculated using the average closing mid-market price for the three days up to 31 March 2016 of 32.9p.

5 Of the 656,805 options awarded to Brian Tenner on 25 July 2013 under the PSP, 100% (the maximum award) will vest on 25 July 2016, the performance conditions measured to 31 March 2016 having been achieved in full. The indicative value of the PSP award is £216,000. The value is calculated using the average closing mid-market price for the three days up to 31 March 2016 of 32.9p.

6 Of the 495,978 options awarded to Brian Tenner on 8 June 2011 under the 2004 Options Plan with an exercise price of 37.30p, 100% (the maximum award) vested on 8 June 2014 as the mid-market price of the Company's shares on the five preceding trading days was 65.2p. The closing mid-market price on 6 June 2014, which was the last trading day prior to vesting on 8 June 2014, was 65.0p, the total value therefore being £137,000.

Directors' Remuneration Report
Annual Report on Remuneration

(1) Fixed elements of pay

(i) Base salary

Consistent with the key strategic goal of lowering the Group's breakeven point and the pay restraint that continued across the Group, there were no pay rises for Executive Directors during the period. Robert Purcell's annual salary therefore remained at £300,000 and Brian Tenner's annual salary at £185,000. These figures are outlined in the Total remuneration table on page 99.

The proportion of the Group's basic salary bill attributable to the Executive Directors' base salaries for the year ended 31 March 2016 was 0.95% (2015: 0.91%).

(ii) Pension

The Executive Directors' only pension entitlements are Company contributions equivalent to 15% of base salary. During the year ended 31 March 2016, cash payments of £45,000 (2015: £45,000) and £27,750 (2015: £27,750) were made by the Company to Robert Purcell and Brian Tenner respectively. These figures are shown in the Total remuneration table on page 99.

(iii) Benefits

The Executive Directors received the following benefits during the period. Robert Purcell received a £14,000 non-cash benefit for his company car and fuel and £2,000 non-cash benefit for private healthcare. Brian Tenner received a cash benefit of £10,000 for his company car allowance and £1,000 non-cash benefit for private healthcare. These figures are outlined in the Total remuneration table on page 99.

Non-Executive Directors do not receive any benefits.

(2) Variable elements of pay – awards vested in year

(i) Annual bonus (payable in cash)

The annual bonus, which is payable in cash, provides the Executive Directors with the opportunity to receive an annual bonus of up to 100% of base salary on achievement of adjusted EBITDA and average net debt targets. For the year ended 31 March 2016 the annual bonus targets for Executive Directors were as follows:

	Average Net Debt (£'m)				
Adjusted EBITDA (£'m)	26.7	26.2	25.7	25.4	25.2
23.2	0.0%	15.0%	20.0%	30.0%	40.0%
24.2	20.0%	30.0%	35.0%	50.0%	65.0%
25.2	30.0%	45.0%	50.0%	70.0%	90.0%
25.7	45.0%	62.5%	70.0%	82.5%	95.0%
26.2	60.0%	80.0%	90.0%	95.0%	100.0%

Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, closed defined benefit pension scheme charges and exceptional items. Average net debt is the net sum of external borrowings, finance leases and cash and cash equivalents, measured at each month end to produce a simple annual average. The impact of acquisitions are excluded.

The two metrics shown were structured as a matrix such that failure to deliver a minimum result in either metric led to no bonus being achievable in the other. Similarly, in order to achieve the maximum award, superior performance would be required against both metrics.

For the year ended 31 March 2016, the Adjusted EBITDA for the year was £20.2m and the Average Net Debt was £24.2m. Therefore, while achievement on average net debt was towards the upper end of the performance targets, no bonus was payable as EBITDA achievement was below the threshold targets.

(ii) 2004 Options performance testing during the year

Awards made under the 2004 Option Plans in 2011 had a three year performance period ending on 20 January 2016 with share price targets as shown in the table below:

Of the 1,145,038 options awarded to Robert Purcell on 21 January 2013 with an exercise price of 26.20p, 1,145,038 (equivalent to 100% of the maximum award) vested on 21 January 2016 as the mid-market price of the Company's shares on the five preceding trading days was 49.7p.

Granted 21 January 2013 – tested on 21 January 2016			
Share target price (p)	% of shares under option that become exercisable	Actual share price at testing date	% of share options vesting
30	0		
35	50		
40	100	49.7p	100

[1] With the corresponding number of shares being rounded down to the nearest whole number.

(iii) PSP awards performance testing and awards made during the year

The year ended 31 March 2016 was the third year in which awards were made under the PSP. The performance conditions attaching to options granted under the PSP in the years ended 31 March 2014, 2015 and 2016, measured as the equivalent compound annual growth rate in adjusted EPS over a three year period (EPS CAGR), are as follows.

	Threshold		Maximum		
Award date	EPS CAGR	% Vesting	EPS CAGR	% Vesting	Performance period
5 June 2015	10%	25%	15%	100%	3 years to 31 March 2018
5 June 2014	20%	25%	30%	100%	3 years to 31 March 2017
25 July 2013	30%	25%	50%	100%	3 years to 31 March 2016

Awards made under the PSP in 2013 had a three year performance period ending on 31 March 2016 and are due to vest in July 2016.

On achievement of threshold performance 25% of the award vests. Straight line vesting occurs between threshold and maximum performance at which 100% vests.

(3) Variable elements of pay – awards made in year

Awards made to Executive Directors during the year under the PSP and associated performance conditions are set out below. Awards equal to 100% of salary were made.

	Type of award	Face value	Number of shares[1]	Date of award
Robert Purcell	Nil price Option	£300,000	392,157	5 June 2015
Brian Tenner	Nil price Option	£185,000	241,830	5 June 2015

1 The number of shares is based on the average mid-market share price for the three business days preceding the date of grant (76.0 pence).

(4) Payments to past Directors

No payments were made to past Directors during the year in respect of services provided to the Company as a Director.

(5) Payments made for loss of office

No payments were made to a Director during the year in respect of loss of office.

Directors' shareholding and share interests (audited information)

(1) Vesting history of the 2004 Options Plan and PSP

The following table shows the vesting history of the 2004 Options Plans over the last five years as a percentage of the total award to Executive Directors. The first awards under the PSP were made in the year ended 31 March 2014 and will be due for testing in July 2016.

	Award 2008/09 Vesting 2011/12	Award 2009/10 Vesting 2012/13	Award 2010/11 Vesting 2013/14	Award 2011/12 Vesting 2014/15	Award 2012/13 Vesting 2015/16
Vesting %	Nil	Nil	47.9%	100%	**100%**

The vested awards relate to options awarded to Brian Tenner in years ended 31 March 2011 and 2012 and options awarded to Robert Purcell in the year ended 31 March 2013. Further details are set out on page 100 in the 2015 Directors' Remuneration Report.

(2) Directors' interests

The beneficial interest of each of the Executive and Non-Executive Directors and their connected persons in the ordinary shares of the Company is detailed below and these amounts were unchanged between the year ended 31 March 2016 and the date of this report.

Executive Directors

The Chief Executive and Finance Director are required to build up a shareholding as shown below over a five year period. Unvested shares and unexercised options are not counted within the shareholding requirement. The table below sets out the extent to which this requirement was met as at 31 March 2016. The apparent reduction in shareholding as a percentage of salary was wholly attributable to the fall in share price between the prior and current year end. Both Executive Directors held the same number or acquired more shares during the year. No such minimum shareholding requirement exists for Non-Executive Directors.

	Shareholding requirement (% of salary)	Shareholding at 31 March 2015 (% of salary)	31 March 2016	Shareholding at 31 March 2016 (% of salary)
Robert Purcell	200%[2]	675%	3,748,526	**419%**
Brian Tenner	100%	119%	558,396	**101%**

2 Previously 100% requirement.

Non-Executive Directors	31 March 2016
Mark Harper	**511,924**
John Allkins	**144,500**
Ian Griffiths	**10,000**

(3) Directors' share options

Awards over shares in which the Executive Directors retain an interest are detailed in the table below and were unchanged between the year ended 31 March 2016 and the date of this report.

	Number of share options							
Robert Purcell	Options held at 1 April 2015	Granted in year	Lapsed in year	Options held at 31 March 2016	Options vested at 31 March 2016	Option price (p)	Date from which exercisable	Expiry date
2004 Options Plan	1,145,038	–	–	1,145,038	1,145,038	26.20	21.01.2016	20.01.2023
Total 2004 Options Plan	**1,145,038**	**–**	**–**	**1,145,038**	**1,145,038**			
PSP	1,065,089	–	–	1,065,089	–	Nil	25.07.2016	25.07.2023
	460,358	–	–	460,358	–	Nil	05.06.2017	05.06.2024
	–	392,157	–	392,157	–	Nil	05.06.2018	05.06.2025
Total PSP	**1,525,447**	**392,157**	**–**	**1,917,604**	**–**			
Total	**2,670,485**	**392,157**	**–**	**3,062,642**	**1,145,038**			

	Number of share options							
Brian Tenner	Options held at 1 April 2015 (restated)[1]	Granted in year	Lapsed in year	Options held at 31 March 2016	Options vested at 31 March 2016	Option price (p)	Date from which exercisable	Expiry date
2004 Options Plan	311,444	–	–	311,444	311,444	27.25	27.09.2013	26.09.2020
	495,978	–	–	495,978	495,978	37.30	08.06.2014	07.06.2021
Total 2004 Options Plan	**807,422**	**–**	**–**	**807,422**	**807,422**			
PSP	656,805	–	–	656,805	–	Nil	25.07.2016	25.07.2023
	283,887	–	–	283,887	–	Nil	05.06.2017	05.06.2024
	–	241,830	–	241,830	–	Nil	05.06.2018	05.06.2025
Total PSP	**940,692**	**241,830**	**–**	**1,182,522**	**–**			
Total	**1,748,114**	**241,830**	**–**	**1,989,944**	**807,422**			

1 The prior year figures have been amended to restate the number of share options lapsed.

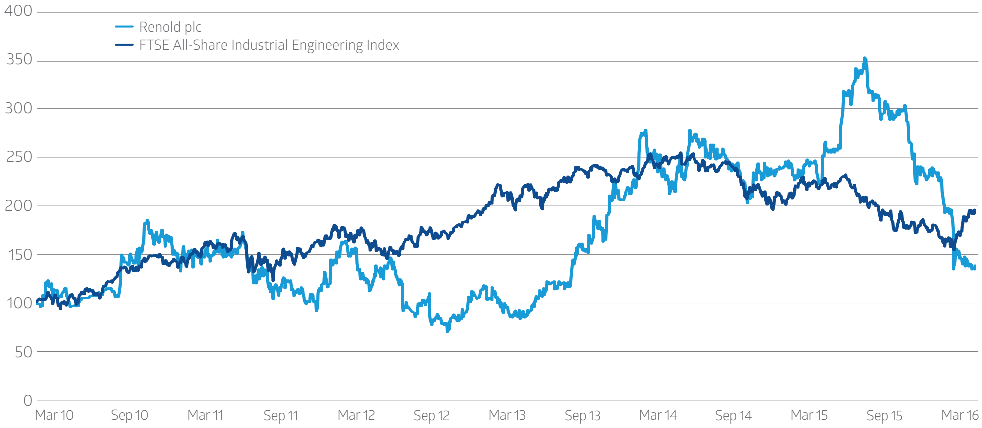
The performance conditions for the share options are disclosed on pages 100 and 101 and are included in this audited information section by reference. None of the terms and conditions of the share options was varied in the year.

Performance graph and table

The graph below shows the Company's total shareholder return (share price growth plus dividends reinvested where applicable) for each of the last six financial years of a holding of shares in the Company against a hypothetical holding of shares in the FTSE All-Share Industrial Engineering Index. The Committee considers this index to be an appropriate index for total shareholder return and comparison disclosure as it represents a broad equity index of which the Company is a constituent.

Pictured: Renold Tooth Chain

The market capitalisation of the Company at 31 March 2016 was £74.7m and the lowest and highest share prices during the year were 32.5p and 86.0p respectively, with a share price on 31 March 2016 of 33.5p.



Source: Bloomberg

Chief Executive's remuneration for the years ended 31 March 2011 to 2016

The following table shows the history of the Chief Executive's total remuneration and proportions of annual bonus and options vesting each year as a percentage of the maximum over the last six years.

	2010/11	2011/12	2012/13	2013/14	2014/15	**2015/16**
Chief Executive's total remuneration[1] £'000	667	494	311	659	561	**946**
Annual bonus as % of maximum awarded	81	44	16	100	67	**0**
LTI as % of maximum vesting	0	0	0	N/A	N/A	**100**

[1] The values use the same methodology as that shown in calculating the single figure basis of remuneration in the table on page 99.

Chief Executive pay and employee pay

The table below shows the percentage change from the preceding financial year in respect of the total of the Chief Executive's remuneration (on a single total remuneration basis as shown in the table above on page 99).

	Percentage change in salary	Percentage change in benefits	Percentage change in annual bonus
Chief Executive	0%	7%	(100%)
Workforce[2]	<2%[3]	0%	(80%)

[2] The Group uses the UK workforce as an appropriate comparator group as the Executives are based in the UK and the structure of remuneration varies considerably based on local market practice in other countries in which the Group operates.

[3] The figures include only those employees who were not promoted and did not change role during the year to provide a like-for-like comparison.

Relative importance of spend on pay

The table below sets out the total of the Executive Directors' remuneration (on a single total remuneration basis as shown in the table on page 99) compared to a number of other key financial metrics. The metrics chosen are considered of interest and relevance to both the Group's actual performance in the period and also to be of relevance to different stakeholder groups.

	Employee remuneration	Shareholder distributions	Market capitalisation	Revenue[4]	Adjusted operating profit[5]	EBITDA[6]	Executive Directors' total remuneration
2016	£59.1m	Nil	£74.7m	£165.2m	£14.2m	£20.2m	£1.4m
2015	£61.7m	Nil	£120.5m	£181.4m	£15.5m	£20.8m	£1.0m
Difference (%)	(4%)	Nil	(38%)	(9%)	(8%)	(3%)	(40%)

[4] and [5] Note 2 to the Company financial statements sets out the calculation of revenue (total operating costs) and adjusted operating profit.

[6] EBITDA is adjusted operating profit before depreciation and amortisation charges.

Directors' Remuneration Report
Annual Report on Remuneration

Statement of implementation of remuneration policy in next financial year
The Committee intends to operate the remuneration policy as set out in the Policy table and notes on pages 92 to 95 for three years from the date of the 2016 AGM. Shareholder approval of the remuneration policy will be sought at the 2016 AGM.

Base salary
Consistent with the timing of annual employee pay reviews across the Group, which are implemented with effect from 1 August, the Committee reviews base salaries for the Executive Directors annually. The Committee's review of base salaries for the Executive Directors concluded that there would be no increase with effect from 1 August 2016. The next review will take place in 2017 and any change implemented from 1 August 2017. The current base salaries for the Executive Directors are set out on page 100 and below:

	2015/16
Robert Purcell £'000	300
Brian Tenner £'000	185

Annual bonus
The performance measures and weightings for the 2015/16 annual bonus are unchanged from 2014/15. The performance measures and weightings are as follows:

	Weighting
Adjusted EBITDA	70%
Average net debt	30%

Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, closed defined benefit pension scheme charges and exceptional items. Average net debt is the net sum of external borrowings, finance leases and cash and cash equivalents, measured at each month end to produce a simple annual average.

The performance targets for the annual bonus are based on internal targets and considered commercially sensitive. Consequently these will not be disclosed at this time but will be disclosed in the Annual Report for the year ended 31 March 2017.

Long Term Incentive Plan – PSP
The performance conditions attaching to options that will be granted under the PSP in the year commencing 1 April 2016, measured as the equivalent CAGR in adjusted EPS over a three year period, are as follows. On achievement of threshold performance 25% of the award vests. Straight line vesting occurs between threshold and maximum performance. Performance will be measured from an adjusted EPS figure of 4.7p for the year to 31 March 2016.

Threshold		Maximum		
Performance	% vesting	Performance	% vesting	Performance period
10%	25%	15%	100%	3 years to 31 March 2019

Statement of shareholder voting
The Directors' Remuneration Report received significant shareholder support at the AGM held on 21 July 2015. Votes cast in respect of this resolution at the 2015 AGM are detailed in the table below.

Remuneration Report	2015 AGM	%
Votes cast in favour	172,181,784	99.28
Votes cast against	1,246,575	0.72
Total	173,428,359	
Votes withheld	60,455	

Approved by the Board and signed on its behalf by:

Ian Griffiths
Remuneration Committee Chairman
31 May 2016

Directors' Report

The Directors submit their report and the financial statements as set out on pages 110 to 169.

The Directors' Report, which comprises pages 105 to 107, sets out certain information in relation to the Company in accordance with the requirements of the Companies Act 2006 and the FCA's Listing and Disclosure and Transparency Rules.

The Strategic Report provides an overview of the performance of the business in the year ended 31 March 2016 and covers likely future developments in the business of the Company and the Group.

In accordance with section 414C (11) of the Companies Act 2006, information about the employment of disabled persons, employee involvement and greenhouse gas emissions, which is required to be included in the Directors' Report, has been included in the Strategic Report. The Corporate Governance report also forms part of the Directors' Report. Where statutory disclosures have been made elsewhere in the Annual Report and Accounts, they are cross referenced in the table on page 107 and therefore incorporated by reference.

Group

The Company is a public limited company incorporated in England, registered number 249688, with its registered office at Trident 2, Trident Business Park, Styal Road, Wythenshawe, Manchester, M22 5XB.

The Group is an international engineering group, producing a wide range of high quality engineering products which are sold in over 100 countries worldwide.

Results

Profit before tax for the year ended 31 March 2016 is £7.4m compared with a profit of £7.7m for the year ended 31 March 2015.

Dividends

Details about dividend policy are set out on page 132 of the Group financial statements.

The Board has decided to recommend that no ordinary dividend be paid in respect of the year ended 31 March 2016, but it will consider future dividend policy in the light of results from the business going forward.

Dividend payments in respect of the 6% cumulative preference stock in the Company were made on 1 July 2015 and 1 January 2016.

Directors' appointment and replacement

The appointment and replacement of Directors of the Company is governed by its articles of association and legislation. The Company's articles of association give power to the Board to appoint Directors to fill a vacancy or as additional Directors, but also require Directors to retire and submit themselves for election at the first Annual General Meeting following their appointment. In addition, all Non-Executive Directors are subject to annual election: please refer to the Corporate Governance report on page 71 for further details.

As a result, Robert Purcell, Mark Harper, John Allkins and Ian Griffiths will be standing for re-election at the 2016 AGM.

Under the terms of reference of the Nomination Committee, appointments to the Board are recommended by the Nomination Committee for approval by the Board. For a full description of the Company's policy on appointments to the Board, see the Nomination Committee report at pages 84 and 85.

Shareholders may also appoint a Director by ordinary resolution.

Directors' interests

Details of the interests of the Directors and their connected persons in the Company's share capital and in options held under the Company's share option schemes, along with any changes in such interests since the end of the year, are detailed in the Directors' remuneration report on pages 86 to 104. No Director had any interests in contracts of significance in relation to the Company's business during the year.

Directors' and officers' liability insurance

Liability insurance for directors and officers was maintained throughout the year. No qualifying third party indemnity provision or qualifying pension scheme indemnity provision was in force when this Directors' report was approved or was in force during the year.

Conflicts of interest

The Company's articles of association were amended at the 2008 Annual General Meeting, in line with the Companies Act 2006, to allow the Board to authorise potential conflicts of interest of Directors, on such terms (if any) as the Board thinks fit when giving any authorisation. Any decision of the Board to authorise a conflict of interest is only effective if it is approved without the conflicted Directors voting or without their votes being counted and, in making such a decision, the Directors must act in a way they consider in good faith will be most likely to promote the success of the Company. The Board considers that the procedures it has in place for reporting and considering conflicts of interest are effective and a review of previously approved conflicts is carried out annually.

Shares

Share capital

As at 31 March 2016, the issued share capital of the Company was £27,146,657.75 divided into 223,064,703 ordinary shares of 5p each, 580,482 units of 6% cumulative preference stock of £1 each and 77,064,703 deferred shares of 20p each. The ordinary shares represent 41.08% of the Company's total share capital, the preference stock represents 2.14% and the deferred shares represent 56.78%. The Company's ordinary shares and preference stock are listed on the London Stock Exchange. The deferred shares have no voting or dividend rights and are not able to be traded.

Directors' Report

The Company obtained shareholder authority at the 2015 Annual General Meeting to make market purchases of up to 22,306,470 ordinary shares in the Company, which remains outstanding until the conclusion of the 2016 Annual General Meeting. The minimum price which must be paid for any ordinary share is the nominal value of such share at the time of the purchase and the maximum price is that permitted under the FCA's Listing Rules or, in the case of a tender offer, 5% above the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the tender offer is announced. As at the date of this report, the Company had not purchased any of its own ordinary shares in the market pursuant to such authority. The Directors will seek authority from shareholders at the forthcoming Annual General Meeting for the Company to purchase, in the market, up to 22,306,470 of its own ordinary shares (which represents approximately 10% of the Company's ordinary share capital as at the date of this report) either to be cancelled or retained as treasury shares.

Details of the Company's share capital are also set out in Note 21 to the Group financial statements on page 149.

The rights and obligations attaching to the Company's shares are contained in the Company's articles of association, a copy of which is available at www.renold.com or can be obtained upon request to the Company Secretary. The articles of association may only be changed by a special resolution passed at a general meeting of the Company.

Voting rights

The Directors confirm that no person has any special rights of control over the Company's share capital and that no shares have been issued that carry any special rights with regard to control of the Company.

Participants in employee share schemes have no voting or other rights in respect of the shares subject to those awards until the options are exercised, at which time the shares rank pari passu in all respects with shares already in issue. No such schemes carry any special rights with regard to control of the Company.

No member shall, unless the Directors otherwise determine, be entitled to vote at a general meeting either personally or by proxy, or to exercise any other right conferred by membership in relation to meetings of the Company, if any call or other sum presently payable by him to the Company in respect of such shares remains unpaid. The Directors also have powers to suspend voting rights in certain limited circumstances when a shareholder has failed to comply with a notice issued under section 793 of the Companies Act 2006.

Full details of the deadlines for exercising voting rights and appointing a proxy or proxies in respect of the resolutions to be considered at the Annual General Meeting are set out in the Notice of Annual General Meeting.

Major shareholdings

As at the date of this report, the Company had been notified of the following major holdings of voting rights attached to its ordinary shares under the FCA's Disclosure and Transparency Rule 5:

Shareholder	Number of voting rights	% of total number of voting rights
Prudential plc group of companies, of which 11% is managed by M&G Investment Funds 3[1]	32,941,188	14.77
Schroder Investment Management	31,262,620	14.02
Henderson Global Investors Limited	27,459,814	12.31
JP Morgan Asset Management	22,248,339	9.97
Discretionary Unit Fund Managers Limited	11,270,405	5.05
Rights and Issues Investment Trust plc	9,080,000	4.07

1 M&G Investment Funds 3 is an Open Ended Investment Company (OEIC) and is not a Prudential group company and must be separately disclosed. The Prudential plc group holding includes the holding of M&G Investment funds 3 as M&G Investment Management Ltd is a wholly owned subsidiary of Prudential plc.

No major shareholder had any interest in derivatives or financial instruments relating to shares carrying voting rights that are linked to the Company's shares.

Directors' rights in respect of shares

The Board, which is responsible for the management of the Company's business, may exercise all the powers of the Company subject to the provisions of relevant legislation and the Company's articles of association. The powers of the Directors set out in the articles of association include those in relation to the issue and buyback of shares.

Issue of shares

The Directors are authorised to issue equity securities either by way of a rights issue or in any other way, provided that the shares issued other than by way of a rights issue, open offer or other pre-emptive offer or under the various share option schemes of the Company be limited to shares with an aggregate nominal value of £557,661.76, being equal to 5% of the aggregate nominal amount of the Company's ordinary share capital in issue as at the date of the Notice of the Company's 2015 Annual General Meeting. The authority will expire at the forthcoming Annual General Meeting. The Directors will seek authority from shareholders at the Annual General Meeting to issue equity securities either by way of a rights issue or in any other way, provided that the shares issued other than by way of a rights issue, open offer or other pre-emptive offer or under the various share option schemes of the Company be limited to shares with an aggregate nominal value of £557,661.76.

Pictured: Gears and spindles produced at our Gears site in the UK.

In addition, the Directors have authority to allot shares up to a maximum nominal amount of £7,428,054.61, representing approximately two thirds of the issued ordinary share capital as at the date of the Notice of the Company's 2015 Annual General Meeting. The authority will expire at the forthcoming Annual General Meeting. The Directors will seek authority from shareholders at the Annual General Meeting to allot shares up to a maximum nominal amount of £7,428,054.61, representing approximately 66.6% of the issued ordinary share capital as at the date of the Notice of the Annual General Meeting.

Transfer of shares

The registration of transfers may be suspended at such times and for such periods as the Directors may determine. The Directors may refuse to register the transfer of any share which is not a fully paid-up share and may refuse to register any transfer in favour of more than four persons jointly. The Directors may also refuse to recognise any instrument of transfer unless it is in respect of any one class of share, is lodged at the requisite place and, where appropriate, is accompanied by any relevant share certificate and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.

The Directors may suspend transfers where a shareholder has failed to comply with a notice issued under section 793 of the Companies Act 2006.

There are no other restrictions on the transfer of shares in the Company other than certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws and market requirements relating to close periods) and pursuant to the FCA's Listing Rules whereby certain employees of the Company require the approval of the Company to deal in the Company's securities.

The Directors are not aware of any agreements between holders of securities which may result in restrictions on the transfer of securities or voting rights.

Donations

During the year, the Group made no political donations.

Contracts: Change of control provisions

The Company's main UK banking facilities agreement with Lloyds Bank plc and Svenska Handelsbanken AB contains a change of control provision. This requires the Company to provide notification to the agent in the event of a change of control. The banks may then demand cancellation and repayment of the commitments and the loans.

The share subscription and shareholders' agreement between L. G. Balakrishnan & Bros Ltd, Renold International Holdings Limited and Renold Chain India Private Limited dated 24 June 2008 contains certain change of control provisions. On the change of control of a shareholder (being one of the parties to the agreement), the other shareholder has a right to terminate the agreement and/or to require the shareholder suffering the change of control to sell, at a fair price, all of its equity shares to the terminating shareholder or a nominee of such shareholder.

No other material contracts contain change of control provisions.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Note 20 to the Group financial statements on pages 145 to 149 details the Group's obligations to contribute to the UK defined benefit pension schemes.

Details of the effect of any change of control in relation to awards under the long term incentive plan are set out on page 97 within the Directors' remuneration report.

Going concern

After making enquiries, we, the Directors, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. We therefore continue to adopt the going concern basis in preparing the financial statements.

The basis on which this conclusion has been reached is set out on page 123 which is incorporated by reference here.

Other disclosures

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The Directors' Report was approved by the Board on 31 May 2016.

For and on behalf of the Board:

Louise Brace
Company Secretary
31 May 2016

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 31 May 2016 and is signed on its behalf by:

Robert Purcell
Chief Executive

Brian Tenner
Finance Director

Shareholder Information

The Company's website at **www.renold.com**, which presents additional information about the Group, is regularly updated and includes the posting of the interim and final preliminary results and interim management statements on the day they are announced.

If you wish to advise a change of name, address, or dividend mandate, please contact the Company's registrar, Capita Asset Services, whose contact details appear on page 170. Alternatively, you can view up-to-date information and manage your shareholding through Capita's share portal where you will be able to access and maintain your holding at your own convenience. You will require your unique investor code, which can be found on your share certificate. The URL for the portal is **www.capitashareportal.com**.

Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from **www.fca.org.uk** to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on **0800 111 6768** if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at **www.fca.org.uk/scams**.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.
- **Remember**: if it sounds too good to be true, it probably is!

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on **0800 111 6768**.

If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

Financial Statements

Pictured: M3 in action at our Couplings facility in the UK, our first site to go live.

Contents

STEP 2020 *in Action*

Business process efficiency

In March 2016, our Cardiff facility was the first Renold business to go live on M3. This is the first step towards creating one global integrated ERP system, that will unify our people, processes and system, driving efficient and robust business processes.

Independent Auditor's Report
to the Members of Renold plc

Opinion on financial statements of Renold 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 March 2016 and of the Group'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 Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated Statement of Cash Flows, the Group and Parent Company Statements of Changes in Equity and the related Notes 1 to 28 of the Consolidated financial statements and i to xv in the Parent Company financial statements. 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 contained within the Accounting Policies on page 123 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the Strategic Report on page 55.

We have nothing material to add or draw attention to in relation to:

- The Directors' confirmation on page 55 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 47-55 that describe those risks and explain how they are being managed or mitigated;
- The Directors' statement in the accounting policies to the financial statements 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 Directors' explanation on page 55 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.

Risk	How the scope of our audit responded to the risk
The carrying value of inventory As per Note 13 the Group holds inventories of £36.3m (2015: £35.8m). Ensuring that the cost of inventories accurately reflects the manufacturing costs incurred in bringing them to their physical location and condition requires management judgement. This particularly relates to the assessment of direct labour costs incurred, manufacturing overheads to be absorbed and other relevant production costs. A risk also exists around whether the carrying value of inventory exceeds its net realisable value as a result of inadequate provisioning judgements. The Group adopts a policy of providing for items where more than two years usage is held and also for any inventory where there are specific quality concerns or other known issues. Establishing a provision for slow-moving, obsolete and damaged inventory involves estimates and judgements, taking into account forecast sales and historical usage information.	We have evaluated the design and implementation of controls around the key accounting cycles relating to the valuation of inventory across the Group's sites. On a sample basis, we have performed the following audit procedures: → Agreed the cost of raw materials to third party supplier invoices; → For work in progress and finished goods, we obtained the bill of material and tested the underlying costs within each stock item. We challenged the key assumptions concerning overhead absorption by assessing the appropriateness of costs included in the calculation; → Reviewed the overheads absorbed to determine whether they were allowable under IAS 2 and appropriately recognised. We agreed the estimated overheads to actuals incurred in the year to assess whether they were materially different; → Assessed the net realisable value (NRV) of stock items by agreeing their subsequent sales price to customer invoices to ensure that the items were being held at the lower of cost and NRV; → Gained an understanding of the movements in the inventory provision year on year and an assessment of the scale of the provision in comparison to the gross stock value, to determine whether there are any unusual transactions; → Recalculated the value of the provision based on a sample of items; and → Where manual adjustments have been made to the provision, we have sought to understand these and gain supporting documentation.

Independent Auditor's Report
to the Members of Renold plc

The acquisition of Aventics Tooth Chain As per Note 7, on 4 January 2016 the Group acquired the business and trading assets of Aventics Tooth Chain for £4.8m. Accounting for business combinations is complex and requires recognition and valuation of the consideration payable together with the identification and valuation of the fair value of assets and liabilities arising from the transaction which can involve significant judgements and estimates. Key areas of judgement in the acquisition of Aventics Tooth Chain include an assessment of whether the consideration used in the purchase price allocation is at fair value given the contingent fees clause and the appropriateness of input assumptions used in the valuation of intangible assets recognised on acquisition.	We tested the design and implementation of key controls relating to the outputs of the Group's acquisition accounting, including the consideration of accounting treatment. We used our own valuation specialists to challenge the key assumptions adopted by management, including an assessment of the discount rates used in the underlying calculations. Other key audit procedures included: → Agreeing the cash value of consideration to relevant transaction agreements and bank documents, and assessing the likelihood of settlement for contingent consideration; → Reviewing the transaction agreement to determine whether the assets and liabilities being recognised were appropriate and assess the process that management have undertaken to determine the fair value of the acquired assets and liabilities. We placed particular focus on intangible assets including customer lists, the customer order book and technical knowhow; → Assessing the completeness of management's analysis of the accounting policy differences and any resulting adjustments; and → Reviewing the disclosures made by management in the financial statements.
Impairment of goodwill and intangible assets As per Note 8 of the financial statements, the goodwill balance of £22.7m principally relates to the Jeffery Chain business being £20.2m, and is supported by an annual impairment review. Other intangibles in Note 9 of £10.3m primarily relate to computer software of £6.1m and intangibles arising in connection with the acquisition of Aventics Tooth Chain. The risk is that the goodwill and the intangibles balance could be overstated and that an impairment charge may be required. Judgement is required by management when performing an impairment review including CGU identification, cash flows, the overall long term growth rates and discount rates used and the sensitivity of those assumptions.	We carried out testing of the design and implementation of key controls concerning management's impairment review process. We have evaluated the future cash flows forecasts and the process by which they are drawn up, including confirming the accuracy of the underlying calculations and checking whether the forecasts are consistent with the latest Board approved forecasts. We utilised our specialists to assess the appropriateness of the discount rate derived from a Weighted Average Cost of Capital (WACC) applied by management in their discounted cash flows. We also challenged the underlying assumptions and significant judgements used in management's impairment model by examining the results of management's sensitivity analysis around long-term growth rates and discount rates to ascertain the extent of change in those assumptions that would be required for an impairment to be recognised. We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and verifying the mathematical accuracy of the cash flow models. We also assessed whether the disclosures in Notes 8 and 9 of the financial statements appropriately disclose the key judgements taken so that the reader of the accounts is aware of the impact of the financial statement of changes to key assumptions that may lead to impairment.

Defined benefit pension scheme accounting The Group have a number of defined benefit pension schemes that are in a net deficit position of £82.9m which is significant both in the context of the overall balance sheet and the results of the Group. The schemes in the UK and Germany account for £53.6m and £23.8m of the deficit respectively. The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions, a number of which can be volatile. Changes in a number of the key assumptions (including salary increases, inflation, discount rates and mortality) can have a material impact on the calculation of the liability.	We carried out testing of the design and implementation of key controls concerning management's valuation process. We evaluated the Directors' assessment of the assumptions made in relation to the valuation of the liabilities in the pensions plan as follows: → We challenged the discount rate and inflation rates used in the valuation of the pension liabilities by comparing them to our internally developed expectations using our actuarial expertise and compared the assumptions around salary increases and mortality to national and industry averages; and → We evaluated the sensitivity of the pension scheme deficits to differences between our independent judgements and those made by the Directors, both individually and in aggregate.
Deferred tax asset recognition As per Note 19, the Group has a net deferred tax asset of £16.7m (2015: £17.1m) and an unrecognised deferred tax asset of £21.7m (2015: £22.5m). IAS 12 states that a deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. The key judgement in this area is whether there will be sufficient future taxable profits available against which the unused tax losses and future pension deductions can be utilised.	We used our own tax specialists to assist in assessing and challenging the assumptions and judgements made by the Directors. In assessing the level of deferred tax asset balances recognised in the Group balance sheet we compared the assumptions used in respect of future taxable profit forecasts in respect of the relevant components to the Group's long-term forecasts. We considered, amongst other things, historical levels of tax profits, the historical accuracy of forecasts, and the growth forecasts used by the Group. This included critically assessing the assumptions and judgements made by the Directors in those growth forecasts, by using our knowledge of the Group and the industry in which it operates. We also assessed the adequacy of the Group's disclosures setting out the basis of the deferred tax balance and the level of estimation involved.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 76 to 83. In the prior year, the audit report included revenue recognition as a principal risk area and did not refer to impairment of goodwill and intangibles.

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.

Our application of materiality

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 £480,000 (2015: £480,000), which is 5% of adjusted pre-tax profit (2015: approximately 5% of adjusted pre-tax profit). Pre-tax profit has been adjusted for exceptional items of £2.2m (2015: £2.9m) which are considered to be one-off in nature as per Note 2(c).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £20,500, 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.

Independent Auditor's Report
to the Members of Renold plc

An overview of the scope of our audit	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 that assessment, we focused our Group audit scope primarily on the audit work at 14 locations (2015: 12 locations). 7 (2015: 6) of these were subject to a full audit, 5 (2015: 6) were subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations. The remaining 2 were subject to review procedures. These 14 locations represent the principal business units and account for 100% (2015: 83%) of the Group's revenue. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the 14 locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £182,000 to £247,500. 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. The Group audit team follow a programme of planned visits that has been designed so that a senior member of the group audit team visits each of the locations where the Group audit scope was focused at least once every two years and the most significant of them at least once a year. In years when we do not visit a significant component we will include the component audit team in our team briefing, discuss their risk assessment, and review documentation of the findings from their work. During the current year audit, a senior member of the Group audit team visited two locations in the US, Germany and South Africa.
Opinion on other matters prescribed by the Companies Act 2006	In our opinion: → The part of the Directors' Remuneration Report 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 Directors' Remuneration Report 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.

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.

Simon Manning FCA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom
31 May 2016

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2016

	Note	2016 Statutory £m	2016 Adjustments £m	2016 Adjusted[1] £m	2015 Statutory £m	2015 Adjustments £m	2015 Adjusted £m
Revenue	1	165.2	–	165.2	181.4	–	181.4
Operating costs	2	(154.1)	3.1	(151.0)	(169.3)	3.4	(165.9)
Operating profit		11.1	3.1	14.2	12.1	3.4	15.5
Operating profit is analysed as:	2						
Before adjusting items		11.1	–	11.1	12.1	–	12.1
Exceptional costs		–	2.2	2.2	–	2.9	2.9
Amortisation of acquired intangible assets		–	0.2	0.2	–	–	–
Pension administration costs		–	0.7	0.7	–	0.5	0.5
Operating profit		11.1	3.1	14.2	12.1	3.4	15.5
Financial costs		(1.5)	–	(1.5)	(1.7)	–	(1.7)
Net IAS 19 financing costs		(2.0)	2.0	–	(2.5)	2.5	–
Discount on provisions		(0.2)	0.2	–	(0.2)	0.2	–
Net financing costs	3	(3.7)	2.2	(1.5)	(4.4)	2.7	(1.7)
Profit before tax		7.4	5.3	12.7	7.7	6.1	13.8
Taxation	4	(2.0)	(0.2)	(2.2)	(2.1)	(0.5)	(2.6)
Profit for the financial year		5.4	5.1	10.5	5.6	5.6	11.2
Other comprehensive income/(expense):							
Items that may be reclassified to the income statement in subsequent periods:							
Net loss on cash flow hedges		–	–	–	(0.2)	–	(0.2)
Foreign exchange translation differences		1.2	–	1.2	4.6	–	4.6
Foreign exchange differences on loans hedging the net investment in foreign operations		(0.2)	–	(0.2)	(0.6)	–	(0.6)
		1.0	–	1.0	3.8	–	3.8
Items not to be reclassified to the income statement in subsequent periods:							
Remeasurement losses on retirement benefit obligations		(8.1)	–	(8.1)	(15.1)	–	(15.1)
Tax on remeasurement losses on retirement benefit obligations		(0.5)	–	(0.5)	3.4	–	3.4
		(8.6)	–	(8.6)	(11.7)	–	(11.7)
Other comprehensive income/(expense) for the year, net of tax		(7.6)	–	(7.6)	(7.9)	–	(7.9)
Total comprehensive income/(expense) for the year, net of tax		(2.2)	5.1	2.9	(2.3)	5.6	3.3
Attributable to:							
Owners of the parent		(2.3)	5.1	2.8	(2.4)	5.6	3.2
Non-controlling interest		0.1	–	0.1	0.1	–	0.1
		(2.2)	5.1	2.9	(2.3)	5.6	3.3
Earnings per share	5						
Basic earnings per share		2.4p	2.3p	4.7p	2.5p	2.5p	5.0p
Diluted earnings per share		2.3p	2.3p	4.6p	2.5p	2.5p	5.0p

All results are from continuing operations.

[1] Adjusted for the after tax effects of pension administration costs, exceptional items, changes in the provision discounts, IAS 19 financing costs, and amortisation of acquired intangible assets.

Consolidated Balance Sheet
as at 31 March 2016

	Note	2016 £m	2015 £m
ASSETS			
Non-current assets			
Goodwill	8	22.7	21.9
Other intangible assets	9	10.3	6.1
Property, plant and equipment	10	44.4	39.7
Investment property	11	–	–
Deferred tax assets	19	17.0	17.3
Retirement benefit surplus	20	–	0.2
		94.4	85.2
Current assets			
Inventories	13	36.3	35.8
Trade and other receivables	14	30.5	30.6
Cash and cash equivalents	15	13.5	12.6
		80.3	79.0
Non-current asset classified as held for sale	12	1.0	1.4
		81.3	80.4
TOTAL ASSETS		175.7	165.6
LIABILITIES			
Current liabilities			
Borrowings	16	(0.9)	(0.7)
Trade and other payables	17	(36.2)	(36.6)
Current tax		(2.2)	(1.6)
Derivative financial instruments	27	(0.1)	(0.1)
Provisions	18	(1.7)	(2.1)
		(41.1)	(41.1)
NET CURRENT ASSETS		40.2	39.3
Non-current liabilities			
Borrowings	16	(35.6)	(30.9)
Preference stock	16	(0.5)	(0.5)
Trade and other payables	17	(0.3)	(1.1)
Deferred tax liabilities	19	(0.3)	(0.2)
Retirement benefit obligations	20	(82.9)	(75.9)
Provisions	18	(4.5)	(4.3)
		(124.1)	(112.9)
TOTAL LIABILITIES		(165.2)	(154.0)
NET ASSETS		10.5	11.6
EQUITY			
Issued share capital	21	26.6	26.6
Share premium account		29.9	29.9
Currency translation reserve	23	3.3	2.3
Other reserves	23	1.0	1.0
Retained earnings	23	(53.0)	(50.8)
Equity attributable to equity holders of the parent		7.8	9.0
Non-controlling interests		2.7	2.6
TOTAL SHAREHOLDERS' EQUITY		10.5	11.6

Approved by the Board on 31 May 2016 and signed on its behalf by:

Robert Purcell
Chief Executive

Brian Tenner
Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 March 2016

	Share capital £m Note 21	Share premium account £m	Retained earnings £m Note 23	Currency translation reserve £m Note 23	Other reserves £m Note 23	Attributable to owners of parent £m Note 23	Non-controlling interests £m	Total equity £m
At 31 March 2014	26.6	29.9	(44.6)	(1.7)	1.2	11.4	2.5	13.9
Profit for the year	–	–	5.5	–	–	5.5	0.1	5.6
Other comprehensive income/ (expense)	–	–	(11.7)	4.0	(0.2)	(7.9)	–	(7.9)
Total comprehensive income/ (expense) for the year	–	–	(6.2)	4.0	(0.2)	(2.4)	0.1	(2.3)
Employee share options:								
– settled transactions	–	–	(0.2)	–	–	(0.2)	–	(0.2)
– value of employee services	–	–	0.2	–	–	0.2	–	0.2
At 31 March 2015	**26.6**	**29.9**	**(50.8)**	**2.3**	**1.0**	**9.0**	**2.6**	**11.6**
Profit for the year	–	–	5.3	–	–	5.3	0.1	5.4
Other comprehensive income/ (expense)	–	–	(8.6)	1.0	–	(7.6)	–	(7.6)
Total comprehensive income/ (expense) for the year	–	–	(3.3)	1.0	–	(2.3)	0.1	(2.2)
Employee share options:								
– value of employee services	–	–	1.1	–	–	1.1	–	1.1
At 31 March 2016	**26.6**	**29.9**	**(53.0)**	**3.3**	**1.0**	**7.8**	**2.7**	**10.5**

Consolidated Statement of Cash Flows
for the year ended 31 March 2016

	2016 £m	2015 £m
Cash flows from operating activities (Note 26)		
Cash generated from operations	11.8	14.2
Income taxes paid	(1.0)	(1.4)
Net cash from operating activities	10.8	12.8
Cash flows from investing activities		
Purchase of property, plant and equipment	(7.9)	(3.8)
Purchase of intangible assets	(1.6)	(1.7)
Consideration paid for acquisition	(3.7)	–
Net cash from investing activities	(13.2)	(5.5)
Cash flows from financing activities		
Financing costs paid	(1.8)	(1.4)
Proceeds from borrowings	4.5	1.0
Repayment of borrowings	(0.5)	(1.1)
Net cash from financing activities	2.2	(1.5)
Net (decrease)/increase in cash and cash equivalents	(0.2)	5.8
Net cash and cash equivalents at beginning of year	12.2	6.6
Effects of exchange rate changes	0.4	(0.2)
Net cash and cash equivalents at end of year (Note 15)	12.4	12.2

Accounting Policies

In a change to previous years, to aid the reader of the financial statements, certain accounting policies have been moved and can now be found in the relevant notes.

Basis of preparation

Statement of compliance

Renold plc is a public limited company incorporated and domiciled in the United Kingdom. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the Group). The Company financial statements present information about the Company as a separate entity and not about the Group. The consolidated financial statements have been prepared in accordance with IFRSs as adopted by the EU. In addition, the financial statements have been prepared in accordance with those parts of the Companies Act 2006 applicable to groups reporting under IFRS.

The Parent Company has elected to prepare its parent company financial statements in accordance with FRS 101 (transitioned from UK GAAP); these are presented on pages 159 to 169. The financial statements were approved by the Board on 31 May 2016.

Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention, except where otherwise indicated. The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements.

Functional and presentation currency

These consolidated financial statements are presented in Pounds Sterling which is the Group's functional currency.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction or average rates where applicable. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for monetary items that form part of the net investment in foreign operations which are taken to other comprehensive income.

Assets and liabilities of overseas subsidiaries are translated into Sterling at the exchange rates ruling at the end of the financial year. Income statements and cash flows are translated at the appropriate average rates of exchange for the year. Differences on exchange arising on the re-translation of net assets in overseas subsidiaries, borrowings used to finance or provide a hedge against those investments and from the translation of the results at average rates are taken directly to other comprehensive income. On loss of control of a foreign entity, related exchange differences previously recognised in other comprehensive income are recognised in the income statement as part of the gain or loss on sale.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company made up to 31 March each year.

Business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and equity interests issued by the Group in exchange for control of the acquired entity. Consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed in operating costs as incurred. All identifiable assets and liabilities acquired and contingent liabilities assumed are initially measured at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest and the acquisition date fair value of any previously held equity interest in the acquired entity as compared with the Group's share of the identifiable net assets are recognised as goodwill. Where the Group's share of identifiable net assets acquired exceeds the total consideration transferred, a gain from a bargain purchase is recognised immediately in the income statement after the fair values initially determined have been reassessed.

(a) Subsidiaries

Subsidiaries are entities that are controlled by the Group. Control is exerted where the Group has the power to govern, directly or indirectly, the financial and operating policies of the entity so as to obtain economic benefits from its activities. Typically, a shareholding of more than 50% of the voting rights is indicative of control. However, the impact of potential voting rights currently exercisable is taken into consideration.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control is obtained to the date that control ceases. The accounting policies of new subsidiaries are changed where necessary to align them with those of the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. They are initially measured at the non-controlling interests' share of the net fair value of the assets and liabilities recognised or at fair value, as determined on an acquisition by acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of the changes in equity since the date of the combination.

The results and financial position of Renold Scottish Limited Partnership (SLP) have been consolidated in the consolidated financial statements of Renold plc. Renold plc is the parent undertaking of the general partner in the SLP (see Note (xiv) to the Company financial statements). To determine that Renold plc has control over the SLP, we considered the following activities, benefits and risks:

Activities – the SLP was established by Renold plc as a means of funding its pension obligation in an efficient manner.

Benefits – during the 25 year period, the Renold Pension Scheme will receive substantially all of the SLP's income. However, after this period, the Renold Group is entitled to any remaining income generated in the SLP, together with any other residual value in the SLP.

Risks – the Group bears the risks incidental to the activities of the SLP because it retains the obligation to ensure the pension scheme is appropriately funded.

Accordingly, advantage has been taken of the exemption conferred by paragraph 7 of the Partnerships (Accounts) Regulations 2008 from the requirements for preparation, delivery and publication of the partnership's accounts.

(b) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investments are eliminated to the extent of the Group's interest in that investment. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Going concern

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

Further information in relation to the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report on pages 12 to 63.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report on pages 12 to 63. In addition, Note 27 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to foreign exchange, credit and interest rate risk. Further details of the Group's cash balances and borrowings are included in Notes 15, 16 and 26 of the financial statements. There were no significant post balance sheet events to report (see Note 28).

The Directors have assessed the future funding requirements of the Group and the Company and compared them to the level of available borrowing facilities. The assessment included a detailed review of financial and cash flow forecasts, financial instruments and hedging arrangements for at least the 12 month period from the date of signing the Annual Report and Accounts. The Directors considered a range of potential scenarios within the key markets the Group serves and how these might impact the Group's cash flow, facility headroom and banking covenants. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences. The Group's forecasts and projections show that the Group should be able to operate within the level of its borrowing facilities and covenants.

Having undertaken this work, the Directors are of the opinion that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Revenue

Revenue comprises the invoiced value for the sale of goods net of sales rebates, discounts, VAT and other sales related taxes and after eliminating sales within the Group. Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits from the transaction will flow to the Group. Revenue is recognised on the following basis:

(a) Sale of goods

Revenue is recognised on the sale of goods when the risks and rewards of ownership have transferred from the Group to the customer. This is normally the point of despatch to the customer when title passes.

(b) Sales rebates and discounts

These comprise customer discounts and rebates which are sales incentives to customers to encourage them to purchase increased volumes and are related to total volumes purchased and sales growth or incentives for early payment. They are recognised in the same period as the sales to which they relate based upon management's best estimate of the amount necessary to meet claims made by the Group's customers in respect of these rebates and discounts.

(c) Discounts received from suppliers

These comprise rebates and discounts received from suppliers as incentives to purchase increased volume or early settlement of amounts payable. They are recognised within operating costs over the period to which the contract or purchase relates.

Accounting Policies
continued

Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying value of the Group's assets or liabilities in the future.

The key sources of estimation uncertainty that have a potential risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(a) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the net present value of those cash flows. Further details are included in Note 8.

(b) Deferred tax assets

Deferred tax assets in respect of pension liabilities are recognised in full (with the exception of Germany where the amount recognised is offset by a deferred tax liability in relation to the German tax base of the pension liability) given the business has a legal obligation to make the underlying pension contributions and it is probable that adequate taxable profit will be available to take advantage of the associated taxable deductions. Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Actual outcomes may vary that could require a material adjustment to the carrying amounts. Further details are contained in Note 19.

(c) Retirement benefit obligations

The valuation of the Group's defined benefit plans are determined by using actuarial valuations. These involve making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans such estimates are subject to significant uncertainty. Net interest is calculated by applying the discount rate to the net defined benefit liability. Further details are given in Note 20.

(d) Onerous lease

The Group has assessed an existing operating lease obligation at the Bredbury facility and concluded that an onerous lease provision is required following the cessation of significant manufacturing activity at the site. This involves making assumptions upon future sub-let income streams and the discount rate used. For further details refer to Note 2(c) and 18.

(e) Inventory valuation

Manufactured inventory and work in progress include amounts of attributable indirect costs incurred in the production process. The Group employs a standard cost methodology which, while including judgements and assumptions, seeks to allocate the allowable indirect production costs in a logical and appropriate manner.

Adoption of new and revised standards

(i) New and revised accounting standards adopted by the Group

During the year, the Group has adopted the following new and revised standards and interpretations. Their adoption has not had any significant impact on the amounts or disclosures reported in these financial statements.

- IAS 27 (revised) 'Separate Financial Statements'. Introduces new disclosure requirements to investment entities.
- IAS 28 (revised) 'Investments in Associates and Joint Ventures (2011)'. This standard was issued and supersedes IAS 28 (2003) and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
- IAS 32 (amended) 'Financial Instruments: Presentation'. This amendment clarifies existing application issues relating to the offsetting of financial assets and financial liabilities.
- IAS 36 (amended) 'Impairment of Assets'. The amendments remove the requirement to disclose the recoverable amount of a cash generating unit (or group of cash generating units) to which a significant amount of goodwill or intangible assets with indefinite useful lives has been allocated in periods when no impairment or reversal has been recognised or reversed and for which the recoverable amount is determined using fair value less costs of disposal.

- IAS 39 (amended) 'Financial Instruments: Recognition and Measurement'. The amendments allow the continuation of hedge accounting when a derivative is novated to a clearing house counterparty and certain conditions are met.
- IFRS 2 (amended) 'Share-based Payment'. As part of the 2010-2012 cycle of the Annual Improvements Project, the definitions of 'vesting condition' and 'market condition' were amended and definitions added of 'performance condition' and 'service condition' to clarify how such conditions are reflected in the recognition and measurement of share-based payment expenses.
- IFRS 3 (amended) 'Business Combinations'. As part of the 2010-2012 cycle of the Annual Improvements Project, this standard was amended to clarify that all contingent consideration classified as an asset or liability should be measured at fair value at each reporting date.
- IFRS 10 'Consolidated Financial Statements'. This standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- IFRS 11 'Joint Arrangements'. This standard establishes the principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.
- IFRS 12 'Disclosure of Interests in Other Entities'. This standard requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

(ii) New and revised accounting standards and interpretations which were in issue but were not yet effective and have not been adopted early by the Group

At the date of publishing these financial statements the following new and revised standards and interpretations were in issue but were not yet effective (and in some cases had not yet been adopted by the EU). None of these new and revised standards and interpretations have been adopted early by the Group:

- Annual improvements 2010-2012 cycle
- Annual improvements 2011-2013 cycle
- Annual improvements 2012-2014 cycle
- IAS 1 (amended) 'Presentation of Financial Statements'
- IAS 16 (amended) 'Property, Plant and Equipment'
- IAS 19 (amended) 'Employee Benefits'
- IAS 27 (amended) 'Separate Financial Statements'
- IAS 28 (amended) 'Investments in Associates and Joint Ventures'
- IAS 38 (amended) 'Intangible Assets'
- IFRS 9 'Financial Instruments'
- IFRS 10 (amended) 'Consolidated Financial Statements: sale or contribution of assets between an investor and its associate or joint venture'
- IFRS 11 (amended) 'Joint Arrangements: Accounting for acquisitions of interests in joint operations'
- IFRS 14 'Regulatory Deferral Accounts'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 (amended) 'Leases'

The Directors do not expect that the adoption of these standards listed above will have a material impact on the financial statements of the Group in future periods.

The Directors are in the process of assessing potential impact of IFRS 15 on both revenue recognition and disclosure requirements.

Notes to the Consolidated Financial Statements

1. Segmental information

For management purposes, the Group is organised into two operating segments according to the nature of their products and services and these are considered by the Directors to be the reportable operating segments of Renold plc as shown below:

→ The Chain segment manufactures and sells power transmission and conveyor chain and also includes sales of torque transmission products through Chain National Sales Companies 'NSCs'; and

→ The Torque Transmission (TT) segment manufactures and sells torque transmission products such as gearboxes and couplings.

No operating segments have been aggregated to form the above reportable segments.

The Chief Operating Decision Maker 'CODM' for the purposes of IFRS 8: 'Operating Segments' is considered to be the Board of Directors of Renold plc. Management monitor the results of the separate reportable operating segments based on operating profit and loss which is measured consistently with operating profit and loss in the consolidated financial statements. The same segmental basis applies to decisions about resource allocation. However, Group net financing costs, retirement benefit obligations and income taxes are managed on a Group basis and therefore are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Year ended 31 March 2016	**Chain(ii) £m**	**Torque Transmission £m**	**Head office costs and eliminations £m**	**Consolidated £m**
Revenue				
External customer	126.8	38.4	–	165.2
Inter-segment(i)	–	2.7	(2.7)	–
Total revenue	126.8	41.1	(2.7)	165.2
Adjusted operating profit/(loss)	15.4	5.0	(6.2)	14.2
Pension administration costs	–	–	(0.7)	(0.7)
Exceptional items	(0.4)	(1.2)	(0.6)	(2.2)
Amortisation of acquired intangible assets	(0.2)	–	–	(0.2)
Operating profit/(loss)	14.8	3.8	(7.5)	11.1
Net financing costs				(3.7)
Profit before tax				7.4
Other disclosures				
Working capital(iii)	23.7	8.8	(2.2)	30.3
Capital expenditure(iv)	5.1	1.9	1.8	8.8
Depreciation and amortisation	3.5	1.1	1.4	6.0

Year ended 31 March 2015 (restated)	Chain(ii) £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	136.3	45.1	–	181.4
Inter-segment(i)	–	4.6	(4.6)	–
Total revenue	136.3	49.7	(4.6)	181.4
Adjusted operating profit/(loss)	13.9	7.2	(5.6)	15.5
Pension administration costs	–	–	(0.5)	(0.5)
Exceptional items	(2.1)	(0.2)	(0.6)	(2.9)
Operating profit/(loss)	11.8	7.0	(6.7)	12.1
Net financing costs				(4.4)
Profit before tax				7.7
Other disclosures				
Working capital(iii)	22.2	9.4	(3.0)	28.6
Capital expenditure(iv)	4.4	0.9	1.3	6.6
Depreciation and amortisation	3.0	1.1	1.2	5.3

1. Segmental information continued

On 1 April 2015, the French Chain business unit was split and re-categorised to show both Chain and TT business separately. As a result, the segmental analysis for the comparative period has been restated to ensure consistent reporting. The impact of this re-categorisation was to reduce Chain revenue by £2.0m, operating profit by £0.3m and working capital by £0.1m with corresponding increases in the TT division. All other amounts were unchanged.

The Board reviews the performance of the business using information presented at consistent exchange rates (underlying). The prior year results have been retranslated using this year's exchange rates and for the re-categorisation explained above as follows:

Year ended 31 March 2015 (restated)	Chain[ii] £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	136.3	45.1	–	181.4
Foreign exchange	(0.7)	0.7	–	–
Underlying external sales	135.6	45.8	–	181.4
Adjusted operating profit/(loss)	13.9	7.2	(5.6)	15.5
Foreign exchange	(0.1)	0.3	–	0.2
Underlying adjusted operating profit/(loss)	13.8	7.5	(5.6)	15.7

(i) Inter-segment revenues are eliminated on consolidation.

(ii) Included in Chain external sales is £3.8m (2015: £5.2m restated) of Torque Transmission product sold through the Chain NSCs, usually in countries where Torque Transmission does not have its own presence.

(iii) The measure of segment assets reviewed by the CODM is total working capital, defined as inventories and trade and other receivables, less trade and other payables. Working capital is also measured as a ratio of rolling annual sales.

(iv) Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Geographical analysis of external sales by destination, non-current asset location and average employee numbers

The UK is the home country of the parent company, Renold plc. The principal operating territories, the proportions of Group external revenue generated in each (customer location), external revenues, non-current assets (asset location) and average employee numbers in each are as follows:

	Revenue ratio		External revenues		Non-current assets		Employee numbers	
	2016 %	2015 %	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016**	2015
United Kingdom	9.1	9.3	15.0	16.9	14.0	12.7	364	372
Rest of Europe	27.3	27.8	45.2	50.5	17.6	10.8	523	503
North America	38.8	36.8	64.2	66.7	30.5	28.3	341	351
Australasia	10.2	11.5	16.8	20.8	6.6	6.6	144	152
China	4.4	3.8	7.3	6.8	3.0	3.5	342	350
India	3.8	3.9	6.2	7.1	5.1	4.9	459	481
Other countries	6.4	6.9	10.5	12.6	0.6	0.9	59	68
	100	100	165.2	181.4	77.4	67.7	2,232	2,277

All revenue relates to the sale of goods and services. No individual customer, or group of customers, represents more than 10% of Group revenue (2015: none).

Non-current assets consist of goodwill, other intangible assets, property, plant and equipment and investment property. Other non-current assets and deferred tax assets are not included above.

Notes to the Consolidated Financial Statements

2. Operating costs and exceptional items

(a) Operating profit is stated after charging/(crediting):

	2016 £m	2016 £m	2015 £m	2015 £m
Change in finished goods and work in progress		0.4		1.0
Raw materials and consumables		57.3		61.9
Other external charges		25.8		33.8
Employee costs				
Gross wages and salaries	51.2		53.4	
Social security costs	5.4		6.2	
Pension costs				
– defined benefit (Note 20)	0.1		0.4	
– defined contribution (Note 20)	1.3		1.5	
Share-based incentive plans	1.1		0.2	
		59.1		61.7
Depreciation of property, plant and equipment				
– owned assets		4.2		3.9
Amortisation of intangible assets		1.6		1.4
Operating leases – minimum lease payments				
– plant and machinery	0.3		0.3	
– property	0.8		0.9	
		1.1		1.2
Other operating income		(0.4)		(0.3)
Loss on disposal of property, plant and equipment		0.2		–
Research and development expenditure		1.1		0.8
Auditors' remuneration (Note 2(b))		0.4		0.6
Trade receivables impairment		0.1		0.1
Foreign exchange		0.1		(0.2)
Operating costs before adjusting items		151.0		165.9
Adjusting items and exceptional items (Note 2(c))				
Pension administration costs		0.7		0.5
Amortisation of acquired intangible assets		0.2		–
Exceptional items		2.2		2.9
Adjusting items		3.1		3.4
Total operating costs		154.1		169.3

(b) Auditors' remuneration

	2016 £000 Total	2015 £000 Total
Audit of the Group's annual financial statements	160	208
Audit of the Company's subsidiaries	192	240
Total audit fees	352	448
Tax compliance services	–	82
Tax advisory services	–	20
All other non-audit services	–	10
	352	560
This is analysed in the following captions in the financial statements:		
Operating costs	352	560
	352	560

In July 2015, following a tender process the Group's auditor was changed from Ernst & Young LLP to Deloitte LLP.

The amounts shown in the prior year relate solely to the previous audit firm (Ernst & Young LLP). No fees were paid to Deloitte LLP in that year.

The Group's auditor also received fees of £nil for audit services provided to Group pension schemes (2015: £54,000 Ernst & Young only).

2. Operating costs and exceptional items continued

(c) Adjusting items and exceptional items

Accounting Policy

Items which individually or, if of a similar type, in aggregate, are material to an understanding of the Group's financial performance are separately disclosed as an "adjusting" on the face of the income statement.

	2016 £m	2015 £m
Included in operating costs		
Acquisition costs – Renold Tooth Chain	0.4	–
Pension administration costs	0.7	0.5
Head Office relocation costs	0.6	–
Net pension settlement gains (Note 20)	(1.2)	–
Property impairments	0.5	1.2
Amortisation of acquired intangible assets (Note 9)	0.2	–
Bredbury factory closure costs	–	0.7
Impairment of software licences	–	0.2
Other restructuring costs	1.9	0.8
	3.1	3.4

	2016 £m	2015 £m
Included in net financing costs		
Discount unwind on onerous lease provision	0.2	0.2
Net IAS 19 financing costs	2.0	2.5
	2.2	2.7

The current year saw £0.4m of costs incurred in relation to the acquisition of the Tooth Chain business.

During the period the Group Head Office was relocated to new premises. Costs of £0.6m were incurred including £0.3m of dilapidations and the cost of the move itself. Annual benefits in excess of £0.1m per annum will now be delivered.

An impairment charge of £0.5m was made in relation to a property currently held for sale located in Seclin, France (see Note 12), writing down the value of the property to £1.0m. In the prior year, an impairment charge of £1.2m was made in relation to an investment property located in Calais, France, writing down the value of the property to a net book value of £nil (see Note 11).

The prior year saw £0.7m of residual costs incurred in relation to the completion of the Bredbury closure project such as additional redundancy costs and lease termination costs.

The impairment of software licences reflects the decision to change the Group's planned global ERP system and consequently not to make use of previously acquired licences.

Other restructuring costs include £0.5m incurred at the Milnrow facility, where the business was downsized following the end of a long term supply agreement (off-shored by the customer) and £1.4m of other STEP 2020 restructuring costs incurred in the year.

Notes to the Consolidated Financial Statements

2. Operating costs and exceptional items continued

(d) Employees and key management compensation

Employee costs, including Directors, are set out in Note 2(a). Key management personnel are represented by the Board and their aggregate emoluments were as follows:

	2016 £000	2015 £000
Statutory Directors' remuneration	777	1,100
Share-based payments	531	53
Social security costs	144	167
Total	**1,452**	1,320

The remuneration listed in the table above differs from the single total figure table in the Directors' Remuneration Report on page 99 for the following reasons:

- Only pensions payable directly to pension schemes are included in the post employment benefits in the table on page 99. £73,000 (2015: £73,000) of additional cash payments for pensions paid indirectly were included in Directors' remuneration; and
- it excludes LTIPs vested in the form of share options.

Further details of the remuneration of Directors are provided in the Directors' Remuneration Report on pages 86 to 98.

A geographical split of the Group's average number of employees during the year is included in Note 1. The total number of employees employed by the Group at 31 March 2016 was 2,187 (2015: 2,243).

3. Net financing costs

Accounting Policy

Borrowing costs are expensed in the period they occur and consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

	2016 £m	2015 £m
Financing costs:		
Interest payable on bank loans and overdrafts	(1.3)	(1.4)
Amortised financing costs	(0.2)	(0.3)
Total financing costs	(1.5)	(1.7)
Net IAS 19 financing costs	(2.0)	(2.5)
Discount unwind on provisions	(0.2)	(0.2)
Net financing costs	(3.7)	(4.4)

4. Taxation

Accounting Policy

The tax charge included in the income statement comprises current tax payable and deferred tax.

The Group is subject to taxes in numerous jurisdictions. The current tax charge represents an estimate of the amounts payable to tax authorities in respect of taxable profits. It is based on tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Deferred income tax is provided using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The amount of deferred tax provided is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised or taxable profit will be available against which unused tax losses can be utilised before they expire.

Deferred income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not the income statement. Similarly, income tax is charged or credited to equity if it relates to items that are credited or charged directly to equity. Otherwise, income tax is recognised in the income statement.

Deferred tax balances are analysed in Note 19.

4. Taxation continued

Analysis of tax charge in the year

	2016 £m	2015 £m
United Kingdom		
UK corporation tax at 20% (2015: 21%)	–	–
Overseas taxes		
Corporation taxes	1.4	1.3
Withholding taxes	0.1	0.1
Current income tax charge	1.5	1.4
Deferred tax		
UK – origination and reversal of temporary differences	(0.3)	(0.3)
Overseas – origination and reversal of temporary differences	0.8	1.0
Total deferred tax charge	0.5	0.7
Tax charge on profit on ordinary activities	2.0	2.1

	2016 £m	2015 £m
Tax on items taken to other comprehensive income		
Deferred tax on changes in net pension deficits	(0.5)	3.4
Tax (charge)/credit in the statement of other comprehensive income	(0.5)	3.4

Factors affecting the Group tax charge for the year

The Government has announced that it intends to reduce the rate of corporation tax to 17% with effect from 1 April 2020. As this legislation was not substantively enacted as at year end the impact of the anticipated rate change is not reflected in the tax provisions reported in these accounts. The Finance Act 2015 (No.2), which was substantively enacted in October 2015, included provisions to reduce the rate of corporation tax to 19% with effect from 1 April 2017 and 18% from 1 April 2020. Accordingly, deferred tax balances have been revalued to the lower rate of 18% in these accounts which has resulted in a £0.8m charge through the Statement of Other Comprehensive Income.

The Group's tax charge in future years will be affected by the profit mix, effective tax rates in the different countries where the Group operates and utilisation of tax losses. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries.

The actual tax on the Group's profit before tax differs from the theoretical amount using the UK corporation tax rate as follows:

	2016 £m	2015 £m
Profit on ordinary activities before tax	7.4	7.7
Theoretical tax charge at 20% (2015: 21%)	1.5	1.6
Effects of:		
Permanent differences	0.9	0.8
Overseas tax rate differences	0.7	0.8
Prior year adjustments	0.2	–
Deferred tax utilised	(1.3)	(1.1)
Total tax charge	2.0	2.1

Notes to the Consolidated Financial Statements

5. Earnings per share

Earnings per share (EPS) is calculated by reference to the earnings for the year and the weighted average number of shares in issue during the year as follows:

	2016			2015		
	Earnings £m	Shares (thousands)	Per share amount (pence)	Earnings £m	Shares (thousands)	Per share amount (pence)
Basic EPS						
Profit attributed to ordinary shareholders	5.3	223,065	2.4	5.5	223,065	2.5
Basic EPS	5.3	223,065	2.4	5.5	223,065	2.5

	2016			2015		
	Earnings £m	Shares (thousands)	Per share amount (pence)	Earnings £m	Shares (thousands)	Per share amount (pence)
Adjusted EPS						
Basic EPS	5.3	223,065	2.4	5.5	223,065	2.5
Effect of adjusting items, after tax:						
Exceptional items in operating costs	2.5		1.1	2.8		1.3
Pension administration costs included in operating costs	0.7		0.3	0.5		0.2
Discount unwind on exceptional items	0.2		0.1	0.2		0.1
Amortisation of acquired intangible assets	0.2		0.1	–		–
Net pension financing costs	1.5		0.7	2.1		0.9
Adjusted EPS	10.4	223,065	4.7	11.1	223,065	5.0

Inclusion of the dilutive securities, comprising 4,097,000 (2015: 2,489,000) additional shares due to share options in the calculation of basic and adjusted EPS changes the amount shown above to 2.3p and 4.6p respectively (2015: no change).

The adjusted EPS numbers have been provided in order to give a useful indication of underlying performance by the exclusion of exceptional items. Due to the existence of unrecognised deferred tax assets, there was no associated tax credit on some of the exceptional charges and in these instances exceptional costs are added back in full.

6. Dividends

Accounting Policy

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are paid or approved by the Company's shareholders.

No ordinary dividend payments were paid or proposed in either the current or prior year.

7. Acquisition of business

On 4 January 2016 the Group acquired the business and trading assets of Aventics Tooth Chain, an operating division of Aventics GmbH, a German based market leading manufacturer of inverted tooth chain products that are distributed worldwide. The primary reason for the acquisition was to add a high value-added product not currently offered by the Group and expand sales through the existing Group sales network.

	Book value £m	Provisional fair value £m
Identifiable net assets acquired:		
Intangible assets (see Note 9)	–	4.0
Property, plant and equipment	0.6	0.5
Inventories	0.9	1.0
Deferred tax asset (on retirement benefit obligations)	–	0.1
Retirement benefit obligations	(0.4)	(0.4)
Other creditors	(0.2)	(0.6)
	0.9	4.6
Goodwill		0.2
Total consideration		4.8

Goodwill is denominated in Euro's in line with the functional currency of the subsidiary that purchased the business (Renold GmbH – existing Group company registered in Germany) and is recorded at the closing Euro exchange rate as at 31 March 2016.

	£m
Satisfied by:	
Cash paid on 4 January 2016	3.6
Working capital adjustment paid in February 2016	0.1
Contingent consideration	1.1
	4.8

The fair value of the contingent consideration arrangement of £1.1m was calculated using management's best estimate of the achievement of revenue targets for the next two financial years. The payout is expected over the next two years in line with the maturity analysis in Note 27(f) but timing is dependent upon the achievement of these targets.

	£m
Net cash flow arising on acquisition:	
Cash consideration	3.6
Working capital adjustment paid in February 2016	0.1
	3.7

The goodwill arising on the acquisition of £0.2m consists of the skills and expertise of the employees who joined the Group and the synergies that are expected to be achieved as a result of the transaction and the competitive advantage gained. The goodwill is deductible for income tax purposes.

The fair value of the intangible assets acquired is explained in Note 9. The fair value of plant and equipment acquired has been reduced to remove assets that would contribute no future economic benefit to the Group. The retirement benefit obligations were deemed to have transferred at fair value being the IAS 19 valuation as at the date of acquisition. Provisions were also established for future costs associated with transitioning the business – such as rebranding costs and dilapidations on the leased property and are included in other creditors.

The total costs for the transaction amounted to £0.4m and were included in exceptional costs for the year (see Note 2(c)).

The business contributed £1.5m of revenue and generated an operating profit of £0.1m for the period between the acquisition date and the balance sheet date. If the acquisition of the business would have happened on the first day of the financial year, then it is estimated that Group revenues would have been £6m higher and Group operating profit £0.4m higher (these figures have been estimated based on an extrapolation of results achieved in the period since the acquisition).

8. Goodwill

Accounting Policy

(i) Initial recognition

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the Group's share of the identifiable net assets of the acquiree at the acquisition date. Where the cost is less than the Group's share of the identifiable net assets, the difference is immediately recognised in the income statement as a gain from a bargain purchase.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

(ii) Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investments, goodwill acquired directly is included in the carrying amount of the investment.

(iii) Impairment

Goodwill is not amortised but is tested at least annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The cash-generating units to which the goodwill has been allocated is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Any impairment charge is recognised immediately in the income statement.

	Goodwill £m
Cost	
At 1 April 2014	21.2
Exchange adjustment	2.1
At 1 April 2015	23.3
Exchange adjustment	0.6
Arising on acquisition of Tooth Chain business	0.2
At 31 March 2016	**24.1**
Accumulated amortisation and impairment	
At 1 April 2014	1.4
At 1 April 2015	1.4
At 31 March 2016	**1.4**
Net book amount at 31 March 2016	**22.7**
Net book amount at 31 March 2015	21.9
Net book amount at 31 March 2014	19.8

The Group performed its annual impairment test of goodwill at 31 March 2016 that compares the current book value to the recoverable amount from the continued use or sale of the related business. No impairment charge has been recognised in the period.

The recoverable amount of each Cash Generating Unit (CGU) has been determined on a value in use basis. Value in use is calculated as the net present value of cash flows derived from detailed financial plans for the next two financial years as approved by the Board. Cash flows beyond this are extrapolated using the long term country growth rates disclosed below:

	Growth rates		CGU discount rates		Carrying values	
	2016 %	2015 %	**2016 %**	2015 %	**2016 £m**	2015 £m
Jeffrey Chain, USA	**2.1**	2.7	**12.4**	13.7	**20.2**	19.5
Ace Chains, Australia	**2.9**	3.0	**13.2**	13.5	**0.5**	0.5
Renold Chain, India	**7.7**	6.7	**30.5**	24.1	**1.8**	1.9
Renold Tooth Chain, Germany	**–**	–	**–**	–	**0.2**	–
					22.7	21.9

8. Goodwill continued

Key assumptions used in the value in use calculations:

Sales volume, selling prices and cost changes

The Group prepares cash flow forecasts based on the latest management estimates for the next financial year. The expected sales prices and volumes reflect management's experience of how sales will develop at this point of the economic cycle. The expected profit margin reflects management's experience of each CGU's profitability at the forecast level of sales and incorporates the impact of any restructuring that took place during the year ended 31 March 2016.

Cash flows beyond the period of projections are extrapolated using long term growth rates published by the Organisation for Economic Co-operation and Development for the territory in which the CGU is based. The discount rates applied to the cash flows of each of the CGUs are based on the risk free rate for long term bonds issued by the government in the respective market. This is then adjusted to reflect both the increased risk of investing in equities and the systematic risk of the specific CGU (using an average of the betas of comparable companies).

Management believe that no reasonably possible change in any of the key assumptions would cause the carrying values to materially exceed each CGU's recoverable amount.

9. Intangible assets

Accounting Policy

(i) Computer software

Computer software that is not integral to an item of plant and equipment is recognised separately as an intangible asset. Amortisation is charged on a straight-line basis so as to charge the cost of software to the income statement over its expected useful life which is between three and seven years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

(ii) Other intangible assets

Other intangible assets, such as those identified on acquisition by the Group that have finite useful lives, are recognised at fair value and measured at cost less accumulated amortisation and impairment losses. The estimated useful lives for the Group's finite life intangible assets are between one and seven years.

Intangible assets are reviewed, at least annually, to ensure that assets are not carried above their recoverable amounts. Where some indication of impairment exists, calculations are made of the discounted cash flows resulting from continued use of the assets (value in use) or from their disposal (fair value less costs to sell). Where these values are less than the carrying amount of the assets, an impairment loss is charged to the income statement.

Notes to the Consolidated Financial Statements

9. Intangible assets continued

	Customer orderbook £m	Customer lists £m	Technical Know-how £m	Computer software £m	Total £m
Cost					
At 1 April 2014	–	–	–	11.3	11.3
Exchange adjustment	–	–	–	(0.2)	(0.2)
Additions	–	–	–	1.7	1.7
Disposals	–	–	–	(0.1)	(0.1)
At 1 April 2015	–	–	–	12.7	12.7
Exchange adjustment	–	0.4	–	–	0.4
Additions	–	–	–	1.6	1.6
Arising on acquisition of Tooth Chain business (Note 7)	0.3	3.5	0.2	–	4.0
Disposals	–	–	–	(0.4)	(0.4)
At 31 March 2016	**0.3**	**3.9**	**0.2**	**13.9**	**18.3**
Accumulated amortisation and impairment					
At 1 April 2014	–	–	–	5.2	5.2
Exchange adjustment	–	–	–	(0.1)	(0.1)
Amortisation charge	–	–	–	1.4	1.4
Disposals	–	–	–	(0.1)	(0.1)
Impairment charge	–	–	–	0.2	0.2
At 1 April 2015	–	–	–	6.6	6.6
Amortisation charge	–	0.2	–	1.6	1.8
Disposals	–	–	–	(0.4)	(0.4)
At 31 March 2016	**–**	**0.2**	**–**	**7.8**	**8.0**
Net book amount at 31 March 2016	**0.3**	**3.7**	**0.2**	**6.1**	**10.3**
Net book amount at 31 March 2015	–	–	–	6.1	6.1
Net book amount at 31 March 2014	–	–	–	6.1	6.1

The acquisition of the Tooth Chain business in January 2016 brought significant benefit to the Group in terms of new customers, relationships and technical "know-how". These benefits have been valued under IFRS 3 using estimates of useful lives and discounted cash flows of expected income. The values are being amortised as follows:

Customer orderbook
Customer orderbook will be amortised when the orderbook at the date of acquisition has been fulfilled. This is expected to be within one year.

Customer lists and technical know-how
Customer lists and technical know-how will both be amortised over five years as the benefits are likely to crystallise over a longer period.

No brand names were acquired as part of the acquisition.

Computer software
In the prior year, following the decision to change the Group's planned global ERP system, an impairment charge of £0.2m was recognised in respect of software licences that were no longer expected to be used in the business (see Note 2(c) for details).

10. Property, plant and equipment

Accounting Policy

Tangible assets are stated at cost, being purchase cost plus any incidental costs of acquisition, less accumulated depreciation and impairment.

Depreciation is calculated on a straight-line basis so as to charge the depreciable amount of the respective assets to the income statement over their expected useful lives. No depreciation has been charged on freehold land. The useful lives of assets are as follows:

	Years
Freehold buildings	50
Leasehold properties	50 years or the period of the lease if less
General plant and equipment	15
Fixtures	15
Precision cutting and grinding machines	10
Motor vehicles	3

Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in operating profit.

Tangible assets held under finance leases, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet at the lower of the fair value of the leased asset or the present value of the minimum lease payments and are depreciated over the shorter of the useful life of the asset or the lease term. The corresponding liability to the leasing company, net of finance charges, is included as an obligation under finance leases in creditors. The interest element of the lease payment is charged to the income statement on a basis which produces a constant rate of charge over the period of the liability.

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 April 2014	19.0	104.9	123.9
Exchange adjustment	(0.5)	(2.4)	(2.9)
Additions	0.2	4.7	4.9
Disposals	–	(2.1)	(2.1)
At 1 April 2015	18.7	105.1	123.8
Exchange adjustment	1.1	3.6	4.7
Additions	1.6	5.6	7.2
Arising on acquisition of Tooth Chain business (Note 7)	0.1	0.4	0.5
Disposals	(0.4)	(4.1)	(4.5)
At 31 March 2016	**21.1**	**110.6**	**131.7**
Accumulated depreciation and impairment			
At 1 April 2014	3.1	81.5	84.6
Exchange adjustment	(0.1)	(2.2)	(2.3)
Charge for the year	0.5	3.4	3.9
Disposals	–	(2.1)	(2.1)
At 1 April 2015	3.5	80.6	84.1
Exchange adjustment	0.1	3.3	3.4
Charge for the year	0.5	3.7	4.2
Disposals	(0.4)	(4.0)	(4.4)
At 31 March 2016	**3.7**	**83.6**	**87.3**
Net book amount at 31 March 2016	**17.4**	**27.0**	**44.4**
Net book amount at 31 March 2015	15.2	24.5	39.7
Net book amount at 31 March 2014	15.9	23.4	39.3

10. Property, plant and equipment continued

Future capital expenditure

At 31 March 2016 capital expenditure contracted for but not provided for in these accounts amounted to £2.0m (2015: £1.1m).

Asset held for sale

In 2014 the former manufacturing site located in Seclin, France, was reclassified as an asset held for sale (see Note 12).

11. Investment property

Accounting Policy

One of the Group's properties is classified as an investment property on the basis that it will be held for the long-term, earning a rental income.

	£m
Cost	
At 1 April 2014	1.9
Exchange adjustment	(0.1)
At 1 April 2015	1.8
At 31 March 2016	**1.8**
Accumulated depreciation	
At 1 April 2014	0.6
Impairment charge	1.2
At 1 April 2015	1.8
At 31 March 2016	**1.8**
Net book amount at 31 March 2016	**–**
Net book amount at 31 March 2015	–
Net book amount at 31 March 2014	1.3

The property has been accounted for on a cost model basis with a value of £1.4m in respect of land and £0.6m in respect of the building. A valuation of the property was conducted in March 2013 by BNP Paribas, French chartered surveyors and property consultants. At that date, the fair value of the property was assessed at £1.9m (excluding de-pollution costs) based on ongoing rental for industrial use. As a result of this valuation, an impairment charge of £0.4m was made in 2013 to include estimated depollution costs.

In the prior year, the Directors have reassessed the medium term prospects regarding the future use or sale of the property. Given the depressed local property market and general economic weakness in that region of France, the Directors have decided to write down the net book value of the property to £nil. As a result, a £1.2m impairment charge (included in the 'Chain' segment in Note 1) was charged as an exceptional item in that year. Any future maintenance costs will be charged to operating profit in the period incurred. The Group will continue to assess options with regard to the future use of this site which are also subject to any changes in local zoning or planning restrictions.

12. Asset Held for Sale

Accounting Policy

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business and where the sale is highly probable and are measured at the lower of their carrying amount or fair value less costs to sell.

	2016 £m	2015 £m
At 1 April	1.4	1.6
Exchange adjustment	0.1	(0.2)
Impairment charge	(0.5)	–
At 31 March	1.0	1.4

The asset held for sale is the former Chain manufacturing facility located in Seclin, France. Since the transfer of the majority of manufacturing in 2011/12, part of the facility has been used as a distribution and sales office. The property was independently valued by BNP Paribas Real Estate on 29 October 2012 on the basis of a freehold sale. An offer has been received prior to the year end to purchase the property for a value of £1.0m. As a result, an impairment charge of £0.5m has been charged to exceptional items to write down the value of the property to the offer price.

13. Inventories

Accounting Policy

Inventories are stated at the lower of cost and estimated net realisable value, after due allowance for obsolete or slow moving items. Cost includes all direct expenditure and attributable overhead expenditure incurred in bringing goods to their current state under normal operating conditions. The first in, first out method of valuation is used. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. In the Group accounts, unrealised profit on sales within the Group is deducted from inventories.

	2016 £m	2015 £m
Raw materials	6.0	6.1
Work in progress	4.0	5.9
Finished products and production tooling	26.3	23.8
	36.3	35.8

Inventories pledged as security for liabilities amounted to £30.2m (2015: £27.8m).

14. Trade and other receivables

Accounting Policy

Trade and other receivables are recognised and carried at the original invoice amount less an allowance for any identified impairment. The impairment allowance is charged to the income statement when there is objective evidence that the Group will not collect all amounts due under the original terms of the transaction. Balances are written off when the probability of recovery is assessed as remote.

	2016 Current £m	2016 Non-current £m	2015 Current £m	2015 Non-current £m
Trade receivables[1]	26.9	–	27.5	–
Less: impairment provision	(0.4)	–	(0.5)	–
Trade receivables: net	26.5	–	27.0	–
Other receivables[1]	1.5	–	1.8	–
Prepayments	2.5	–	1.8	–
	30.5	–	30.6	–

[1] Financial assets carried at amortised cost.

The Group has no significant concentration of credit risk but does have a concentration of translational and transactional foreign exchange risk in both US Dollars and Euros. However, the Group hedges against these risks.

14. Trade and other receivables continued

Trade receivables are non-interest bearing and are generally on 30-90 days' terms. See Note 27(d) for the Group's credit risk policy. As at 31 March, the ageing analysis of trade receivables is as follows:

			Past due but not impaired			
	Total £m	Neither past due nor impaired £m	<30 days £m	30-60 days £m	60-90 days £m	>90 days £m
2016	**26.9**	**22.0**	**3.4**	**0.7**	**0.2**	**0.6**
2015	27.5	23.9	2.4	0.4	–	0.8

	2016 £m	2015 £m
Movement on impairment provision		
Opening provision	**0.5**	0.6
Net charge to income statement	**0.1**	0.1
Utilised in year through assets written off	**(0.2)**	(0.2)
Closing provision	**0.4**	0.5

15. Cash and cash equivalents

Accounting Policy

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

In the Group cash flow statement, net cash and cash equivalents are shown after deducting bank overdrafts as follows:

	2016 £m	2015 £m
Cash and cash equivalents	**13.5**	12.6
Less: Overdrafts (Note 16)	**(1.1)**	(0.4)
Net cash and cash equivalents	**12.4**	12.2

16. Borrowings

	2016 £m	2015 £m
Amounts falling due within one year:		
Overdrafts	**1.1**	0.4
Bank loans	**–**	0.5
Capitalised costs	**(0.2)**	(0.2)
	0.9	0.7
Amounts falling due after more than one year:		
Bank loans	**36.1**	31.1
Capitalised costs	**(0.5)**	(0.2)
Preference Stock	**0.5**	0.5
	36.1	31.4
Total borrowings (Note 27(d))	**37.0**	32.1

All financial liabilities above are carried at amortised cost.

16. Borrowings continued

Core banking facilities

On 13 May 2015 the Group agreed a revision to its existing banking facilities with its current banking partners, Svenska Handelsbanken AB and Lloyds Bank plc. The new facility replicates the previous £41m Multi Currency Rolling Facility (MCRF) but also adds a £20m accordion feature that can be accessed by the Group to fund investment or acquisition opportunities. The revised facility has been extended to mature in May 2020 whereas the original maturity was in October 2016. The MCRF is fully committed and available until maturity.

At the year end the undrawn facility was £3.4m (2015: £9.0m). The Group pays interest at LIBOR plus a variable margin in respect of this facility. The average rate of interest paid in the year was LIBOR plus 1.79% for Sterling denominated facility and LIBOR plus 1.81% for the Euro and US Dollar denominated facility (2015: LIBOR plus 2.69% for the Euro and Sterling denominated facility and LIBOR plus 2.94% for the US Dollar denominated facility). This facility has two primary financial covenants which are tested on a six monthly basis. The first is net debt as a ratio of rolling annual EBITDA with a maximum ratio of 2.5 times. The second is interest cover with a minimum ratio of 4.0 times (rolling annual EBITDA divided by net financial interest cost). The Group also benefits from a number of overseas facilities totalling £2.5m. Costs of £0.5m associated with the refinancing (and £0.2m of costs associated with the original refinancing) were capitalised and offset against loans and are being amortised over the life of the facility.

Secured borrowings

Included in Group borrowings are secured borrowings of £35.0m (2015: £29.3m). Security is provided by fixed and floating charges over assets (including certain property, plant and equipment and inventory) primarily in the UK, USA, France, Germany and Australia.

Finance leases

The Group has no obligations under finance leases.

Preference Stock

At 31 March 2016 there were 580,482 units of Preference Stock in issue (2015: 580,482).

All payments of dividends on the Preference Stock have been paid on the due dates. The Preference Stock has the following rights:

(i) a fixed cumulative preferential dividend at the rate of 6% per annum payable half yearly on 1 January and 1 July in each year;

(ii) rank both with regard to dividend (including any arrears on the commencement of a winding up) and return of capital in priority to all other stock or shares in the Company, but with no further right to participate in profits or assets;

(iii) no right to attend or vote, either in person or by proxy, at any general meeting of the Company or to have notice of any such meeting, unless the dividend on the Preference Stock is in arrears for six calendar months; and

(iv) no redemption entitlement and no fixed repayment date.

There is no significant difference between the carrying value of financial liabilities and their equivalent fair value.

17. Trade and other payables

	2016 Current £m	**2016 Non-current £m**	2015 Current £m	2015 Non-current £m
Trade payables[1]	**18.5**	**–**	18.1	–
Other tax and social security	**2.1**	**–**	1.7	–
Other payables[1]	**1.6**	**–**	1.6	–
Accruals[1]	**14.0**	**0.3**	15.2	1.1
	36.2	**0.3**	36.6	1.1

[1] Financial liabilities carried at amortised cost.

Trade payables are non-interest bearing and are normally settled within 60 day terms. The Group does have a concentration of translational foreign exchange risk in both US Dollars and Euros. However, the Group hedges against this risk.

Notes to the Consolidated Financial Statements

18. Provisions

Accounting Policy

Provisions are recognised when the Group: (i) has a present legal or constructive obligation as a result of past events; (ii) it is more likely than not that an outflow of resources will be required to settle the obligation and (iii) a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Costs related to ongoing activities of the Group are not provided in advance.

	Business restructuring £m	Onerous lease £m	Contingent consideration £m	Total provisions £m
At 1 April 2015	0.3	5.4	0.7	6.4
Exchange	–	–	0.1	0.1
Arising during the year	0.5	–	1.1	1.6
Utilised in the year	(0.5)	(1.6)	–	(2.1)
Discount unwind on provision	–	0.2	–	0.2
At 31 March 2016	**0.3**	**4.0**	**1.9**	**6.2**

Allocated as:	**2016 £m**	2015 £m
Current provisions	**1.7**	2.1
Non-current provisions	**4.5**	4.3
	6.2	6.4

Business restructuring

This provision relates to the reorganisation and restructuring of various parts of the business. £0.2m relates to the head office move initiated in the prior year and that was completed in the first half of the current financial year. See Note 2(c) on exceptional charges for more details.

Onerous lease

A provision was established in relation to onerous lease costs in respect of the lease of the Bredbury plant. The lease expires in May 2030 (see Note 2(c)). The provision was increased by £0.5m in the prior year due to a change in the discount rate used to discount the future payment obligations.

Contingent consideration

Renold (Hangzhou) Co Limited: China

A provision of £0.7m (2015: £0.7m) was established for the purchase of the outstanding 10% of the equity following the acquisition of 90% of the equity interest in Renold (Hangzhou) Co Limited in the period ended 31 March 2008 and is due to be paid at the latest by 15 June 2017.

Renold Tooth Chain, Germany

A provision of £1.1m was established on the acquisition of the Tooth Chain business in January 2016. The contingent consideration is expected to be paid over the next two years based upon achieving certain sales targets (up to a maximum of €1.5m). Management expect that these targets will be met and therefore the amount has been provided in full.

19. Deferred tax

Accounting Policy

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable authority and taxable entity, or where deferred tax relates to different taxable entities, the tax authority permits the Group to make a single net payment.

	Assets		Liabilities		Net	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Accelerated capital allowances	(1.8)	(1.6)	(0.3)	(0.2)	(2.1)	(1.8)
Pension plans	14.8	14.5	–	–	14.8	14.5
Tax losses	6.0	6.3	–	–	6.0	6.3
Other temporary differences	(2.0)	(1.9)	–	–	(2.0)	(1.9)
Tax assets/(liabilities)	17.0	17.3	(0.3)	(0.2)	16.7	17.1
Net off (liabilities)/assets	(0.3)	(0.2)	0.3	0.2	–	–
Net deferred tax assets	16.7	17.1	–	–	16.7	17.1

The net deferred tax asset recoverable within one year is £2.2m (2015: £2.5m) and recoverable after more than one year is £14.5m (2015: £14.6m).

The movement in the net deferred tax balance relating to assets is as follows:

2016	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
Accelerated capital allowances	(1.6)	–	(0.2)	–	(1.8)
Pension plans	14.5	0.4	0.4	(0.5)	14.8
Tax losses	6.3	0.2	(0.5)	–	6.0
Other temporary differences	(1.9)	–	(0.1)	–	(2.0)
	17.3	0.6	(0.4)	(0.5)	17.0

2015	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
Accelerated capital allowances	(1.7)	–	0.1	–	(1.6)
Pension plans	11.4	(0.6)	0.3	3.4	14.5
Tax losses	6.7	0.6	(1.0)	–	6.3
Other temporary differences	(1.7)	(0.1)	(0.1)	–	(1.9)
	14.7	(0.1)	(0.7)	3.4	17.3

The movement in the net deferred tax balance relating to liabilities in the year is as follows:

2016	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
Accelerated capital allowances	(0.2)	–	(0.1)	–	(0.3)
Pension plans	–	–	–	–	–
Tax losses	–	–	–	–	–
Other temporary differences	–	–	–	–	–
	(0.2)	–	(0.1)	–	(0.3)

Notes to the Consolidated Financial Statements

19. Deferred tax continued

2015	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
Accelerated capital allowances	(0.3)	–	0.1	–	(0.2)
Pension plans	–	–	–	–	–
Tax losses	–	–	–	–	–
Other temporary differences	0.1	–	(0.1)	–	–
	(0.2)	–	–	–	(0.2)

During the year the Group has reported an adjusted operating profit of £14.2m (2015: £15.5m). The businesses in all jurisdictions where deferred tax assets have been recognised will, more likely than not, generate suitable profits based on approved management forecasts from which the future reversal of the underlying timing differences can be deducted.

Unrecognised deferred tax assets amount to £21.7m (2015: £22.5m) arising from unrecognised losses of £14.5m (2015: £14.4m) (representing losses of £52.3m (2015: £51.5m)) and other timing differences of £7.2m (2015: £8.1m). Based on available evidence, it is considered unlikely that these amounts will be recovered within the foreseeable future. The significant majority of these losses are not subject to time limits.

20. Pensions

Accounting Policy

The Group operates a number of defined benefit plans around the world. The costs are calculated by independent actuaries using the projected unit credit method. Any past service costs resulting from enhanced benefits are recognised immediately in the income statement as a normal operating cost. Administration costs, including the Pensions Protection Levy, are charged to operating costs. However, plan asset management costs are included in the actual return on plan assets. Administration costs of closed schemes are excluded from normal operating costs to allow the reader to form a more accurate assessment of the underlying business (see Note 2(c)).

Remeasurement gains and losses, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest), are recognised in other comprehensive income in the period in which they occur. Actuarial gains and losses arise when actual results differ from the assessment outcomes which are used to calculate defined benefit assets and liabilities at a particular point in time.

The defined benefit liability or asset recognised in the balance sheet represents the net total for each plan of the present value of the benefit obligation at the balance sheet date, less the fair value of plan assets (for funded schemes) at the balance sheet date. If a plan records a surplus, the asset recognised is limited to the present value of any amount expected to be recoverable by the Group by way of refunds or reduction in future contributions.

Under the UK pension scheme rules, any notional surplus arising on payment of agreed contributions is fully recoverable.

For defined contribution plans, the Group's contributions are charged to the income statement in the period in which they fall due. Once the contributions have been paid, the Group has no further payment obligation.

Background information

In a defined benefit plan the members are guaranteed a certain level of benefits that depend on a number of factors such as service, salary and inflation. Defined benefit plans can be supported by an asset fund that will be used to pay member benefits or can be unfunded in which case obligations to members are paid by the sponsoring employer as they fall due. In a defined benefit plan, because the level and duration of the members' benefits are uncertain, the risk of any increase or decrease in the cost of providing those benefits stays with the employer. This contrasts with a defined contribution plan where the employer's only obligation is to pay the amount agreed in the employment contract into a pension plan.

Any change in the total expected cost of providing defined benefits can produce either funding shortfalls or surpluses. In the case of an expected funding shortfall, the Company is usually required to agree a deficit recovery plan which can vary from country to country. This is usually a combination of additional contributions to make good the shortfall over an agreed period of time (sometimes referred to as a 'funding plan' or a Minimum Funding Requirement (MFR)) and can also include an allowance for future asset returns. In the case of a surplus, mechanisms are available in all of the Renold schemes to return that surplus to, or utilise it for the benefit of, the Group.

20. Pensions continued

UK Pension Plans

The principal UK fund is the Renold Pension Scheme ('RPS'). The RPS was formed in June 2013 by the merger of three predecessor plans, all of which were already closed to future accrual and to new members. The RPS is a funded defined benefit plan with assets held in separate administered funds.

The Trustees are chaired by an independent professional trustee firm and have access to a range of professional advisers. The Trustee Board is required to consult the Company in matters such as investment policy and to obtain agreement to any amendments to benefits. The Company can make proposals to the Trustees on a range of issues but cannot insist on their adoption. The majority of Trustees are either independent or member nominated with Company nominated Trustees being in the minority. To mitigate the risk of potential conflicts of interests, no Directors of Renold plc are Trustees of the RPS.

The RPS is underpinned by a 25 year asset backed partnership structure (the Scottish Limited Partnership 'SLP'). The partnership holds an intercompany loan from Renold International Holdings Limited, the holding company for most of the Group's overseas trading companies. The capital rights to the assets in the SLP belong to Renold plc except in the event of a corporate insolvency of the pension scheme sponsor (Renold plc). The income rights in the SLP belong to the RPS. The loan generates interest income that provided an annual cash contribution of £2.7m to the pension fund in the current year, with annual increases linked to RPI plus 1.5% and capped at 5%. The income stream is used to fund deficit repair payments and the first £0.5m of annual administrative expenses (with the Company bearing the excess, if any arises). In the event that the RPS becomes fully funded on a buyout basis, the income stream will instead accrue to Renold plc. The SLP was put in place with the expectation that the period to recover the funding shortfall was 25 years from the time of merger in June 2013. The SLP therefore helps reduce the volatility in short term cash funding by following an agreed payment plan over a longer period of time. The interest in the SLP held by the RPS is not reported as a plan asset in the Group's consolidated financial statements as it is a non-transferable interest issued by the Group.

The new arrangement replaced all other existing funding arrangements for the RPS. The SLP therefore represents the entirety of the committed cash element of the funding plan for the RPS. The funding plan also assumes an allowance for asset outperformance of 1.0% (that is, assets are expected to return an amount of 1.0% more than the discount rate applied to the liabilities). Separately to the SLP but put in place at the same time, the Group has also agreed that if adjusted operating profits reach £16.0m in any year following the year ended 31 March 2017, additional annual contributions of £1.0m will become payable (monthly in arrears) while profits remain above this level. The £1.0m increase matches the approximate £1.0m reduction agreed when the SLP was established. Finally, as part of the overall agreement, Renold plc is not constrained from paying a dividend, other than by normal legal considerations. Renold has agreed to make additional contributions equal to 25% of the value of any dividend paid in order to accelerate the deficit recovery plan. The deficit will be reduced as the cash contributions under the scheme are made, enhanced or offset by actual performance compared to asset returns and actuarial assumptions.

Total cash costs for UK deficit repair payments and UK administrative expenses in the period were £3.4m (2015: £3.1m). The current year figure includes the £2.7m noted above in connection with the SLP, and a further £0.7m in respect of the costs of other pension projects that were carried out or initiated during the year. The main initiatives in the year were the completion of two medically underwritten insured buy-ins that fully de-risked approximately 25% of current pensioner liabilities. In the Group's consolidated financial statements the asset value of the insurance policies exactly matches the estimated actuarial liabilities. Further details on that project are contained in the Finance Director's report on pages 43 to 45.

Overseas Pension Plans

Germany

In Germany, in addition to participating in the state backed pension scheme, the Group operates an unfunded defined benefit scheme (no other Group company operates such a scheme). "Unfunded" means that the scheme has no asset backing to pay benefits and instead the Group pays member benefits as they fall due. The scheme closed to new members on 1 April 1992. A German court confirmed that the pension scheme was properly closed to future accrual with effect from 31 March 2014. This resulted in a reduction in the scheme's unfunded pension obligations of approximately 6.0% or £1.5m. The confirmed closure also reduces future annual service costs as well as eliminating the German scheme's exposure to the risk of salary inflation.

Following the acquisition of the Tooth Chain business in the year, the unfunded defined benefit scheme operated by that business transferred to our German subsidiary. The IAS 19 liability at the acquisition date was £0.4m.

Notes to the Consolidated Financial Statements

20. Pensions continued

United States of America

In the US the Group previously operated three defined benefit pension schemes in the US TT business. In the prior year, one of the three schemes (with gross liabilities of £1.1m) was formally terminated and members benefits secured in full during the year at a net cost to the Group of £0.1m. The remaining two schemes are closed to new members and one is also closed to future accrual. Only the hourly paid scheme remains open to future accrual. Funds that had been earmarked for the terminated scheme are now being used to accelerate making good the deficit in the second fully closed US scheme with a similar intention to terminate and secure member benefits in the next two years. The US Chain business operates a defined contribution scheme.

In aggregate, the two (2015: two) defined benefit schemes in the US have combined assets of £8.8m (2015: £8.6m) and liabilities of £13.4m (2015: £13.4m), giving a net deficit of £4.6m (2015: £4.8m). The change in the net deficit was due to a small increase in the discount rate to 3.6% (2015: 3.5%) offset by an adverse net impact of the change in the US$ foreign exchange rate.

Other overseas schemes

In the prior year a retirement benefit surplus of £0.2m was recognised in respect of the Australian defined benefit scheme which was in surplus. During the year the scheme was liquidated and as a result the net £0.1m surplus distributed to members in accordance with the rules of the scheme. The administrative costs of the closure were met by the scheme.

In aggregate the other overseas defined benefit schemes have combined assets of £2.0m (2015: £5.7m including Australian scheme assets of £3.5m) and liabilities of £2.7m (2015: £6.2m including Australian scheme liabilities of £3.7m) giving a net deficit of £0.7m (2015: net deficit of £0.5m).

Other overseas employees participate in a variety of different pension arrangements of the defined contribution or defined benefit type, funded in accordance with local practice.

The pension disclosures in the financial statements are based on the most recent actuarial valuations. Where material, these have been updated to the balance sheet date by qualified independent actuaries. The disclosures provided are presented on a weighted average basis where appropriate. Plan assets are stated at their market values at the respective balance sheet dates.

The weighted average durations for the UK pension scheme is 15 years (2015: 14 years) and 14 years (2015: 14 years) for the German schemes. They can therefore be regarded as mature schemes.

Significant assumptions

The principal financial assumptions used to calculate plan liabilities as at 31 March 2016 are presented below. The assumptions adopted represent the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The present values of the plans' liabilities are derived from cash flow projections over long periods and are thus inherently uncertain.

	UK		Germany		Other Overseas	
	2016	2015	**2016**	2015	**2016**	2015
Rate of increase in pensionable salaries[1]	**–**	–	**–**	1.5%	**2.1%**	2.4%
Rate of increase in pensions in payment and deferred pensions	**1.7%**	1.6%	**1.5%**	1.5%	**–**	–
Discount rate	**3.5%**	3.3%	**2.0%**	1.4%	**3.5%**	3.2%
Inflation assumption[2]	**1.8%**	1.7%	**1.5%**	1.5%	**2.1%**	2.3%

[1] No increase applies following the closure of the UK defined benefit pension schemes to future accrual and in Germany from 2016 onwards.

[2] The inflation assumption used for UK schemes is a blend of RPI and CPI as well as reflecting that members have the option to take a one off increase in pension at retirement in exchange for surrendering future increases. Approximately 25% of members took this option.

20. Pensions continued

The predominant defined benefit obligation for funded plans within the Group resides in the UK (£191.3m of the £207.5m Group obligation for funded plans). In addition to the assumptions shown previously, mortality assumptions have a significant bearing on the calculated obligation. The assumed life expectancy for the RPS members on retirement at age 65 is as follows.

	2016	2015
Males		
Currently aged 45	21.4	21.3
Currently aged 65	20.4	20.4
Females		
Currently aged 45	23.7	23.7
Currently aged 65	22.6	22.6

The post-retirement mortality tables used for the UK plan are the S1PA series tables published by the UK actuarial profession with a 20% uplift in mortality reflecting scheme specific experience. The RPS experiences mortality significantly in excess of the national average. The mortality rates for the RPS are based on average year of birth for both non-pensioners and pensioners with an allowance for future annual improvements in life expectancy.

In Germany, the mortality expectations for the scheme are in line with the local national averages as is the case in the United States.

Sensitivity analysis on UK scheme:

Assumption	Change in assumption	Impact on plan liabilities
Discount rate	Increase/decrease by 0.25%	Decrease by £6.6m/increase by £7.0m
Rate of inflation	Increase/decrease by 0.25%	Increase by £4.4m/decrease by £4.3m
Rate of mortality	Increase/decrease by 1 year[1]	Increase/decrease by £8.9m

[1] This is broadly equivalent to an increase in life expectancy of one year at age 65.

The market values of assets of the principal defined benefit plans of the Group, together with the present value of plan liabilities, are shown below. It should be noted that the market values of the plans' assets are stated as at the Group's year end and since it is not intended to realise the assets in the short term, the value may change significantly before being realised.

The fair values of plan assets were:

	2016			2015		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Medically underwritten insurance policies	47.0	–	47.0	–	–	–
UK equities	16.8	–	16.8	20.4	–	20.4
Overseas equities	27.2	5.1	32.3	29.7	7.6	37.3
Hedge funds and diversified growth funds	37.2	–	37.2	39.1	–	39.1
Corporate bonds	3.3	4.4	7.7	36.0	4.2	40.2
Gilts	–	0.1	0.1	29.8	0.7	30.5
Liability driven investments (LDI)	4.6	–	4.6	–	–	–
Other	1.6	1.8	3.4	1.6	2.2	3.8
Total market value of assets	137.7	11.4	149.1	156.6	14.7	171.3

The medically underwritten insurance policies are shown at a value that exactly matches the estimated associated insured liabilities. Equities are investments in quoted equities only. Hedge funds and diversified growth funds hold a range of assets which aim to deliver returns above those of bonds but at lower volatility than equities. The assets held materially reflect the underlying liabilities, in that lower risk assets such as gilts and bonds are deemed to be a match for pensioner liabilities whereas equities are deemed a better match for the liabilities associated with scheme members not yet in retirement.

Notes to the Consolidated Financial Statements

20. Pensions continued

Pension obligations

The movement in the present value of the defined benefit obligation is as follows:

	2016 UK £m	2016 Overseas £m	2016 Total £m	2015 UK £m	2015 Overseas £m	2015 Total £m
Opening obligation	(201.5)	(45.5)	(247.0)	(183.0)	(40.9)	(223.9)
Arising on acquisition	–	(0.4)	(0.4)	–	–	–
Current service cost	–	(0.1)	(0.1)	–	(0.4)	(0.4)
Past service credit	–	1.3	1.3	–	–	–
Interest expense	(6.4)	(0.9)	(7.3)	(8.0)	(1.4)	(9.4)
Contributions by plan participants	–			–	(0.1)	(0.1)
Remeasurement gains /(losses) by changes in:						
– Experience	–	0.3	0.3	–	(1.5)	(1.5)
– Demographic assumptions	–	2.2	2.2	–	(0.5)	(0.5)
– Financial assumptions	3.5	(0.2)	3.3	(20.5)	(6.3)	(26.8)
Liabilities extinguished on settlement	–	3.3	3.3	–	1.1	1.1
Benefits paid	13.1	1.9	15.0	10.0	2.4	12.4
Exchange adjustment	–	(2.6)	(2.6)	–	2.1	2.1
Closing obligation	(191.3)	(40.7)	(232.0)	(201.5)	(45.5)	(247.0)
The total defined benefit obligation can be analysed as follows:						
Funded pension plans	(191.3)	(16.2)	(207.5)	(201.5)	(19.5)	(221.0)
Unfunded pension plans	–	(24.5)	(24.5)	–	(26.0)	(26.0)
	(191.3)	(40.7)	(232.0)	(201.5)	(45.5)	(247.0)

The UK liabilities above include £47.0m that are fully insured (2015: £nil).

Pension assets

The movement in the present value of the defined benefit plan assets is as follows:

	2016 UK £m	2016 Overseas £m	2016 Total £m	2015 UK £m	2015 Overseas £m	2015 Total £m
Opening assets	156.6	14.7	171.3	144.9	14.1	159.0
Interest income	5.0	0.4	5.4	6.3	0.6	6.9
Remeasurement (losses)/gains	(13.5)	(0.4)	(13.9)	12.8	0.9	13.7
Employer contributions	2.7	0.8	3.5	2.6	1.0	3.6
Participant contributions	–	–	–	–	0.1	0.1
Benefits paid	(13.1)	(0.9)	(14.0)	(10.0)	(1.3)	(11.3)
Assets distributed on settlement	–	(3.4)	(3.4)	–	(1.2)	(1.2)
Exchange adjustment	–	0.2	0.2	–	0.5	0.5
Closing assets	137.7	11.4	149.1	156.6	14.7	171.3
Balance sheet reconciliation:						
Plan obligations	(191.3)	(40.7)	(232.0)	(201.5)	(45.5)	(247.0)
Plan assets	137.7	11.4	149.1	156.6	14.7	171.3
Net plan deficit	(53.6)	(29.3)	(82.9)	(44.9)	(30.8)	(75.7)
Analysed as follows:						
Non-current assets						
Retirement benefit surplus	–	–	–	–	0.2	0.2
Non-current liabilities						
Retirement benefit obligations	(53.6)	(29.3)	(82.9)	(44.9)	(31.0)	(75.9)
Net deficit	(53.6)	(29.3)	(82.9)	(44.9)	(30.8)	(75.7)

In the prior year, the retirement benefit surplus related to the Australian scheme that was liquidated in the current year.

20. Pensions continued

The net amount of remeasurement gains and losses taken to other comprehensive income is as follows:

Remeasurement gains /(losses)	2016 UK £m	2016 Overseas £m	2016 Total £m	2015 UK £m	2015 Overseas £m	2015 Total £m
On plan obligations	3.5	2.3	5.8	(20.5)	(8.3)	(28.8)
On plan assets	(13.5)	(0.4)	(13.9)	12.8	0.9	13.7
Net (losses)/gains	(10.0)	1.9	(8.1)	(7.7)	(7.4)	(15.1)

The actual return on plan assets was a loss of £8.5m (2015: gain £20.6m) which equates to 5.7% (2015: 12.9%) of plan assets.

An analysis of amounts charged to operating costs is set out below:

	2016 £m	2015 £m
Operating costs		
Pension administration costs	(0.7)	(0.5)
Current service cost	(0.1)	(0.4)
Past service credit	1.3	–
Settlement loss	(0.1)	(0.1)
	0.4	(1.0)

The past service credit of £1.3m arose in Germany following the confirmation that the pension scheme was properly closed to future accrual with effect from 31 March 2014. The £0.1m settlement loss relates to the liquidation of the Australian scheme when the net surplus was £0.1m (2015 – loss of £0.1m due to the termination of the US Clerical pension scheme in February 2015). See Note 2(c) for further details.

The cost for the period of the various defined contribution schemes was £1.3m (2015: £1.5m) and was fully paid up.

21. Called up share capital

	Issued 2016 £m	2015 £m
Ordinary shares of 5p each	11.2	11.2
Deferred shares of 20p each	15.4	15.4
	26.6	26.6

At 31 March 2016, the issued ordinary share capital comprised 223,064,703 ordinary shares of 5p each (2015: 223,064,703) and 77,064,703 deferred shares of 20p each (2015: 77,064,703).

22. Share-based payments

Accounting Policy

The Group operates equity settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is calculated using a Black-Scholes pricing model and is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or performance shares granted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. No expense is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon market or non-vesting conditions which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied provided that all other performance or service conditions are satisfied. The market-based conditions are linked to the market price of shares in the Company.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Notes to the Consolidated Financial Statements

22. Share-based payments continued

The fair value per option granted in the period and the assumptions used in the calculation are as follows:

	2016 Executive share option scheme		2015 Executive share option scheme
Grant date	05.06.15	10.02.16	05.06.14
Share price at date of grant	76.50p	42.75p	65.17p
Exercise price	0.0p	0.0p	0.0p
Number of employees	25	1	23
Shares under option	1,678,327	22,290	1,945,789
Vesting period (years)	3	3	3
Expected volatility	58%	58%	58%
Option life (years)	10	10	10
Expected life (years)	6	6	6
Risk free interest rate	1.0%	1.0%	1.0%
Assumed dividends expressed as a dividend yield	Zero	Zero	Zero
Possibility of ceasing employment before vesting	Zero	Zero	Zero
Fair value per option	76.50p	42.75p	65.17p
Weighted probability of meeting vesting conditions	37.5%	37.5%	37.5%

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise based on historical data. The risk free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life. Dividend yields indicated above are an expression of assumed dividends over the respective periods included in the calculation. These assumptions may not be borne out in practice. A reconciliation of option movements over the year ended 31 March 2016 is shown below:

Executive share option schemes

	2016 Number	2016 Weighted average exercise price	2015 Number	2015 Weighted average exercise price
Outstanding at 1 April	7,454,402	9.9p	7,242,517	18.3p
Granted	1,700,617	0.0p	1,945,789	0.0p
Exercised	–	–	(1,060,811)	37.3p
Lapsed	–	–	(29,360)	63.27p
Forfeited	(516,108)	0.0p	(643,733)	24.08p
Outstanding at 31 March	8,638,911	8.6p	7,454,402	9.9p
Exercisable at 31 March	2,303,973	36.04p	1,158,935	37.9p

Range of exercise prices	2016 Weighted average exercise price	2016 Number of shares	2016 Weighted average remaining life Expected	2016 Weighted average remaining life Contractual	2015 Weighted average exercise price	2015 Number of shares	2015 Weighted average remaining life Expected	2015 Weighted average remaining life Contractual
Nil	–	6,334,938	8.9	4.9	0.0p	5,150,429	8.6	4.6
20p to 30p	26.4p	1,456,482	7.3	3.3	26.4p	1,456,482	7.3	3.3
30p to 40p	37.3p	735,923	6.2	2.2	37.3p	735,923	6.2	2.2
40p to 100p	71.3p	111,568	1.5	–	71.3p	111,568	1.5	–

No options have been exercised in the period (2015: 1,060,811). The exercise of the options in the previous year was executed in the form of a surrender for cash consideration rather than the issue of new equity. This was done to avoid dilution on the issue of a relatively small number of shares on a post tax basis. The total charge for the year relating to employee share-based payment plans was £1.1m (2015: charge £0.2m), all of which related to equity settled share-based transactions.

The middle market price of ordinary shares at 31 March 2016 was 33.50p and the range of prices during the year was 32.50p to 86.00p.

Details of the share-based payment arrangements are provided in the Directors' Remuneration Report on pages 86 to 104. At 31 March 2016, unexercised options for ordinary shares amounted to 8,638,911 (2015: 7,454,402).

23. Reserves

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of foreign operations and the proportion of the gains or losses on hedging instruments used to hedge against movements in net investments in foreign operations that are determined to be effective.

Other reserves record the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Cumulative goodwill written off directly to Group reserves at 31 March 2016 amounted to £3.5m (2015: £3.5m).

Included in retained earnings is an amount of £5.4m (net of tax) (2015: £5.7m) relating to the revaluation of freehold property that was undertaken at the date of IFRS adoption. The amount is not distributable until it is realised.

24. Operating lease obligations

Accounting Policy

Leases where a significant portion of the risk and reward of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group has entered into leases on commercial properties and plant and equipment. Minimum rental commitments under non cancellable operating leases at the year end are as follows:

	2016		2015	
	Properties £m	Equipment £m	Properties £m	Equipment £m
Within one year	1.7	0.8	1.9	0.3
Between two and five years	6.5	2.5	6.2	0.4
Over five years	10.8	0.1	10.8	0.1
	19.0	3.4	18.9	0.8

Certain of the leased properties have been sublet and the future minimum sublease payments expected to be received under non-cancellable sublease agreements is £2.7m (2015: £3.0m).

An onerous lease provision of £4.0m (2015: £5.4m) (see Note 18) was established in 2014 following the closure of the Bredbury manufacturing facility. The lease expires in May 2030 at a rental cost of £0.8m per annum and is included in the analysis above.

25. Contingent liabilities and commitments

Performance guarantees given to third parties in respect of Group companies were £nil (2015: £nil).

Various UK group companies have given guarantees to the merged UK pension scheme to cover the full cost of buying out the liabilities in the event that the Sponsoring Employers defaulted on the agreed deficit repair plan. As one of the sponsoring employers of the UK scheme is Renold plc, the continuing obligation is effectively unchanged and is to fully fund the member's accrued benefits.

Notes to the Consolidated Financial Statements

26. Additional cash flow information

Reconciliation of operating profit to net cash flows from operations:

	2016 £m	2015 £m
Cash generated from operations:		
Operating profit	11.1	12.1
Depreciation and amortisation	6.0	5.3
Impairment of intangible assets	–	0.2
Property impairment	0.5	1.2
Equity share plans	1.1	–
Decrease in inventories	1.7	0.7
Decrease/(increase) in receivables	0.7	(0.2)
(Decrease)/increase in payables	(2.1)	0.9
Decrease in provisions	(1.6)	(1.5)
Past service credit - German pension scheme (Note 20)	(1.3)	–
Movement on pension plans	(4.3)	(4.4)
Movement in derivative financial instruments	–	(0.1)
Cash generated from operations	11.8	14.2

Reconciliation of net change in cash and cash equivalents to movement in net debt:

	2016 £m	2015 £m
(Decrease)/increase in cash and cash equivalents	(0.2)	5.8
Change in net debt resulting from cash flows	(4.0)	0.1
Foreign currency translation differences	(0.1)	(0.3)
Non-cash movement – refinancing cost capitalised	0.5	–
Non-cash movement – amortisation of refinancing costs	(0.2)	(0.3)
Change in net debt during the period	(4.0)	5.3
Net debt at start of year	(19.5)	(24.8)
Net debt at end of year	(23.5)	(19.5)
Net debt comprises:		
Cash and cash equivalents (Note 15)	13.5	12.6
Total borrowings (Note 16)	(37.0)	(32.1)
	(23.5)	(19.5)

27. Financial instruments

Accounting Policy

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. This documentation identifies the risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting period for which they were designated.

For the purpose of hedge accounting, hedges are classified as:

- *Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or*
- *Hedges of a net investment in a foreign operation.*

There are no fair value hedges.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

(a) Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in the income statement. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement, such as when a forecast sale occurs.

If a forecast transaction is no longer expected to occur, amounts previously recognised in other comprehensive income are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above. If the related transaction is not expected to occur, the amount is taken to the income statement.

(b) Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses relating to the effective portion are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On loss of control of the foreign operation, the cumulative value of any such gains or losses recognised directly in other comprehensive income is transferred to the income statement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the income statement.

The Group's 6% cumulative preference stock of £1 each 'Preference Stock' has been classified as a liability. Dividends payable are included within net finance costs.

These notes should be read in conjunction with the narrative disclosures in the Finance Director's review on pages 40 to 46.

Notes to the Consolidated Financial Statements

27. Financial instruments continued

Foreign currency risk and sensitivity

As a result of the significant operations in the US and Europe, the Group's balance sheet can be affected significantly by movements in the US Dollar/Sterling and Euro/Sterling exchange rates.

The following table demonstrates the impact of reasonably possible changes in the US Dollar (US$) and Euro exchange rates (with all other variables held constant) on the Group's result before tax (due to the effect of foreign exchange on monetary assets and liabilities denominated in a different currency to the functional currency of operation) and the Group's equity (due to the effect on other comprehensive income of changes in the fair value of forward exchange contracts and the effect of hedging borrowings). The impact of translating the net assets of foreign operations into Sterling is excluded from the sensitivity analysis.

Change in US Dollar rate (an 'increase' being a fall in the value of Sterling compared to US$):

	Increase/ (decrease) in US$ rate	Effect on profit before tax £m	Effect on shareholders' equity £m
2016	25%	(0.1)	1.4
	(10%)	0.1	(0.7)
2015	25%	(0.1)	1.3
	(10%)	0.1	(0.7)

Change in Euro rate (an 'increase' being a fall in the value of Sterling compared to the Euro):

	Increase/ (decrease) in Euro rate	Effect on profit before tax £m	Effect on shareholders' equity £m
2016	25%	–	–
	(10%)	–	–
2015	25%	–	0.3
	(10%)	–	(0.2)

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the basis points of the Group's floating interest rates:

	Increase in basis points	**2016 Effect on profit before tax £m**	2015 Effect on profit before tax £m
Sterling	+150	**(0.4)**	(0.3)
US Dollar	+150	**(0.1)**	(0.1)
Euro	+150	**(0.1)**	(0.1)
Other	+150	**–**	–
		(0.6)	(0.5)

(a) The balance sheet position on financial instruments is set out below:

	2016 £m	2015 £m
Current liabilities:		
Forward foreign currency contracts: cash flow hedge	**(0.1)**	(0.1)

The cash flow hedges of the expected future transactions in US Dollars and Euros were assessed to be highly effective. In the period £nil (2015: £nil) was transferred to operating costs in the income statement in the period.

(b) Short term receivables and payables

The carrying amount of short term receivables and payables (being those with a remaining life of less than one year) is deemed to approximate to their fair value.

(c) Hedge of net investment in foreign entity

The Group has US Dollar denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in the US. The carrying value of the US Dollar borrowings at 31 March 2016 was £6.1m (2015: £5.8m). £0.2m of exchange loss (2015: £0.6m loss) on translation of the borrowings into Sterling is included as part of the hedging reserve movement in other comprehensive income as the hedge was deemed to be effective.

27. Financial instruments continued

(d) Currency and interest rate profile of financial liabilities of the Group

Currency	2016 Fixed rate £m	2016 Floating rate £m	2016 Total £m	2015 Fixed rate £m	2015 Floating rate £m	2015 Total £m
Sterling						
– Financial liabilities	–	26.5	26.5	–	21.7	21.7
– Preference Stock	0.5	–	0.5	0.5	–	0.5
US Dollar	–	6.1	6.1	–	5.8	5.8
Euro	–	3.9	3.9	–	3.6	3.6
Other	–	–	–	–	0.5	0.5
	0.5	36.5	37.0	0.5	31.6	32.1

Floating rate financial liabilities bear interest at rates based on relevant national base rate equivalents, which can fluctuate on a daily basis. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest risk.

Interest rate risk

Exposure to the risk of changes in market interest rates relates primarily to the Group's Sterling, US Dollar and Euro debt obligations.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 14. There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, the Group's exposure to credit risk has a maximum exposure equal to the carrying value of these instruments.

(e) Currency and interest rate profile of financial assets at 31 March 2016

Cash at bank and in hand by currency	2016 £m	2015 £m
Sterling	(1.1)	0.7
Euro	8.3	5.0
US Dollar	2.2	3.1
Other	4.1	3.8
	13.5	12.6

Cash balances are held with the Group's bankers. These deposits are held largely in Germany and the US and earn interest at bank deposit interest rates for periods of up to three months.

(f) Maturity of financial liabilities

The maturity profile of the contracted amount of the Group's financial liabilities was as follows:

2016	One year or less on demand £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Interest bearing loans and borrowings	–	–	37.0	–	37.0
Interest paid on borrowings	1.5	–	–	–	1.5
Trade payables	18.5	–	–	–	18.5
Provisions – contingent consideration	–	1.9	–	–	1.9
Forward foreign exchange contracts – outflow	0.9	–	–	–	0.9
Preference Stock[1]	–	–	–	0.5	0.5
	20.9	1.9	37.0	0.5	60.3

Notes to the Consolidated Financial Statements

27. Financial instruments continued

2015	One year or less on demand £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Interest bearing loans and borrowings	–	32.1	–	–	32.1
Interest paid on borrowings	1.7	–	–	–	1.7
Trade payables	18.1	–	–	–	18.1
Provisions – contingent consideration	–	–	0.7	–	0.7
Forward foreign exchange contracts – outflow	2.7	–	–	–	2.7
Preference Stock[1]	–	–	–	0.5	0.5
	22.5	32.1	0.7	0.5	55.8

[1] No fixed repayment date.

The Group has contracted forward contracts consisting of Euro forward contracts of £nil (2015: £1.7m) and US Dollar forward contracts of £0.9m (2015: £1.0m). The US Dollar contracts are sell contracts, given that the UK Group tends to have a surplus in US Dollars and a deficit in Euro's.

A lease became onerous in 2014, see Note 24 for details of rentals payable under this lease.

(g) Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at the year end date in respect of which all conditions precedent had been met at that date:

	2016 £m	2015 £m
Expiring within one year or less, or on demand	1.8	3.0
Expiring between one and two years	–	7.6
Expiring between two and five years	3.4	–
	5.2	10.6

The facilities expiring in one year or less, or on demand, are primarily annual facilities subject to review at various dates during the year ended 31 March 2017.

(h) Fair values

Set out below is a comparison by category of the carrying amounts and fair values of the Group's financial instruments excluding derivatives, short term trade payables and short term trade receivables which are already carried at fair value (or where the carrying amount approximates fair value):

	Carrying value		Fair value	
	2016 £m	2015 £m	2016 £m	2015 £m
Financial assets – cash	13.5	12.6	13.5	12.6
Financial liabilities – floating rate bank overdraft	1.1	0.4	1.1	0.4
Interest bearing loans and borrowings				
Floating rate borrowing	35.4	31.2	35.4	31.2
Preference Stock	0.5	0.5	0.5	0.5

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

With reference to the fair value hierarchy below the above financial instruments are level 2 except Preference Stock which is level 1.

27. Financial instruments continued

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable financial market data.

As at 31 March 2016, the Group held the following financial instruments measured at fair value:

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Assets measured at fair value				
Forward foreign currency contracts: cash flow hedge	(0.1)	–	(0.1)	–

As at 31 March 2015:

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Liabilities measured at fair value				
Forward foreign currency contracts: cash flow hedge	(0.1)	–	(0.1)	–

The fair value of derivatives has been calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

(i) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a satisfactory credit rating and capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to the shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2016 and 31 March 2015.

The Group monitors capital using two gearing ratios, one of which is net debt divided by total capital plus net debt and the other is the ratio of net debt to adjusted EBITDA.

	2016 £m	2015 £m
Net debt (Note 26)	23.5	19.5
Total capital	7.8	9.0
Capital and net debt	31.3	28.5
Gearing ratio	75%	68%
Adjusted EBITDA[1] (£m)	20.2	20.8
Net debt to adjusted EBITDA	1.16 times	0.9 times

[1] Adjusted EBITDA is calculated as adjusted operating profit adding back depreciation and amortisation charges in the period.

28. Post balance sheet events

There were no significant post balance sheet events to report.

Group Five Year Financial Review
(unaudited)

	2016 £m	2015 £m	2014 £m	2013 (restated[3]) £m	2012 £m
Group revenue	165.2	181.4	184.0	190.3	209.5
Adjusted operating profit	14.2	15.5	11.1	7.2	14.1
Operating profit/(loss)	11.1	12.1	(1.3)	(6.4)	12.0
Profit/(loss) before tax	7.4	7.7	(5.9)	(11.9)	7.6
Taxation	(2.0)	(2.1)	(4.8)	0.1	(1.2)
Profit/(loss) for the year	5.4	5.6	(10.7)	(11.8)	6.4
Net assets employed					
Tangible and intangible fixed assets	54.7	45.8	46.7	50.7	54.9
Working capital and other net assets	31.2	30.0	32.0	33.3	40.2
Operating assets	85.9	75.8	78.7	84.0	95.1
Goodwill	22.7	21.9	19.8	21.8	22.3
Net debt	(23.5)	(19.5)	(24.8)	(22.8)	(22.9)
Deferred and current taxation	14.5	15.5	12.8	19.4	15.9
Provisions	(6.2)	(6.4)	(7.7)	(1.9)	(1.5)
Net assets excluding pension obligations	93.4	87.3	78.8	100.5	108.9
Pension obligations	(82.9)	(75.7)	(64.9)	(69.5)	(55.7)
Total net assets	10.5	11.6	13.9	31.0	53.2
Other data and ratios					
Return on capital employed (restated) (%)[1]	13.7	15.6	11.1	6.5	12.2
Return on sales (restated) (%)[2]	8.6	8.5	6.0	3.8	6.7
Capital expenditure (£m)	8.8	6.6	7.1	4.9	5.6
Basic earnings/(loss) per share (restated) (p)	2.4	2.5	(4.9)	(5.4)	2.8
Employees at year end[4]	2,187	2,243	2,208	2,466	2,569

[1] Being adjusted operating profit divided by average operating assets and goodwill.

[2] Based on adjusted operating profit divided by revenue.

[3] Only 2013 has been restated for the impact of IAS 19R and hence some of the income statement figures in the earlier years are not fully comparable.

[4] Basis of calculation of employee numbers changed to include temporary workers in 2013 onwards.

Accounting policies

A summary of the principal Company accounting policies is set out below. These have been applied on a consistent basis unless otherwise indicated.

Basis of accounting

The Parent Company financial statements of Renold Plc meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100). The financial statements have therefore been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework ("FRS 101")".

The Company has transitioned to FRS 101 from the UK Generally Accepted Accounting Practice for all periods presented. Material adjustments arising from transition are detailed in Note (xv).

In these financial statements, the Company has applied the exemptions available under FRS 101 in relation to share based payments, financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are the same as those set out in the notes to the consolidated financial statements.

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own statement of comprehensive income (including the profit and loss account). The loss of the Parent Company for the financial year amounted to £0.2m (2015: loss of £0.9m).

Company Balance Sheet

as at 31 March 2016

	Note	2016 £m	2015 (restated) £m
ASSETS			
Non-current assets			
Intangible assets	i	6.8	6.4
Property, plant and equipment	ii	0.3	0.1
Investments in subsidiary undertakings	iii	148.4	140.2
Trade and other receivables	v	9.8	9.9
Deferred tax assets	iv	2.4	2.2
		167.7	158.8
Current assets			
Trade and other receivables	v	3.0	2.5
Cash and cash equivalents		2.9	3.3
		5.9	5.8
TOTAL ASSETS		173.6	164.6
LIABILITIES			
Creditors: amounts falling due within one year			
Trade and other payables	vi	(3.8)	(6.5)
Provisions	vii	–	(0.2)
Derivative financial instruments	viii	(0.1)	–
		(3.9)	(6.7)
NET CURRENT ASSETS/(LIABILITIES)		2.0	(0.9)
Creditors: amounts falling due after more than one year			
Trade and other payables	vi	(65.8)	(62.5)
Borrowings	ix	(20.6)	(16.7)
Preference Stock	ix	(0.5)	(0.5)
Retirement benefit obligations	x	(13.4)	(11.2)
		(100.3)	(90.9)
TOTAL LIABILITIES		(104.2)	(97.6)
NET ASSETS		69.4	67.0
Capital and reserves			
Issued and called up share capital	xi	26.6	26.6
Share premium account		29.9	29.9
Currency translation reserve		2.3	(0.3)
Retained earnings		10.6	10.8
SHAREHOLDERS' FUNDS		69.4	67.0

Approved by the Board on 31 May 2016 and signed on its behalf by:

Robert Purcell
Chief Executive

Brian Tenner
Finance Director

Company Statement of Changes in Equity

for the year ended 31 March 2016

	Share capital £m Note xi	Share premium account £m	Retained earnings £m	Currency translation reserve £m	Total equity £m
At 31 March 2014 (restated)	26.6	29.9	14.9	(2.4)	69.0
Loss for the year	–	–	(0.9)	–	(0.9)
Other comprehensive income/(expense)	–	–	(3.2)	2.1	(1.1)
Total comprehensive income/(expense) for the year	–	–	(4.1)	2.1	(2.0)
Employee share options:					
– settled share based payment transactions	–	–	(0.2)	–	(0.2)
– value of employee services	–	–	0.2	–	0.2
At 31 March 2015 (restated)	26.6	29.9	10.8	(0.3)	67.0
Loss for the year	–	–	(0.2)	–	(0.2)
Other comprehensive income/(expense)	–	–	(1.1)	2.6	1.5
Total comprehensive income/(expense) for the year	–	–	(1.3)	2.6	1.3
Employee share options:					
– value of employee services	–	–	1.1	–	1.1
At 31 March 2016	**26.6**	**29.9**	**10.6**	**2.3**	**69.4**

All attributable to the equity shareholders of the Company.

Notes to the Company Financial Statements

(i) Intangible assets

	Total £m
Cost	
At beginning of year	9.9
Additions at cost	1.6
Disposals	(0.4)
At end of year	**11.1**
Depreciation	
At beginning of year	3.5
Depreciation for the year	1.2
Disposals	(0.4)
At end of year	**4.3**
Net book value at end of year	**6.8**
Net book value at beginning of year	6.4

(ii) Property, plant and equipment

	Property £m	Equipment £m	Total £m
Cost			
At beginning of year	0.5	1.4	1.9
Additions at cost	0.2	0.1	0.3
Disposals	(0.5)	(1.4)	(1.9)
At end of year	**0.2**	**0.1**	**0.3**
Depreciation			
At beginning of year	0.4	1.4	1.8
Disposals	(0.4)	(1.4)	(1.8)
At end of year	**–**	**–**	**–**
Net book value at end of year	**0.2**	**0.1**	**0.3**
Net book value at beginning of year	0.1	–	0.1

Future capital expenditure

At 31 March 2016, contracted capital expenditure not provided for in these financial statements for which contracts have been placed amounted to £nil (2015: £nil).

(iii) Investments in subsidiary undertakings

Accounting Policy

Investments in subsidiary companies are accounted for at cost and reviewed for impairment on an annual basis. Where indicators of impairment are present, the cashflows of the underlying entities are reviewed to determine whether the investment value is recoverable.

The results and financial position of Renold Scottish Limited Partnership (SLP) have been consolidated in the consolidated financial statements of Renold plc. Renold plc is a parent undertaking of the general partner in the SLP (see Note (xiv) to the Company financial statements). Accordingly, advantage has been taken of the exemption conferred by paragraph 7 of the Partnerships (Accounts) Regulations 2008 from the requirements for preparation, delivery and publication of the partnerships accounts.

	Shares £m	Advances £m	Total £m
Subsidiary undertakings			
Cost or valuation			
At beginning of year	62.0	78.2	140.2
Net additions	–	8.2	8.2
At end of year	**62.0**	**86.4**	**148.4**

The subsidiary undertakings of the Company at 31 March 2016 are set out in Note (xiv).

(iv) Deferred tax assets

2016	Opening balance £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
Pension plans	2.2	–	0.2	2.4
	2.2	–	0.2	2.4

Unrecognised deferred tax assets amount to £2.1m (2015: £2.5m), arising from unrecognised losses of £1.7m (2015: £1.6m) (representing losses of £9.6m (2015: £8.2m)) and other timing differences of £0.4m (2015: £0.9m). None of these losses are subject to time limits.

(v) Trade and other receivables

	2016 Current £m	2016 Non-current £m	2015 Current £m	2015 Non-current £m
Amounts owed by subsidiary undertakings	1.7	–	1.0	–
Other debtors	0.1	–	0.3	–
Prepayments	1.2	9.8	1.2	9.9
	3.0	9.8	2.5	9.9

Notes to the Company Financial Statements
continued

(vi) Trade and other payables

	2016 £m	2015 £m
Amounts falling due within one year:		
Trade creditors	1.7	0.9
Amounts owed to subsidiary undertakings	–	3.9
Other taxation and social security	0.3	0.3
Accruals	1.8	1.4
	3.8	6.5

	2016 £m	2015 £m
Amounts falling due after one year:		
Loan from subsidiary undertakings	65.8	62.5

A 25 year loan of £62.5m was established with Renold International Holdings Limited in the prior period. Interest of £2.5m per annum, increasing in line with RPI plus 1.5% capped at 5%, is payable for the period of the loan.

(vii) Provisions

	2016 £m	2015 £m
At beginning of year	0.2	0.3
Charge for the year	0.2	0.2
Utilised in the year	(0.4)	(0.3)
At end of year	–	0.2

A provision for Head Office restructuring costs of £0.2m was made in the prior year. Additional charges of £0.2m were incurred in the year and the provision was fully utilised.

(viii) Derivative financial instrument

	2016 £m	2015 £m
Forward foreign currency contracts – cash flow hedge	(0.1)	–

The Group has contracted forward contracts consisting of Euro forward contracts of £nil (2015: £1.7m) and US Dollar forward contracts £1.8m (2015: £1.0m). The US Dollar contracts are sell contracts, given that the UK group companies have a surplus in US Dollars and a deficit in Euros.

(ix) Borrowings

	2016 £m	2015 £m
Amounts falling due after one year:		
Bank loans repayable in two to five years	20.6	16.7
Summary of total borrowings:		
Bank loans	20.6	16.7
Preference Stock	0.5	0.5
Total borrowings	21.1	17.2

(x) Pensions

Employees of the Company include members of the principal UK defined benefit schemes. The basis used to determine the deficit in the schemes is disclosed in Note 20 in the Group financial statements.

No contributions are outstanding at the year end.

(xi) Called up share capital

	Issued 2016 £m	2015 £m
Equity interests		
Ordinary shares of 5p each	11.2	11.2
Deferred shares of 20p each	15.4	15.4
Preference Stock[1]	0.5	0.5
	27.1	27.1

[1] Included in borrowings – see Note (ix).

At 31 March 2016, the issued ordinary share capital comprised 223,064,703 ordinary shares of 5p each (2015: 223,064,703) and 77,064,703 deferred shares of 20p each (2015: 77,064,703).

Disclosures in respect of capital management can be found in Note 27 of the consolidated financial statements.

(xii) Related party transactions

The following transactions were carried out with related parties:

(a) Transactions with key management personnel

Key management personnel are represented by the Board. Their aggregate emoluments are set out in Note 2(d) of the consolidated financial statements.

(b) Transactions with subsidiaries

The Company has taken advantage of the disclosure exemptions in FRS 101 not to disclose transactions with its wholly owned subsidiaries.

During the year, the Company entered into transactions in the ordinary course of business with its 90% owned subsidiary, Renold (Hangzhou) Company Limited, its 75% owned subsidiary, Renold Chain India Private Limited and its 50% jointly controlled entity, Renold Transmission Technology (Jiangsu) Inc. Transactions entered into and trading balances outstanding at 31 March 2016 (and 2015) with Renold Transmission Technology (Jiangsu) Inc. are not material. Transactions entered into and trading balances outstanding at 31 March with Renold (Hangzhou) Company Limited and Renold Chain India Private Limited are as follows:

	2016 £m	2015 £m
Amounts receivable as at 31 March		
– Renold (Hangzhou) Company Limited	4.4	4.4
– Renold Chain India Private Limited	–	–
	4.4	4.4

(c) Transactions with other related parties

The Company makes no transactions with other related parties.

(xiii) Post balance sheet events

There were no significant post balance sheet events to report.

Notes to the Company Financial Statements
continued

(xiv) Subsidiary undertakings as at 31 March 2016

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiary undertakings, the country of incorporation and the effective percentage of equity owned, as at 31 March 2016 is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of the Renold Group.

United Kingdom

Renold Power Transmission Limited*
Renold International Holdings Limited*
Renold Europe Limited*

United Kingdom (Dormant companies)

Anchor Chain and Power Transmission Co Limited
Hans Renold Limited*
John Holroyd & Company Limited*
Jones & Shipman Limited*
Renold (1997) Limited

United Kingdom (Pension companies)

Renold Pensions Limited* (Dormant)
Renold Group General Partner Limited*
Renold Scottish Limited Partnership (Address: 3-5 Melville Street, Edinburgh, Scotland, UK EH3 7PE)*

Europe (other than the United Kingdom)

Austria	Renold GmbH
Belgium	Renold Continental Limited (incorporated in the United Kingdom)
Denmark	Renold A/S
France	Brampton Renold SAS*
Germany	Renold GmbH*
	Renold Holding GmbH*
	Renold Automotive Systems Germany
Poland	Renold Polska sp. z o.o.
Russia	Renold Russia (Obshchestvo s Ogranichennoj Otvetstvennost'u)
Spain	Renold Hi-Tec Couplings SA
Sweden	Renold Transmission AB (Sweden) (incorporated in the United Kingdom)
Switzerland	Renold (Switzerland) GmbH

North America

Canada	Renold Canada Limited*
USA	Renold Inc
	Jeffrey Chain LP
	Renold Holdings Inc
	Jeffrey Chain Acquisition Co Inc
	Jeffrey Chain Corp

Other countries

Australia	Renold Australia Proprietary Limited*
China	Renold Transmission (Shanghai) Company Limited
	Renold Technologies (Shanghai) Company Limited
	Renold (Hangzhou) Company Limited
India	Renold Chain India Private Limited
Malaysia	Renold (Malaysia) Sdn Bhd
New Zealand	Renold New Zealand Limited*
Singapore	Renold Transmission Limited (incorporated in the United Kingdom)
South Africa	Renold Crofts (Pty) Limited*
Thailand	Renold (Thailand) Limited

*Directly held by Renold plc.

(xiv) Subsidiary undertakings as at 31 March 2016 continued

All of our companies with the exception of Renold (Hangzhou) Company Limited and Renold Chain India Private Limited. are direct or indirect subsidiaries of Renold plc, a company incorporated in England and Wales, which ultimately holds a 100% (except for those companies in which the Group does not hold all of the shares and voting rights as set out above) interest in the equity shares and voting rights. Renold Power Transmission Limited, Renold International Holdings Limited and Renold Europe Limited are registered in England and Wales.

The Group has the following interests in the exceptions noted above:

	Equity shares	Voting rights
Subsidiary undertaking		
Renold (Hangzhou) Company Limited	90%	90%
Renold Chain India Private Limited	75%	75%

Our overseas companies are incorporated in the countries in which they operate except where otherwise stated.

Notes to the Company Financial Statements
continued

(xv) Transition to FRS 101

For all periods up to and including 31 March 2015 the Company prepared its Financial Statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). These Financial Statements for the year ended 31 March 2016 are the first the Company has prepared in accordance with FRS 101 "Reduced Disclosure Framework".

The table below shows the restated prior year comparative figures for the Parent Company balance sheet as at 1 April 2014 and 31 March 2015. The restatement reflects the retrospective adjustments required on first time adoption of FRS 101.

	31 March 2015			1 April 2014		
	Reported £m	Impact of FRS 101 £m	Restated £m	Reported £m	Impact of FRS 101 £m	Restated £m
ASSETS						
Non-current assets						
Intangible assets	–	6.4	6.4	–	6.6	6.6
Tangible assets	6.5	(6.4)	0.1	6.7	(6.6)	0.1
Investments in subsidiary undertakings	140.2	–	140.2	143.0	–	143.0
Trade and other receivables	–	9.9	9.9	–	10.0	10.0
Deferred tax asset	–	2.2	2.2	–	1.9	1.9
	146.7	12.1	158.8	149.7	11.9	161.6
Current assets						
Trade and other receivables	2.0	0.5	2.5	2.3	0.3	2.6
Derivative financial instruments	–	–	–	0.1	–	0.1
Cash and short term deposits	3.3	–	3.3	1.0	–	1.0
	5.3	0.5	5.8	3.4	0.3	3.7
TOTAL ASSETS	152.0	12.6	164.6	153.1	12.2	165.3
LIABILITIES						
Creditors: amounts falling due within one year						
Other creditors	(6.5)	–	(6.5)	(8.8)	–	(8.8)
Provisions for liabilities	(0.2)	–	(0.2)	–	–	–
	(6.7)	–	(6.7)	(8.8)	–	(8.8)
NET CURRENT (LIABILITIES)/ ASSETS	(1.4)	0.5	(0.9)	(5.4)	0.3	(5.1)
Creditors: amounts falling due after more than one year						
Other creditors	(62.5)	–	(62.5)	(62.5)	–	(62.5)
Bank borrowings	(16.7)	–	(16.7)	(14.7)	–	(14.7)
Retirement benefit obligations	–	(11.2)	(11.2)	–	(9.5)	(9.5)
Preference Stock	(0.5)	–	(0.5)	(0.5)	–	(0.5)
Provisions for liabilities	–	–	–	(0.3)	–	(0.3)
	(79.7)	(11.2)	(90.9)	(78.0)	(9.5)	(87.5)
TOTAL LIABILITIES	(86.4)	(11.2)	(97.6)	(86.8)	(9.5)	(96.3)
NET ASSETS	65.6	1.4	67.0	66.3	2.7	69.0
Capital and reserves						
Called up share capital	26.6	–	26.6	26.6	–	26.6
Share premium account	29.9	–	29.9	29.9	–	29.9
Currency translation reserve	–	(0.3)	(0.3)	–	(2.4)	(2.4)
Retained earnings	9.1	1.7	10.8	9.8	5.1	14.9
SHAREHOLDERS' FUNDS	65.6	1.4	67.0	66.3	2.7	69.0

(xv) Transition to FRS 101 continued

Restatement from UK GAAP to FRS 101

Retirement benefit obligations

Previously, the Group took the multi-employer exemption allowed by UK GAAP, which meant the retirement benefit obligations were not reflected on a company balance sheet. Upon transition to FRS 101, Renold Plc has recognised its share of the UK defined benefit pension liability, being 25% of £38.1m as at 1 April 2014 and 25% of £44.9m as at 31 March 2015. Further information on the retirement benefit obligations are disclosed in the Group accounts.

Trade and other debtors

As part of a restructure of the UK defined benefit pension liability (see Note 20 of the consolidated financial statements for details), a special contribution £40.0m was deemed to have been made, even though cash payments are actually spread over 25 years in the form of a contractually agreed payment schedule. Renold plc has therefore recognised £10.0m of this special contribution representing 25% of £40.0m in line with its share of the defined benefit pension liability, as a discounted prepayment. This prepayment will be unwound and amortised over the contractually agreed period.

Deferred tax asset

A deferred tax asset has been recognised in relation to the Company's portion of the UK defined benefit pension liability.

Corporate Information

Corporate Calendar

Annual General Meeting	20 July 2016
Half year end 2015/16	30 September 2016
Announcement of half year 2015/16 results	15 November 2016
Year end 2016/17	31 March 2017
Announcement of annual results 2016/17	30 May 2017
Payment of preference dividends	1 July 2016 and 1 January 2017

Company details

Registered office
Trident 2, Trident Business Park
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M22 5XB

Registered number: 249688
Telephone: +44 (0)161 498 4500
Fax: +44 (0)161 437 7782
Email: enquiry@renold.com
Website: www.renold.com

Company Secretary
Louise Brace

Auditor
Deloitte LLP

Broker and financial adviser
Arden Partners

Financial PR consultants
Instinctif Partners Limited

Registrars
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: If calling from the UK: 0871 664 0300 (calls cost 10p per minute plus network extras; lines are open 8.30am to 5.30pm, Monday to Friday)

If calling from overseas: +44 208 728 5000

Email: shareholderenquiries@capita.co.uk

Website: www.capitaassetservices.com

Registrars' Share Portal: www.capitashareportal.com

If you receive two or more copies of this report please write to Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU and ask for your accounts to be amalgamated.

Glossary

2014 Code	Guidance, issued by the Financial Reporting Council in 2014, on how companies should be governed, applicable to UK listed companies including Renold.
Adjusted	Add back pension administration costs, exceptional items, amortisation of acquired intangible assets and any tax thereon.
AGM	Annual General Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.
Average working capital % of sales	Calculated as the average of each months closing working capital divided by rolling twelve months sales in each month.
Board	The Board of Directors of the Company (for more information see pages 67 to 71).
CAGR	Compound Annual Growth Rate.
Company, Group, Renold, we, our or us	We use these terms, depending on the context, to refer to either Renold plc itself or to Renold plc and its subsidiaries collectively.
Directors/Executive Directors/ Non-Executive Directors	The Directors/Executive Directors and Non-Executive Directors of the Company whose names are set out on page 67 of this Report.
EBITDA	Earnings before interest, tax, depreciation and amortisation. Calculated as operating profit before pension administration costs and exceptional items adding back depreciation and amortisation charged.
EPS	Earnings per share. Profit for the year attributable to equity shareholders of the parent allocated to each ordinary share.
FCA	Financial Conduct Authority.
FRC	Financial Reporting Council.
Financial Year	For Renold this is an accounting year ending on 31 March.
FRS	A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC).
IAS or IFRS	An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole. Financial statements are prepared in independence with IFRS as adopted by the EU.
LTA	Lost Time Accident.
Ordinary shares	Voting shares entitling the holder to part ownership of a company.
PwC	The Company's external advisor, Price Waterhouse Cooper LLP.
PSP	2013 Performance Share Plan (approved by shareholders at the 2013 AGM).
Reasonable certainty	Deferred tax assets are recognised if they can be utilised within three years of the balance sheet date unless there are specific circumstances making it more or less likely that these assets will be utilised.
ROCE%	Return on Capital Employed is calculated as follows: adjusted operating profit divided by average operating assets and goodwill. Operating assets include tangible and intangible fixed assets, working capital and other non-current assets.
ROS%	Return on sales is calculated as follows: adjusted operating profit divided by revenue.
Subsidiary	A company or other entity that is controlled by Renold.
TSR	Total Shareholder Return which is share price growth plus dividends reinvested where applicable.
UK GAAP	United Kingdom Generally Accepted Accounting Practice. Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.
Underlying	Restate prior period information at current year exchange rates.

Shareholder Notes

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