RENOLD

Renold plc Annual Report and Accounts
for the year ended 31 March 2017

Re-engineering our future.

ESTABLISHING A STABLE PLATFORM

INVESTING FOR GROWTH

www.renold.com Stock code: RNO

INTRODUCTION

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.

STEP 2020 RENOLD

Our areas of key focus

Our objective at Renold is to deliver mid-teens operating margins. The STEP 2020 Strategic Plan provides a framework to deliver the key actions that will generate the progressive improvements supporting progress towards achieving this objective. 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 are re-engineering everything that we do.

PICTURED: OUR CHAIN EUROPE SERVICE CENTRE TEAM AT BREDBURY, UK.

OUR VALUES

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

READ MORE ABOUT OUR VALUES IN CORPORATE SOCIAL RESPONSIBILITY ON PAGES 50 TO 51

Navigating the report

FOR FURTHER INFORMATION WITHIN THIS DOCUMENT AND RELEVANT PAGE NUMBERS

Visit us online at
www.renold.com

WELCOME TO OUR REPORT

We present our Annual Report and Accounts for the year ended 31 March 2017.

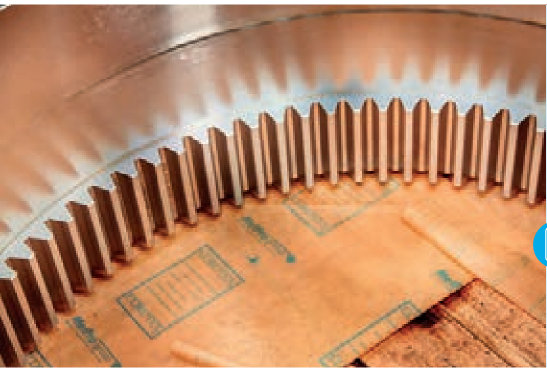
An overview of who we are and what we do can be found in the introductory pages of our Annual Report, including our Chairman's letter.

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 100 to 155 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 157 for the definitions and other explanatory information.



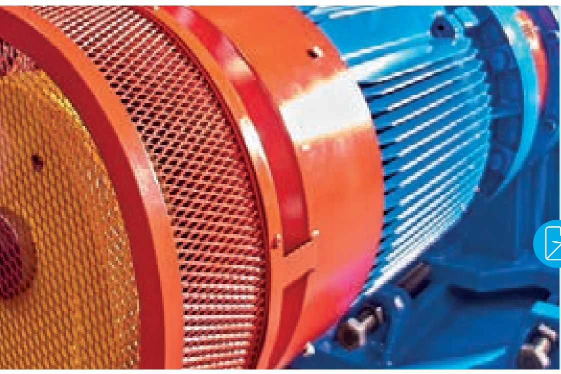
For full details of
Our Business Model

See pages 10 and 11

STEP 2020
RENOLD

For an update on
Our STEP 2020 Strategic Plan

See pages 16 to 25



For full details of
Our Performance

See pages 26 to 33

Contents

HIGHLIGHTS

Renold has performed robustly this year against a backdrop of challenging markets. We have continued to make progress on a number of the key objectives underpinning our STEP 2020 Strategic Plan.

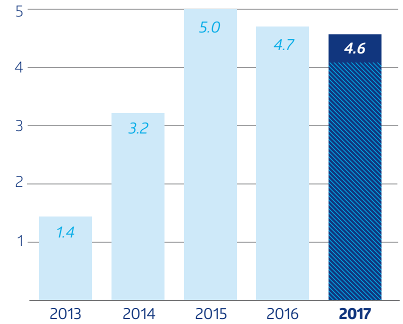
Our health and safety KPIs continue to improve. We have successfully delivered key consolidation projects, which are expected to improve our efficiency. We have sold two properties in the period, generating net cash proceeds of £10.2m. Significantly, this year we have also commenced a multi-year project which relocates our Chain manufacturing facilities in China to a new purpose built facility. Despite the challenging market conditions we have continued to invest in commercial and marketing activities as well as further invest in 'state of the art' machinery. These actions under the STEP 2020 Strategic Plan will generate incremental value particularly when market conditions improve.

PICTURED: THE NEW ROTARY MACHINING CENTRE (PICTURED WITH THE SINICO MACHINE PURCHASED IN 2016) REPRESENTS FURTHER INVESTMENT AT OUR US CHAIN FACILITY.

Financial highlights

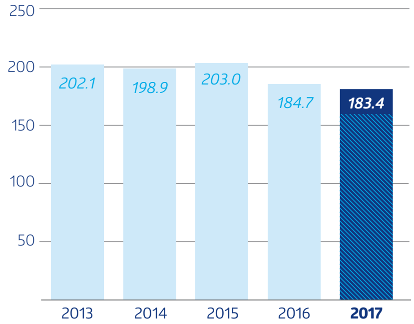
ADJUSTED[1] EARNINGS PER SHARE

pence



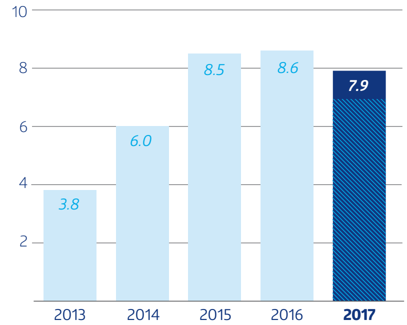
UNDERLYING[2] REVENUE

£m



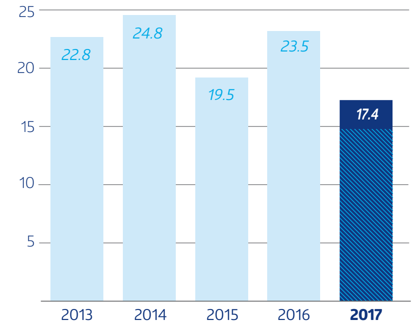
ADJUSTED[1] RETURN ON SALES

%



NET DEBT

£m



The Group uses alternative performance measures to provide useful historical financial information to help investors evaluate the underlying performance of the business by adjusting for volatility created by one-off items and non-trading performance related costs such as amortisation and legacy pension costs. A reconciliation to reported results is included in Note 1 of the consolidated financial statements.

[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
7.9% down 0.7%	**£8.4m**	**£92.1m**

PICTURED: WE HAVE ALSO INVESTED IN A MACHINING CENTRE AT OUR GEARS MANUFACTURING FACILITY IN MILNROW, UK.

Operational highlights

- Improvement in health and safety accident rate KPIs. All major manufacturing sites certified to OHSAS 18001.
- Completion of the consolidation of the European Distribution Centre with the facility in Germany and successful transfer of all UK Couplings manufacturing into Cardiff.
- Significant increase in the Group's capital investment programme in the year to £10.9m. Key projects delivered in the latter part of the year will support further cost reductions, improved operational efficiency and enhanced product quality and service improvements.
- Investment in sales and marketing activities in support of organic growth is demonstrating results, particularly in Chain Europe.
- Successful disposal of the former European Distribution Centre in Seclin, France. Completion of the sale and short-term leaseback of the Australian property at Mulgrave, Melbourne, ahead of relocating the facility. Together, these disposals generated net cash proceeds of £10.2m.
- Successful integration of Renold Tooth Chain following last year's acquisition. Renold Tooth Chain continues to trade ahead of expectations.

UNDERLYING BREAKEVEN POINT

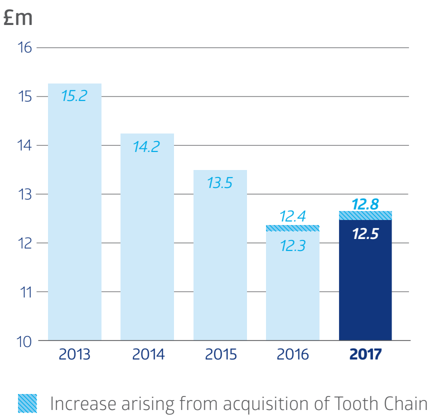


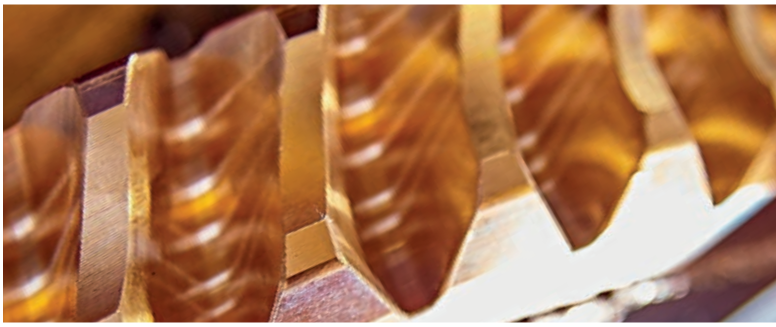
Chart shows an estimate of the average underlying monthly sales required for the Group to deliver a breakeven adjusted operating profit. The estimate is based on actual variable margin in the years in question so that when the actual fixed costs are deducted the resulting adjusted operating profit is £nil. The resulting sales figure is then divided by 12 calendar months to arrive at the level of monthly sales required to breakeven. The breakeven point at March 2017 reflects the increased fixed cost acquired with Renold Tooth Chain, along with increased commercial and marketing activities. These factors increase the breakeven point, but are partially offset by ongoing operational improvements.

Average working capital % of sales	Biggest customer % of sales	Total employees at 31 March 2017	3 year CAGR Adjusted EPS growth[1]
22.2%	5%	2,139	12.9%

[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. 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.

Our high specification Tooth Chain (sometimes known as silent chain) produces a wide range of inverted Tooth Chain for drives and for conveying applications. Offering a high degree of economic efficiency and reliability, Tooth Chain applications are wide ranging and include glass production and automobile assembly lines.

READ MORE ABOUT THE PERFORMANCE OF OUR CHAIN DIVISION ON PAGES 26 TO 29

Adjusted operating profit	Return on sales	Employees at 31 March 2017
£16.6m	11.4%	1,689

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 and South Africa. 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.

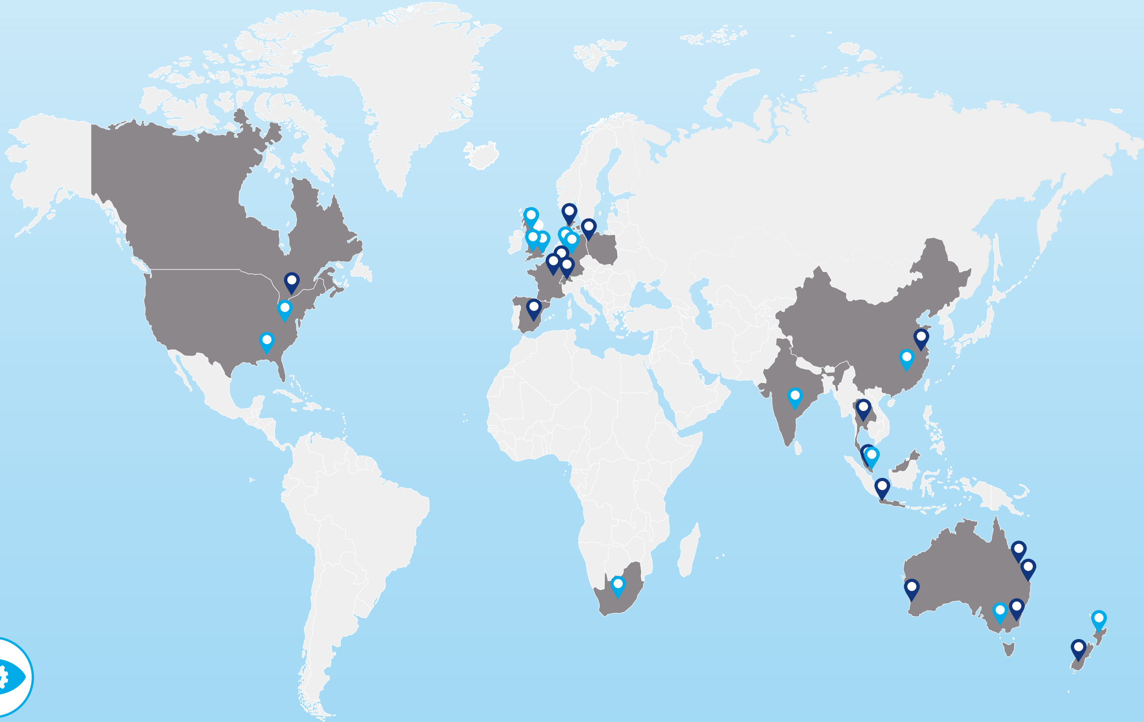
Our solutions deliver durability, reliability and long life for demanding industrial applications. Renold Torque Transmission also provides a range of freewheel clutches featuring both sprag and roller ramp technology. Sprag clutches are used in a wide range of safety-critical applications such as keeping 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 30 TO 33

Adjusted operating profit	Return on sales	Employees at 31 March 2017
£3.9m	10.5%	405

Our international network includes **nine countries** where we both manufacture and sell and a further **ten countries** where we have sales only companies, strategically located to support our customers within our two operating divisions.
Renold employed an average of 2,183 people around the world in the last year, with 54% of our staff engaged in direct production activities.

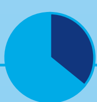


NORTH AMERICA

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 large pitch chain and sells transmission chain sourced elsewhere in the Group.

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

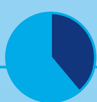


37% of global sales

EUROPE

Renold Chain and Renold Tooth Chain operate from our two European manufacturing locations in Germany.
Along with our European Distribution Centre, these facilities export transmission chain all over the world.

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

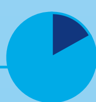


39% of global sales

ASIA PACIFIC

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.

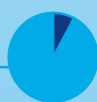


16% of global sales

HIGH GROWTH ECONOMIES

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 2008 and manufactures a broad range of transmission and conveyor chain with 79% of output destined for the local market.



8% of global sales

Map key:
Manufacturing and sales company
Sales only location

CHAIRMAN'S LETTER

MARK HARPER
CHAIRMAN

"We continue to deliver key elements of our STEP 2020 Strategic Plan, invest in our future and produce encouraging results in volatile market conditions."

Overview

Renold has performed robustly this year against a backdrop of challenging markets. A first half decline in revenues was followed by a return to underlying growth in the second half. Further self-help measures have been delivered this year which reflect our ongoing commitment to the core objectives of our STEP 2020 Strategic Plan.

These include the completion of two consolidation projects, the sale of two major properties in France and Australia and the successful integration of the Tooth Chain acquisition, which continues to trade ahead of expectations. We believe this sets a template for further successful acquisitions in the remaining years of the plan.

Our Markets

Renold's global presence and extensive product offering result in a broad spread of end-customer industries. Customers are served either directly, or through distribution partners, and our products are used to satisfy maintenance and repair requirements in addition to supporting the manufacture of new equipment. Our end-customers generally operate in industrial markets which have continued to be impacted by broader macroeconomic factors and geopolitical uncertainty.

During the year, market conditions proved particularly challenging in North America, impacting upon both Chain and Torque Transmission operations in the region and resulting in a combined 8% decline in regional revenue. Europe and China experienced growth, and in flat markets, we believe this is a result of improving market share arising from the various actions implemented in our STEP 2020 Strategic Plan.

Conditions in certain sectors demonstrated early signs of improvement towards the end of the financial year. It is too early to determine whether this is a sustained improvement in market conditions, or whether this is another phase of volatility in the cycle. Whatever the case, our focus on delivering the underlying improvements required to deliver sustainable progress in operating margins continues.

Trading Performance

Revenue grew by 11.0% in the year, benefiting from foreign exchange tailwinds and continued strong performance of the Tooth Chain business acquired in January 2016. On an underlying basis, and excluding the impact of acquisitions, revenue declined by 3.6% in the year. This decline reflects the continuation into the current year of the challenging market conditions which impacted performance in the second half of the prior year.

This underlying reduction in revenue resulted in a decline in our adjusted underlying operating margin in the year which fell to 7.9% from 8.6% in the prior year.

Whilst this is disappointing, it is reflective of external market factors and our decision to make revenue investments to increase our sales and marketing activities. We continue to focus attention on delivering actions that will provide sustainable improvements in operating margins and have made good progress in these areas during the year.

The year to March 2017 is the fourth year of our STEP 2020 Strategic Plan. The Group has come a long way and delivered a great deal over these four years. The full benefit of the actions delivered to date have been diluted by challenging conditions in our end-user markets over the last two years. In spite of this, we remain confident that we can deliver sustainable mid-teens margins, the exact timing of which will be determined by a recovery in volumes.

STEP 2020 Strategic Plan

Further key projects have been successfully delivered as part of our STEP 2020 Strategic Plan. These include the consolidation of the European Distribution Centre with the sister facility in Germany and the successful transfer of all UK Couplings manufacturing and associated processing into our existing Cardiff site.

Furthermore, we have commenced a programme to relocate our Chain China manufacturing facilities from Hangzhou to a purpose built facility near Changzhou in Jiangsu province. This is a multi-year project which will see the construction of the new facility commence during the year ending March 2018, with the factory relocation expected to occur in the following year.

We have continued to invest in the commercial and marketing activities which we believe will drive organic growth. We are starting to see the benefit of these actions with underlying revenue growth in Chain Europe (excluding acquisitions) of 5.9%.

A number of important health and safety initiatives have continued through the year and I am very pleased that we have again seen further improvements in our health and safety culture and performance. Health and safety rightly remains the number one priority for the Board and the Group. Ongoing and new initiatives in this area will continue to drive further improvements.

Board and People

This year saw the appointment of Ian Scapens as Group Finance Director after Brian Tenner left in order to pursue other opportunities.

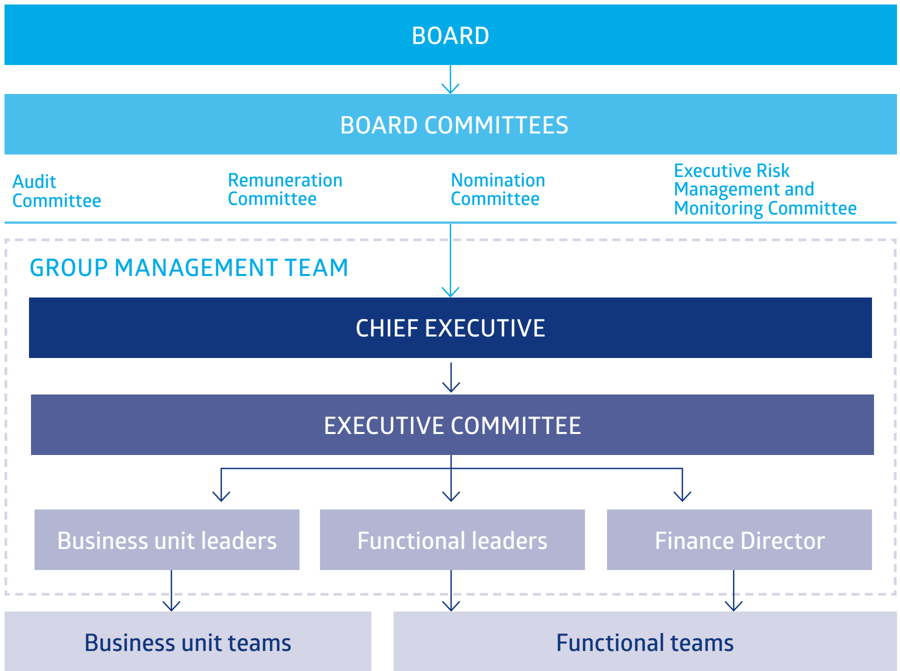
Ian Scapens brings extensive experience in all aspects of financial leadership in large complex organisations. He joined Renold from Keepmoat Group, the UK's leading national provider of social housing refurbishment and regeneration services and a developer of low-cost, affordable housing, where he was Deputy Chief Financial Officer.

Also during the year we welcomed David Landless as Non-Executive Director. He has significant experience at senior levels of international manufacturing businesses. Most recently, he was Group Finance Director of Bodycote plc from 1999 until his retirement earlier this year. David will take over the Chairmanship of the Audit Committee from John Allkins at the completion of the 2017 AGM. John will continue as a Non-Executive Director until his retirement from the Board after the 2018 AGM.

I am delighted that both Ian and David have joined the Board. They bring a wealth of relevant experience which will stand the Board in good stead as we continue to implement our STEP 2020 Strategic Plan. I would also like to take the opportunity to thank Brian Tenner for his substantial contribution to Renold over the years.

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.

On behalf of the whole Board, I would like to express my gratitude and thanks to all our employees for their continued hard work during the year. The contribution of each employee is valued and appreciated.



READ MORE ABOUT OUR GOVERNANCE STRUCTURE ON PAGES 66 TO 68

Pensions

The Group's gross retirement benefit obligations increased to £102.0m (2016: £82.9m), with the largest element of the increase relating to changes in the discount rates and inflation rates applied as assumptions to assess future liabilities of the UK scheme. This is a reduction of £10.4m from the position at 30 September 2016.

The Group remains committed to progressively de-risking this position over time through a combination of agreed contributions to the schemes and specific de-risking projects as they become viable.

Dividend

The Board has decided not to recommend the payment of a dividend. Whilst the Board fully recognises the importance of dividends to shareholders, it believes that the investment opportunities available to the Group continue to provide the optimal route to increasing shareholder value. This approach will remain under active review for future periods.

Summary

Market conditions remained volatile in the year. Trading conditions, particularly in North America and South-East Asia remained challenging. Early signs of recovery are evident and are supporting growth in order intake, but it is too soon for these to be considered sustainable or market wide.

We have not allowed a challenging market to stand in the way of delivery of the STEP 2020 Strategic Plan and have delivered significant business change in the year. We are making good progress and continue to believe that mid-teens operating margins can be delivered, supported by volume increases.

Mark Harper
Chairman
30 May 2017

STRATEGIC REPORT

Automation at Einbeck

The Organic Growth phase of the STEP 2020 Strategic Plan is supported by the increased automation of existing processes. In addition to the wide range of standard products manufactured at our Einbeck, German plant, we have an increasing demand for special chains which are designed to specific customer requirements.

In order to economically fulfil these demands, Renold has chosen innovative automation processes in assembly and chain production including industrial robotic solutions.

The automation department combines classical mechanical engineering with new control systems. The key is the knowledge of chain production, based on long standing experience in the Group. This is combined with new automation methods to guarantee a quick and flexible response to market requirements to always stay ahead of competition. The entire project planning, from development and design to assembly, as well as programming of new robot lines, is undertaken in-house.

In addition to robotics, the Einbeck automation team has expanded focus into the wider production area. Internally developed camera systems are now built into all standard assembly lines to enhance the already high product quality of Renold chain. Visual inspection systems with modern industrial image processing are used to ensure a constant quality level in production. The inspection systems control the complete feeding and correct positioning of parts and guarantee process reliability in all steps. Speed and precision of camera systems make it possible to measure individual parts in line with the production process.

CONTENTS

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.

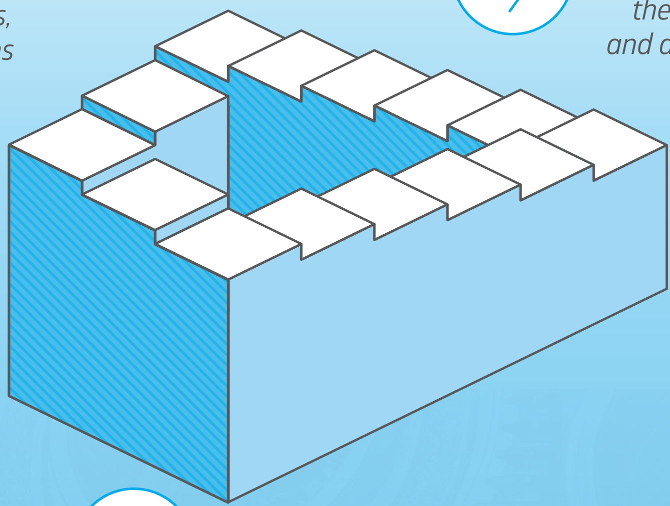
READ MORE ABOUT THE STEP 2020 STRATEGIC PLAN ON PAGES 16 TO 25

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.

KNOWLEDGE
of customer problems, products and solutions

SKILLS & FACILITIES
the ability to conceive and deliver these solutions



LOGISTICS
the right product in the right place at the right time

SERVICE
unique after-sales service means we continue to learn and deliver

Value generated for our customers:

End users

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

18% of sales

OEMs

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

39% of sales

Distribution

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

43% 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.

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.

RENOLD

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.

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.

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

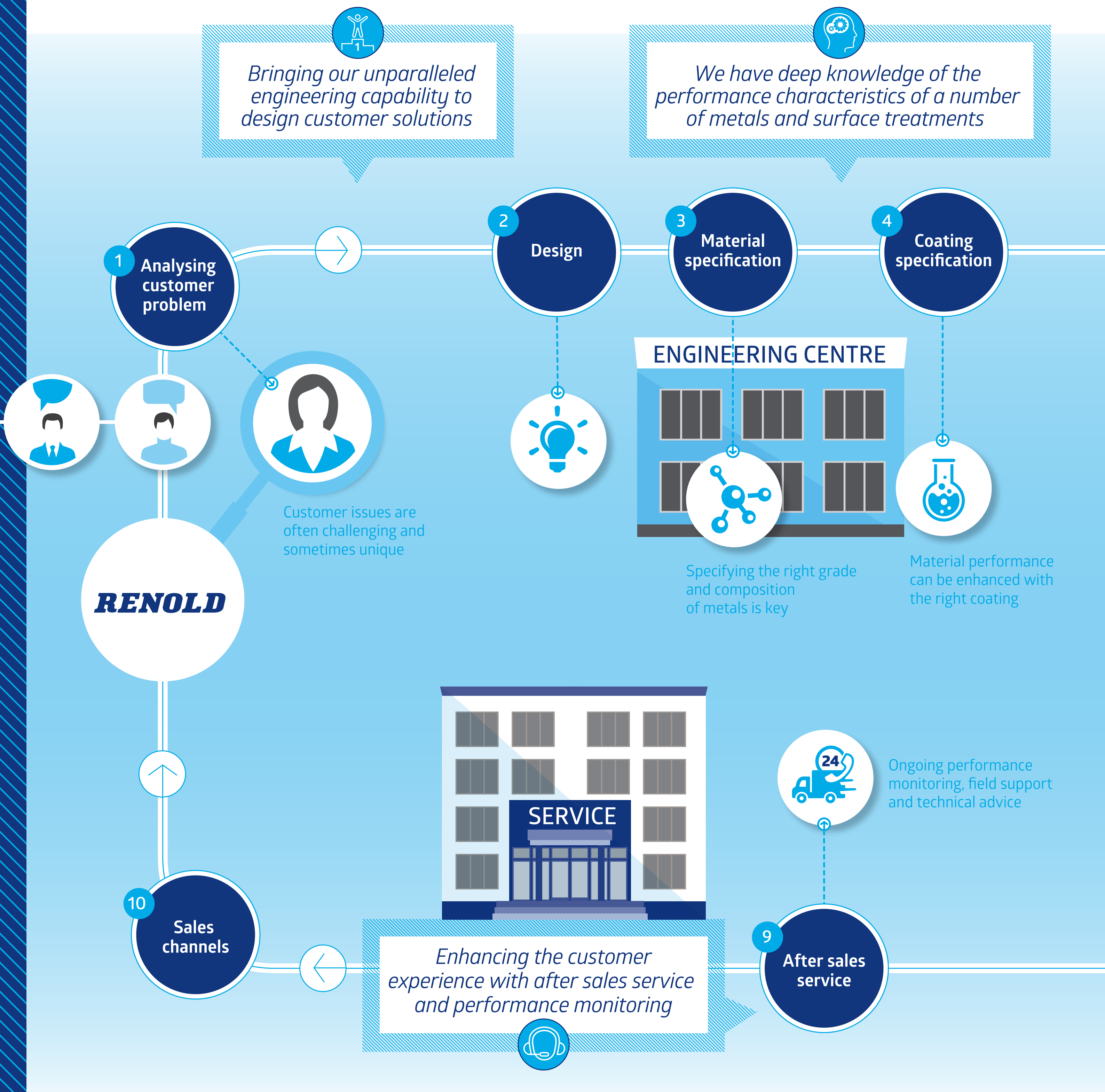
We are upgrading our infrastructure and process capability to be an appropriate match for our strategic goals. This will support better quality and service and also lower our breakeven point.

Partners

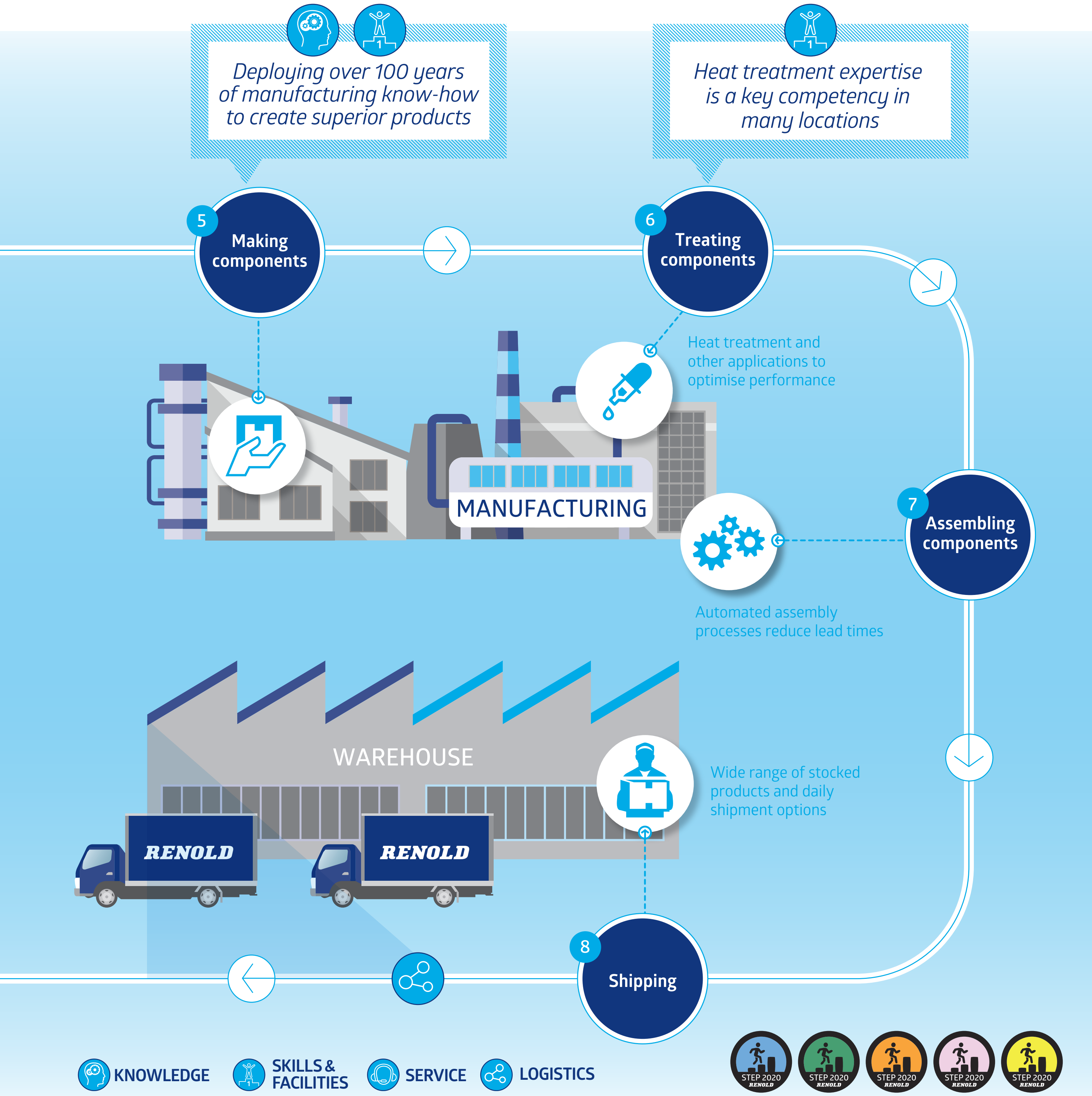
We work in long-term collaboration with a wide range of general and specialist suppliers. This supports our ability to source complex materials for our leading edge solutions.

OUR 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.



OUR KEY PERFORMANCE INDICATORS

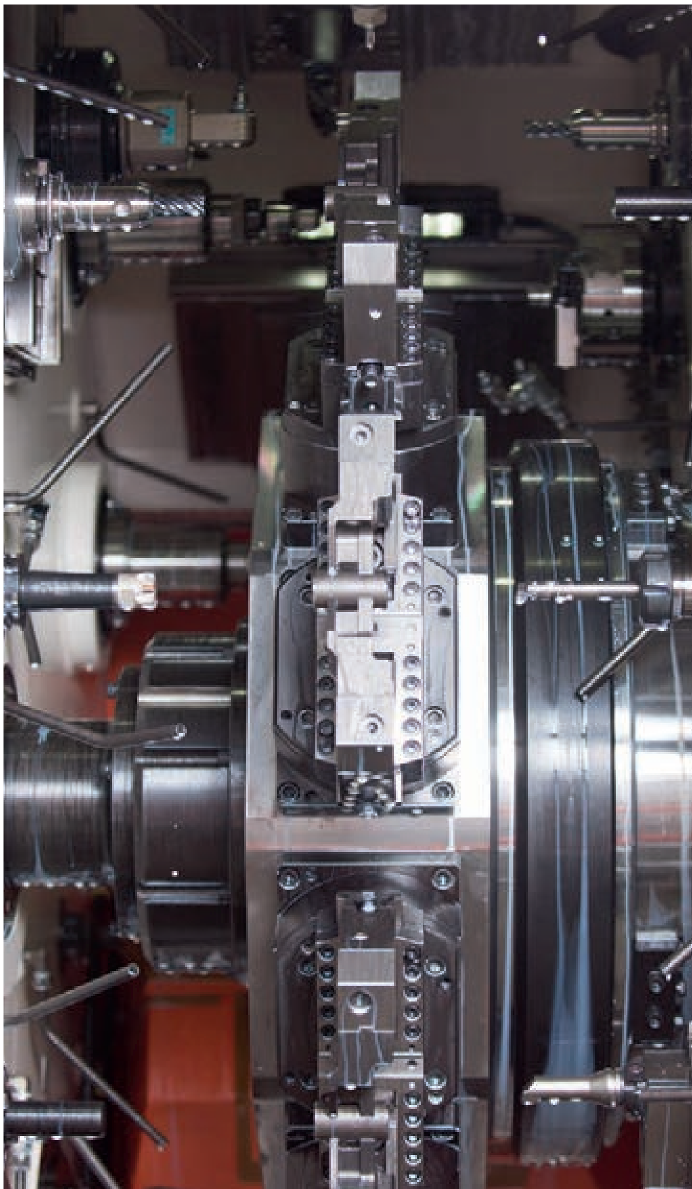
Health and safety remains our top priority. At Renold, we make the connection between personal safety and sustainable value creation. A robust system of control for health and safety is the bedrock of a manufacturing business such as ours.

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 and are reviewed by the Board at every meeting. (See page 49 for more details on these KPIs).*
Lost time 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 three lost days, against the average number of employees in the same period. We also monitor accidents greater than seven 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 businesses 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.
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.
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 has a poor record of cash generation and hence this is an area of focus.
Net Debt	Total borrowing less cash balances.

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. Developing our people
7. Strengthening and de-risking our balance sheet

Strategic Objective	Performance	Change
1	7	=
1	777	✔
1	190	✔
1	1,466	✔
2	7.9	✖
2	4.6	✖
2	£84.0k	✔
5	Up £0.5m	✖
5	£6.0m	✖
7	22.2%	✖
7	0.8	✔
7	17.4	✔



KEY:

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

CHIEF EXECUTIVE'S REVIEW

ROBERT PURCELL
CHIEF EXECUTIVE

"We continue to make strong progress against our STEP 2020 Strategic Plan. Challenging market conditions have impacted upon trading performance during the year, particularly in our Torque Transmission and Chain Americas businesses. We have not allowed these challenges to delay or obstruct our strategic progress and continue to take the actions required to position the Group well for when markets recover."

STEP 2020 strategy overview

A major milestone in our STEP 2020 programme will be the delivery of sustainable mid-teens margins. We remain confident that the business can meet this objective and, whilst the challenging market environment has, as reported, slowed the rate of EPS progression over the last two years, we are pleased with the overall progress with, and benefits of, STEP 2020 which is alleviating the impact of reduced levels of demand. We are putting in place a number of additional self-help initiatives to mitigate the ongoing challenging environment and to maintain progress.

Strategic Plan Component	Description	Reference
Strategic Goal	To deliver mid-teens net operating margins through a combination of restructuring the Group, delivering organic growth and completing value enhancing acquisitions.	
Strategic Objectives	The key objectives, which when successfully combined will underpin the delivery of our medium term goals.	PAGE 23
Staircases	Commonly themed business improvement programmes, the delivery of which support the achievement of our Strategic Objectives.	PAGES 20 AND 21
Business Model	How we operate, set ourselves apart from our competition and add value for our customers.	PAGES 10 AND 11

OUR STRATEGY STEP 2020

Three Phase Strategic Plan

Phase III
3 Acquisitions

The market for industrial chain remains highly fragmented across geographies and sector niches. As we have demonstrated from the successful acquisition of the Gronau based Tooth Chain business, selected acquisitions have the potential to deliver incremental shareholder value. This value derives from:

- consolidating volume into facilities with efficient business processes and efficient manufacturing capability; or
- accessing incremental growth opportunities in new product sectors or new geographies, building on the strength in depth of Renold's existing product range and geographic reach.

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.

Phase II
2 Organic Growth

Renold has strong market shares in certain geographic markets and product categories. However, the fragmented nature of the power transmission market and the extremely diverse end-user markets creates significant opportunities for organic growth. Whilst market conditions have proved challenging in recent years, the activities to deliver future organic growth have continued.

Improved sales and marketing
We will continue to invest in the Group's commercial teams, building upon the commercial coverage across Europe, the Americas and in Asia. We will increasingly target specific end-user markets where growth opportunities in our existing product ranges can help to mitigate the cyclicality experienced in our core industrial goods markets. Through greater levels of direct interaction with our end customers, our targeted marketing and communication activities, we will help to reinforce our reputation for quality engineering solutions and high performance products. These actions will position Renold to secure a greater share of the markets in which we operate and to access related markets where we don't currently operate.

Enhanced customer service
We believe Renold's reputation for quality and performance is unsurpassed in the market. However, historically our performance in customer service has not lived up to the same standards. To address this, we have implemented strategies to introduce 24, 48 and 72 hour response times on a range of standard and configured chains and extended this concept to standard gear and coupling products. We intend to continue to improve and evolve our offering to enhance the levels of service to our customers, whether in standard products or in highly-engineered bespoke solutions.

Product capability
We will leverage our existing superior products in Chain and Torque Transmission. We will also reinvigorate 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.

Phase I
1 Restructuring

Restructuring is the area of greatest progress to date since the commencement of the STEP 2020 Strategic Plan in 2013. Whilst many projects have been successfully implemented, numerous opportunities remain to improve efficiency and enhance flexibility.

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
Many of our manufacturing processes include manual elements that inevitably reduce any volume benefits due to disproportionate increases in costs. We aim to deliver flexible capacity with 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.

Strong EPS growth as plan progresses

EPS	1.4 pence	3.2 pence	5.0 pence	4.7 pence	4.6 pence		
	March 2013	March 2014	March 2015	March 2016	March 2017	Achieve streamlined business fit for future	Mid teens % margins

Find out more: **www.renold.com**

CHIEF EXECUTIVE'S REVIEW

Interaction of our Staircases with the STEP 2020 Strategic Plan: delivering our Strategic Objectives

Our STEP 2020 Strategic Plan comprises three specific and overlapping phases: Restructuring in Phase I, Organic Growth in Phase II and Acquisitions in Phase III. These phases are steps in a programme to deliver a common set of Strategic Objectives.

In order to deliver these Strategic Objectives, each business unit has developed an action plan. The individual actions make up the many steps and are grouped into what we call our 'Staircases'. Together these staircases are the building blocks that combine to deliver our Strategic Objectives.

The table below identifies the key linkages between the Staircases, the STEP 2020 Strategic Plan and the Strategic Objectives.

		STEP 2020 STRATEGIC PLAN		
STAIRCASE	**OVERVIEW**	**Phase I – Restructuring**	**Phase II – Organic growth**	**Phase III – Acquisitions**
STEP 2020 RENOLD Business process efficiency	Our aim is to implement one global standard operating model which will unify our people, processes and systems	Supports operational efficiency and business flexibility, whilst enhancing consistent levels of customer service	Contributes to improved customer service, which in turn supports organic growth. Consistent operating models reduce risk when targeting new products or geographic markets	Provides an effective platform into which acquisitions can be integrated, or bolted-on to maximise synergy benefits and reduce acquisition risk
STEP 2020 RENOLD Manufacturing efficiency	Our aim is to modernise our manufacturing capability to match our leading edge engineering and production know-how	Reduces wastage (of labour, materials and capital invested) and increases flexibility, protecting margins and reducing cost	Contributes to sustainable and consistent improvement in on-time delivery, which in turn supports high levels of customer service	Provides a platform to consolidate manufacturing upon acquisition, maximising synergy benefits and reducing capital investment requirements
STEP 2020 RENOLD Commercial positioning	We aim to make our reputation for service as strong as that for our superior products	Consolidating manufacturing facilities (where appropriate) creates scale and flexibility to invest in greater levels of manufacturing technology to support capacity improvements and improved customer service	Improvements in customer service levels create greater opportunity for organic growth	Acquisitions offering product expansion can benefit from the Renold commercial network, increasing synergy benefits
STEP 2020 RENOLD Corporate efficiency	We will over time de-risk the Group's balance sheet and reduce exposure to legacy defined benefit pension schemes or inefficient capital	Selling surplus assets improves capital efficiency and permits investment in value added activities		Efficient use of capital and balance sheet de-risking creates capital capacity to undertake acquisitions
STEP 2020 RENOLD Growth activities	Through bringing greater focus to our sales activities, we aim to deliver steady and sustainable growth		Well-structured and clear marketing and sales strategies to target specific end-user segments supports organic growth	Market analysis can support decision making by determining key gaps in product offering that can be filled through targeted acquisitions

PICTURED: RENOLD'S GROUP HEAD OFFICE IN MANCHESTER, UK.

STRATEGIC OBJECTIVES

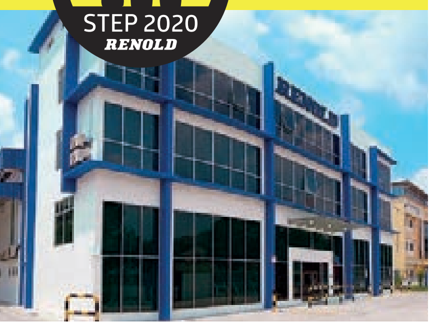
Significantly improving our health and safety performance	Generating margin enhancing growth from our superior product capability	Enhancing customer service	Optimising business processes	Lowering our breakeven point	Developing our people	Strengthening and de-risking our balance sheet
	STEP 2020 RENOLD	STEP 2020 RENOLD	STEP 2020 RENOLD	STEP 2020 RENOLD	STEP 2020 RENOLD	
STEP 2020 RENOLD		STEP 2020 RENOLD		STEP 2020 RENOLD		STEP 2020 RENOLD
	STEP 2020 RENOLD	STEP 2020 RENOLD			STEP 2020 RENOLD	
				STEP 2020 RENOLD		STEP 2020 RENOLD
	STEP 2020 RENOLD	STEP 2020 RENOLD			STEP 2020 RENOLD	

CHIEF EXECUTIVE'S REVIEW

Our Strategic Objectives and Progress

Our staircases provide the groupings for the strategic activities being undertaken within our business units. Despite the challenging market conditions experienced in a number of our business units in 2016/17, these challenges have not been allowed to divert our focus from continuing to deliver the strategic actions required to improve the underlying performance of the Group. Outlined below is a summary of the key areas of progress delivered during 2016/17 and the further actions planned for 2017/18 and beyond.

Staircase	Overview	Progress in 2016/17	Activities for 2017/18 and beyond
Business process efficiency STEP 2020 RENOLD 	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, which incorporates efficient and standardised business processes. We continued on our journey towards this objective during 2016/17. Three operating units are now live on the new ERP system, including the acquired Tooth Chain business. This completed the integration into the Renold Group and removed reliance on vendor systems and support.	The implementation of the ERP system is a multi-year project which will continue into FY17/18 and beyond. This programme incorporates elements that go beyond the base ERP system and includes production planning and scheduling, engineering and CRM systems.
Manufacturing efficiency STEP 2020 RENOLD 	Our manufacturing facilities have been underinvested over many years. This has led to inefficient manufacturing processes, long lead times, excess waste and increased 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 objective of improving operating margins.	During the year, we completed the transfer of our European Distribution Centre from France to Uslar in Germany. This transfer permitted the co-location of the logistics centres for European manufactured product with that imported from our non-European operations. It also increases capacity at our manufacturing facility in Einbeck through the availability of additional space for manufacturing. Our manufacturing facility in Malaysia was relocated during the year to larger premises, increasing capacity. Following an employee consultation process, we have consolidated our UK Couplings manufacturing facilities into the existing facility in Cardiff.	During the first quarter of 2017/18, we have relocated our Torque Transmission sales and warehousing functions in China, in addition to closing the manufacturing facilities. The manufacturing activities will now be undertaken in our Torque Transmission facilities in Cardiff, Milnrow and South Africa. We have commenced a major project to relocate our Chain manufacturing operations in China to a new facility being built near Changzhou in Jiangsu province. The new facility will be a purpose built 21,000m² factory, enhancing our manufacturing capability in China and providing a strong platform for organic growth in the growing domestic Chinese market.

Staircase	Overview	Progress in 2016/17	Activities for 2017/18 and beyond
Commercial positioning 	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 reconnecting with customers in their own local markets, we aim to make our reputation for service as strong as that for our superior products.	We continued to focus on customer service improvements throughout the year. In 2015/16, we introduced 24, 48 and 72 hour response times on a range of standard and configured chains. During 2016/17, this was extended across a standard range of gear and couplings products. We continue to review the breadth of these ranges to find the appropriate levels of inventory holdings to provide great customer service whilst not losing sight of our capital efficiency objectives.	Customer service levels have improved, particularly on standard products. We have further work to do in this area, particularly in specialist products where we need to ensure the levels of customer service match up to the sector leading quality of our products. With this in mind, we are implementing tailored customer service initiatives across the Group.
Corporate efficiency 	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.	During the year, we have made good progress in de-risking exposure to surplus property or crystallising cash from underutilised assets. This included the sub-lease of our closed Bredbury site in the UK and the sale of freehold properties in Mulgrave, Australia and Seclin, France. We continue to trade from the property in Mulgrave under a three year lease, giving us time to manage the orderly transfer to a smaller, more suitable facility.	In the early part of 2017/18, we have closed our Torque Transmission manufacturing facility in China, allowing the move to a smaller office/ warehousing facility more suitable to the business' needs. In addition, following the consolidation of our Halifax Torque Transmission facility into Cardiff, we have released a property for sale. The sale completed in May 2017 generating disposal proceeds of £0.5m.
Growth activities 	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.	Growth is a core element of Phase II of our STEP 2020 Strategic Plan. Whilst end markets proved to be challenging during the year, we continue to lay the foundations to ensure that we are well positioned when end markets recover. During the year, this included strengthening our commercial teams and building sustainable customer relationships from the new sales locations opened in the prior year. Marketing spend increased by over 50% as we re-established product support, particularly for our distributor customers.	Certain end-user markets are showing early signs of recovery. Whilst it is too early for us to consider this as sustainable, it does reinforce our ambition to establish a strong commercial capability ready to maximise opportunity as markets demonstrate sustainable recovery.

CHIEF EXECUTIVE'S REVIEW

Operating Performance

Underlying revenue declined only slightly in the year as increases in the full-year revenue from the acquired Tooth Chain business helped to offset a small reduction in other underlying Chain revenues and a larger reduction in underlying Torque Transmission revenues. These revenue reductions largely reflect challenging market conditions experienced by our customers reducing overall demand for Renold's products. The North American and South-East Asian markets were particularly difficult, across both Chain and Torque Transmission divisions. In contrast to this, the European Chain operations delivered organic growth to supplement the growth from the acquired Tooth Chain business.

On a reported basis, adjusted operating profit increased to £14.5m (2016: £14.2m). However, this benefits from the foreign exchange movements in the year. Underlying adjusted operating profit reduced by £2.3m, of which £2.1m occurred in the first half of the year.

Excluding the impact of the acquisition, the underlying revenue decline of £6.7m resulted in a £3.3m reduction in underlying adjusted operating profit as the revenue reduction experienced was not matched by a corresponding reduction in non-variable overhead costs. This was particularly marked in Torque Transmission, but also in the North American and South-East Asian Chain operations.

Order intake improved through the year, with total orders 1.9% ahead of revenue for the year as a whole. In the later part of the year, there were very early indications of improving conditions in certain end-user markets. This helped contribute towards the improving underlying book to bill ratio for the second half of the year of 103% and an underlying 9.0% year on year increase in the closing order book at 31 March 2017.

STEP 2020 Strategic Plan
Update on progress

During the year, we have made progress on all three phases of the STEP 2020 Strategic Plan.

Phase I – restructuring

Very significant progress has been made during the year to relocate and reposition manufacturing and distribution facilities across the Group.

In the Chain division, the European Distribution Centre (EDC) was relocated during the year and the Malaysian manufacturing facility moved to new larger premises in Kuala Lumpur. Relocating the EDC from France to Germany, close to our main European Chain manufacturing site, reduces the costs of handling finished products and improves speed of response and customer service. It also created the opportunity to sell our premises in Seclin, France. In Malaysia, the decision to move was taken to increase the capacity of the site. Market conditions have been weak during the year, and this permitted the site to relocate with minimum disruption. As markets recover, the site now has a greater potential for future growth.

PICTURED: THE TOOL CAROUSEL ON THE NEW MACHINING CENTRE AT OUR COUPLINGS FACILITY IN CARDIFF ALLOWS AUTOMATIC SELECTION OF THE CURRENT TOOL AT EACH STAGE OF THE MACHINING PROCESS.

Strategic Objective	Measurement: KPI[1]	2014/15	2015/16	2016/17	Change	Progress in 2016/17
Significantly improving our health and safety performance	Lost Time Accident Frequency Rates	16	7	7	=	Health and safety remains our top priority. Our accident KPIs show considerable improvement during the period and are a reflection of the cumulative efforts of the Group to implement a culture of safety and best practice management systems. These efforts are reducing the number of accidents, and more importantly, are identifying risk and addressing the root cause, preventing future accidents. Whilst very clearly a secondary consideration to the safety and well-being of individuals, our improving record in this area is resulting in lower insurance costs with savings of c.10% expected upon policy renewal.
	Reportable Injury Rates	2,060	887	777	✓	
	Lost Time Days	806	308	190	✓	
	Safety Improvements	1,723	1,233	1,466	✓	
Generating margin enhancing growth from our superior product capability	RoS%	8.5%	8.6%	7.9%	✗	Our mid-teens operating margin target is predicated on GDP+ levels of organic growth. Margins and profitability have reduced slightly in the financial year. Underlying revenue declines in the non-European Chain businesses and the Torque Transmission division have been offset by the acquired Tooth Chain business being included for the full year. At a margin level, the declining underlying revenue results in reduced variable margin. However, the full year impact of acquired margin includes the full year overheads and generates income at a net margin. The combined effect of these factors is a reduction in RoS% whilst revenue is largely unchanged.
	Adjusted EPS	5.0p	4.7p	4.6p	✗	
	ROCE%	15.6%	13.7%	12.6%	✗	
Enhancing customer service						Customer service improvements remain key to supporting future organic growth. Many of the development programmes that are underway support this objective, including the implementation of consistent business processes (supported by the ERP roll-out), investment in new manufacturing equipment and extending the product range covered by our 24, 48 and 72 hour response time objectives.
Optimising business processes	Sales per employee	£79.7k	£74.0k	£84.0k	✓	The process of standardising core business processes continued in the year. Our new ERP system went live at our Halifax and Gronau sites. This was a key enabling factor in the consolidation of the UK Couplings sites at Cardiff and Halifax and the removal of reliance on vendor support at the acquired Gronau site. We have continued to standardise our engineering systems, including PLM, CAD and CAM packages.
Lowering our breakeven point (underlying and pre acquisitions)	Monthly sales breakeven point [2,3]	£13.5m	£12.3m	£12.5m	✗	On an underlying basis, our overheads and monthly sales breakeven point have increased in the year. However, the impact of the volatility in foreign exchange rates in the year had a significant impact. Adjusting for these factors to aid true like-for-like comparability, both overheads and monthly sales breakeven point were largely unchanged in the year. Ongoing efficiency improvements have continued through the year, reducing overheads. These reductions have been offset by increased revenue investment in the commercial teams and product marketing as we put in place the foundations to deliver on the organic growth phase of the Strategic Plan.
	Total overheads [2,3]	£74.2m	£70.1m	£70.6m	✗	
Developing our people						We continue to make strong progress, building the programme which supports the development of our people. A talent review process has been defined and selectively deployed in the year. A second year intake of six new graduates were welcomed on to the Future Leaders Graduate Programme, and we continue to develop our apprenticeship programmes.
Strengthening and de-risking our balance sheet	Cash cost of servicing legacy pensions	£5.3m	£5.3m	£6.0m	✗	Cash costs of servicing legacy pension schemes increased in 2016/17 as the year includes one-off contributions of £0.5m to the UK scheme which relate to the medically insured buy-ins completed in the prior year. A further £0.2m of increase arises from movements in foreign exchange rates, affecting the Sterling cost of overseas schemes. Net debt and leverage reduced significantly in the year as cash was crystallised from the disposal of property assets in France and Australia.
	Average working capital ratio	19.1%	20.3%	22.2%	✗	
	Leverage ratio	0.9x	1.1x	0.8x	✓	
	Net debt	£19.5m	£23.5m	£17.4m	✓	

1 Refer to glossary on page 157 for definitions of KPIs.
2 Presented on an underlying basis.
3 Adjusted to exclude the effect of the Tooth Chain acquisition.

CHIEF EXECUTIVE'S REVIEW

PICTURED: OUR FACILITY IN MALAYSIA HAS BEEN SUCCESSFULLY RELOCATED, MORE THAN QUADRUPLING CAPACITY.

During the year, we took advantage of the opportunity to sell the premises at the Mulgrave site in Melbourne, Australia. The site is too large for our ongoing requirements and the leaseback period of three years provides sufficient time to find alternative premises and to relocate in a controlled manner. Net proceeds of the sale were £9.3m and have reduced net debt at the end of the year to £17.4m (2016: £23.5m).

In Torque Transmission, the UK Couplings manufacturing facilities were consolidated to a single facility in Cardiff. Following a period of investment in the Cardiff infrastructure and the commissioning of new equipment, all manufacturing was moved from the Halifax site during March 2017. This creates a single, focused UK Couplings manufacturing facility where the volume of production justifies investment in efficient manufacturing equipment that would otherwise be underutilised. We also commenced the process of closing our Chinese Couplings manufacturing facility in the year; final closure completed in May 2017. The closure removes a small underinvested manufacturing facility from the Group, but without loss of revenue as the products can now be manufactured in Cardiff and South Africa. This reduces cost and avoids future capital investment.

These changes, which generally completed in the latter part of the financial year, build the platform for more efficient manufacturing and distribution in the future.

Overlaying these infrastructure changes is the programme to optimise business processes. The most significant element is the implementation of the Group's ERP system across all sites. This has been successfully implemented at our Cardiff, Halifax and Gronau sites, and was instrumental in permitting the consolidation of the UK Couplings operations and the removal of reliance on vendor support in the acquired Tooth Chain business. The process of roll-out continues and FY18 will see the roll-out progress to further business units, including the first of the major Chain manufacturing sites.

Phase II – organic growth

Market conditions have limited the amount of organic growth delivered in the period. However, we continue to take action to establish an effective commercial team, introduce product development programmes and support our existing brands and customers through focused marketing. This has included extensive training of our teams, distributors and agents along with building sustainable customer relationships though the new Spain, Thailand and Indonesia offices opened during 2016. We have seen early signs of progress in Europe and are replicating these processes and procedures across North America, China and South-East Asia. As markets recover, we expect to see the benefit of these actions.

During the year, we also commenced a programme to relocate our Chain manufacturing facility in China. This is a significant factory move which will take around 18 months to two years to complete as we are constructing a purpose built facility. This will be the final step in delivering the Strategic Objective of operating all major manufacturing facilities from owned premises, reducing the risk of uncontrolled relocations in the future and providing the basis for long-term investment in core manufacturing locations. When complete, this facility will increase capacity and permit greater levels of manufacturing efficiency. This is critical in targeting growth in the developing domestic Chinese market, where product quality is becoming a more important factor in purchasing decisions, along with supporting growth in the sale of our Chinese-manufactured chain through overseas markets using the Group's extensive geographic reach. The overall programme cost is expected to be £16.0m over eight years, with £6.0m of construction costs deferred for five to eight years, and will be funded from existing Group facilities.

Phase III – acquisitions

The programme to integrate the acquired Tooth Chain business into the wider Renold Group completed in the year. Following the successful roll-out of the Group's ERP system, we were able to remove all dependence from the vendor for back office and systems support. Tooth Chain is now a core part of the Group's product offering and the greater strength in depth of Renold's commercial teams across the world provide the potential for further future growth in this product category. Performance in the period has exceeded original expectations, resulting in the payment of the first element of the deferred consideration in April 2017.

This acquisition was the first step in what we believe will be a programme of value adding acquisitions in the future, targeting opportunities that generate new product or new geographical opportunities, or opportunities to improve manufacturing effectiveness, e.g. through consolidation.

Delivering our Strategic Objectives

We continue to make good progress in improving our health and safety performance. Fewer accidents and a greater focus on identifying and reducing risk in order to avoid accidents is indicative of the progress being made and the behavioural change that we are seeking across the Group's global operations.

Our objective of delivering growth in operating profit margins has been impacted by short-term trading conditions in the year. However, a number of other KPI measures provide evidence that continued progress on restructuring will deliver improvement in operating profit margins when market conditions improve. Average employee numbers during the year have reduced by 2.2%, improving sales per employee to £84.0k (2016: £74.0k; 2016 underlying: £82.7k). This reduction derives from the restructuring activities delivered, combining with a general focus on business efficiency.

The underlying breakeven revenue (adjusted for acquisitions) has remained relatively unchanged in the year at £12.5m per month. This reflects an underlying decrease following the restructuring elements of the Strategic Plan, but offset by additional overheads for marketing, product management and commercial support which have been added to support the organic growth activities.

Developing our people remains a core part of improving the future prospects of the Group and we have made progress across all levels of the businesses. A number of new senior managers have been recruited in the year adding to the wider leadership team, including a Managing Director for the consolidated UK Couplings business, a General Manager for the Chain Europe manufacturing facility in Einbeck, Germany and a Regional MD for our South-East Asian businesses with the objective of increasing our presence in these growing markets. We also continued with our Future Leaders programme, welcoming six new graduates.

Macroeconomic landscape and Brexit

There are a number of well-publicised macroeconomic risks on the horizon. We continue to deliver our strategy, cognisant of the risks, but similarly very aware that the impact of these risks is uncertain and should not delay our progress.

The vote for Brexit had a significant impact on the value of Sterling and the foreign exchange movements have impacted our reported trading position. However, this is largely a presentational issue as our results are reported in Sterling. Our revenue in the UK is limited, representing 8% of the Group's revenue, whilst we retain manufacturing facilities that supply product to our other global operations. These products have become more competitive in overseas markets as a result of the currency movements.

There are certain product categories which we import to the UK, particularly chain manufactured in our European facilities. Whilst this has become more expensive as a result of the foreign exchange movements, the majority of competitor products are sourced from Europe and the Far-East and are exposed to similar inflationary pressure.

Overall, we do not believe that Brexit significantly impacts on our competitive positioning. The major risk factor to the Group from Brexit, other Eurozone and US macroeconomic risks is the impact on the timing of recovery of industrial production in general. We will continue to monitor this and take action as required.

PICTURED: ARCHITECT'S DRAWING OF NEW CHINESE FACILITY.

Outlook

We have delivered a robust performance in challenging markets. The impact of the market headwinds on revenue and operating profit would have been far greater had it not been for the actions delivered to increase operating efficiencies as part of our STEP 2020 strategy.

Markets stabilised during the year and there was a return to revenue growth in the second half of the year along with an increase in order intake.

Although there are some early indications of improvement, macro-economic uncertainty remains and, in turbulent times, our STEP 2020 Strategic Plan remains relevant and critical to the long term delivery of value to all of our stakeholders. Actions already delivered as part of the plan will combine with on-going programmes to further improve the efficiency and effectiveness of our operations. The Group is positioned for organic growth and we continue to believe that mid-teens operating margins, and sustainable gains in adjusted earnings per share, can be delivered when volumes improve through organic growth and acquisitions.

Robert Purcell
Chief Executive
30 May 2017

OUR PERFORMANCE:
Chain

Renold Chain is a global market leading supplier of differentiated and value added chain products for a wide variety of markets and a myriad of end use applications. We create innovative solutions for our customers who need to ensure performance within increasingly challenging working environments. The Renold name is known for industry leading design and specification, high quality and exceptional service and technical support. Reducing overall cost of ownership is important to our customers, with extended product life and reduced maintenance key factors in specifying our products.

Chain performance review

Underlying revenue of £146.1m was £3.1m (2.2%) ahead of the prior year. Underlying external revenues excluding acquisitions were £2.3m (1.6%) behind prior year reflecting a backdrop of difficult macroeconomic conditions in many of the territories in which we operate. However, regional performance was mixed and there were some encouraging performances, particularly in Europe, Australia and India.

Underlying European revenue increased by £8.3m (16.3%) in the period (£2.9m (5.9%) excluding acquisitions) with organic growth delivered in most of our major European markets, in addition to growth from the full year impact of the acquisition of the Tooth Chain business.

Revenue in the Americas finished £4.4m (7.3%) down on an underlying basis, with continued soft demand in the US from major distributors and larger OEM accounts. Disappointingly, this was compounded by production issues during the final quarter of the year as orders started to recover. These issues are short-term in nature and are being resolved. After a slow start, our Canadian business recovered in the second half to deliver underlying year on year growth of 3.4%.

Domestic sales in India and China grew by £0.5m (7.9%) and £0.4m (12.0%) respectively. However, the overall performance of both businesses was depressed by lower demand in export markets. Underlying revenue in Australasia was down by £0.8m (3.9%), primarily due to continued weakness in palm oil markets in South-East Asia, being partially offset by growth in Australia of 4.9% where sales to the mining and agriculture sectors started to recover.

Order intake of £149.2m was up by £11.4m (8.2%) on the previous year. At a regional level, European underlying order intake was up by £10.7m (21.1%) against a decline of £0.5m (0.9%) in the Americas. Order intake in Australasia was down £0.1m (0.4%) but up in India and China by 6.8% and 19.3% respectively. Order intake accelerated in the second half of the year with growth of 11.9% (compared to growth of 4.6% in the first half of the year) as end-user markets started to demonstrate signs of recovery. Orders for the year finished £4.1m (5.7%) ahead of sales.

Contribution margins, the margin after all variable production costs, remained flat. This was achieved despite increases in raw material costs in the second half of the year and reflects the continued focus on cost reductions, improved product quality and enriched business mix.

Overheads increased year on year with the addition of the Tooth Chain business, continued upgrading of talent and investments in marketing and sales development programmes.

Underlying adjusted operating profit finished at £16.6m compared to £17.8m last year. Return on sales of 11.4% (2016: 12.4%) was particularly impacted by the disappointing performance in the US during the year.

Renold Tooth Chain (acquired in January 2016) continues to trade ahead of expectations, delivering underlying organic growth in both orders and sales against the last comparable period under prior ownership. The business has been fully rebranded and customers transferred into the Renold commercial network with no business loss. In December, the final part of the integration process, the transfer onto the new Group ERP system, was successfully completed and Tooth Chain is now well positioned for further development in the global commercial and distribution footprint as part of the Renold Group.

Commercial talent continues to be steadily upgraded in all regions and the team has been further strengthened with senior commercial resource added in the US, Australia, and India. A new Managing Director for the businesses in South-East Asia has also been appointed for the first time, bringing a single point of focus to our activities within that important growth region.

Service improvements remain key

A key element of the growth strategy continues to centre on improvements to our operational effectiveness and customer service. A number of initiatives have been successfully completed during the year which will enable increased production output, shorter lead times, better inventory efficiency and improved levels of customer service.

The largest single investment in new productive capability, the rotary machining centre (£2.5m), was successfully commissioned in February and is already boosting output in the US facility. This machine dramatically reduces production lead times on complex components whilst at the same time improving quality and removing up to ten separate manufacturing operations. Machine investments in other regions were similarly targeted on harnessing the latest technology in order to boost productive capacity and reduce lead times.

During the year, the European distribution centre was relocated from France to be close to the main manufacturing facility in Einbeck, Germany. The prime drivers behind this move were to reduce lead times, improve stock efficiency and enhance

PICTURED: THE TRUMPF LASER CUTTER AT OUR US CHAIN FACILITY CUTS WITH SPEED AND PRECISION. IMAGE COURTESY OF TRUMPF.

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 with the ability to customise or design to suit any application
- → Innovative solution chains for many challenging applications

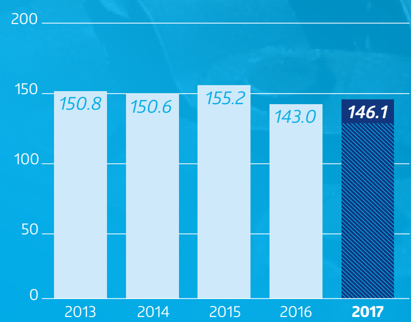
overall customer service. The project was successfully delivered during November and also resulted in reduced headcount and the sale of the previous distribution centre in Seclin, France, resulting in proceeds from the sale of £0.9m.

The Malaysian factory was successfully relocated during December. The new facility will allow up to four times more productive capability whilst enabling inventory management to be improved and response times reduced. It is also an enabler for the introduction of a rapid response cell for customised transmission chains, following a similar addition in China during this year.

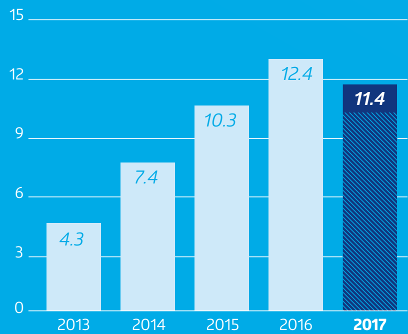
Last year, we highlighted the successful introduction of strategic inventory on core product lines. This has been enhanced and developed during the year, in support of our service commitment for 24, 48 and 72 hour response times on standard and configured chains. Where appropriate, targeted holdings of components have also been introduced in order to facilitate the rapid assembly of product variants within particular chain product families. This has been achieved with a marginal increase in net inventories.

As we head into the new financial year, we have commenced the next significant phase in our manufacturing strategy. Using the end of the building lease of our existing Chinese factory as the trigger point for change, we have commenced a programme to relocate the business to a purpose-built facility near Changzhou in Jiangsu province. This strategy incorporates twin objectives of providing a platform for organic growth in the domestic Chinese market along with developing a leading manufacturing facility which can effectively supply Renold's distribution infrastructure with certain standard product ranges.

UNDERLYING REVENUE
£m



UNDERLYING ADJUSTED OPERATING MARGIN
%



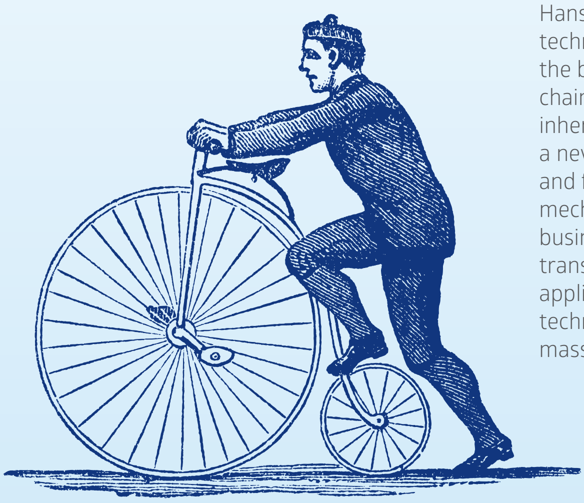
Summary

Market headwinds impacted upon trading performance during the second half of 2015/16 and during 2016/17. However, sustained investment in marketing and the commercial teams has driven organic growth in Europe during the latter part of 2016/17. Growing order intake arising as market conditions improve resulted in strengthened order books at 31 March 2017. This improving economic backdrop, along with the benefits of the self-help actions delivered over the last year, give us reason for optimism in 2017/18. In the longer term, we remain confident that the continued progress of the STEP 2020 Strategic Plan will deliver sustainable improvement in the division's operating margins.

OUR PERFORMANCE:
Chain

RENOLD ENABLES PEAK PERFORMANCE

Renold Synergy chain has long been known for industrial applications, where its ability to outperform its closest competitors has seen it leading the market. What is less well known is that the same cutting-edge chain technology platform on which Synergy was built, has been helping the Great Britain Cycling team to achieve world and Olympic success!



How it all started

Way back in 1880 when the few cyclists on the roads were more than likely riding high on a Penny Farthing, young engineer Hans Renold achieved a significant technical breakthrough when he invented the bush roller chain. This innovative chain technology solved many problems inherent in existing solutions and brought a new level of performance, efficiency and flexibility to the transmission of mechanical power. Renold's fledgling business grew steadily, providing power transmission chains to the industrial applications of the day. What this new technology really needed however, was a mass market application.

Enter John Kemp Starley who in 1885 brought to market his safety bicycle. The 'Rover' bicycle included many ground-breaking features including the use of chain to drive the rear wheel. This synergy of technology and application proved a perfect match and resulted in the rapid growth of both bicycle and roller chain industries.

Pedal forward 130 years and the bicycle has been transformed – stronger, lighter and capable of incredible performance. In the chain world, Renold has built a global business serving a huge array of industries and applications. Following the example of its founder, Renold has dedicated itself to the relentless pursuit of better chain technologies – stronger, highly durable and extremely efficient.

Renold chain technology – a critical link

In 2011, British Cycling were looking for a drive chain that could meet the incredible demands of elite level competition both in the Velodrome and on the BMX track. After some discussion between British Cycling's R&D Team and Renold Engineers it was felt that the requirements could be met using Renold's Synergy chain technology platform. Following a great deal of collaborative work between British Cycling and Renold Chains, along with the University of Bristol, Renold engineers were able to optimise their pre-existing chain design which culminated in the chain that was used to great effect by the Great Britain Track Cycling team in both the London and Rio Olympic Games.

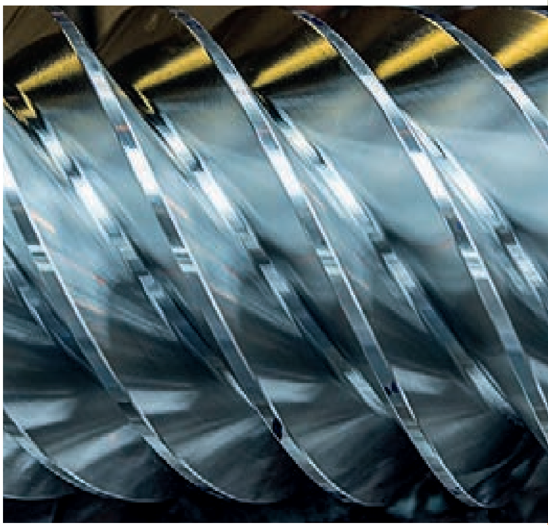
Speaking about the relationship, Matt Taylor – Managing Director of Renold's Chain division said: *"Renold are immensely proud to have played a part in the outstanding success of British Cycling and the Great Britain Cycling Team."*

Likewise, Tony Purnell from British Cycling's R&D Team said that: "A*s part of British Cycling's no stone unturned philosophy it was obvious that chain design was an area of interest and we have been impressed by the undoubted expertise and obvious willingness of Renold to work with us on this project.*"

KNOWLEDGE SKILLS & FACILITIES SERVICE LOGISTICS

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 Transmission performance

Underlying external revenue of £37.3m was £4.4m (10.6%) below the prior year primarily reflecting the annualised effect of the market headwinds that were initially experienced during the second half of 2015/16. These headwinds were reduced demand, particularly in the Americas region, in the oil and gas, raw material extraction and steel industries. This annualising effect impacted upon the first half of 2016/17 and saw revenues decline by 22.6% when compared with the same period in the prior year. During the second half of the year, underlying external revenue of £19.5m was £0.8m (4.3%) ahead of the prior year, benefiting from large orders for escalator drives in the London and New York undergrounds.

Underlying order intake was £3.0m (7.4%) below the prior year. Order intake was 9.6% ahead of revenue in the first half of 2016/17. Due to the longer lead times in the Torque Transmission division, these orders during the first half of the year delivered revenue growth during the second half of the year. Order intake for the second half of the year was 7.7% below revenue for the same period.

Contribution margins, the margin after all variable production costs, improved by 3 percentage points during the year with exchange rate movements benefiting margins for UK manufactured products, although this was largely offset by direct labour costs not reducing in line with the revenue.

Underlying net overheads in the division decreased. The savings arising from the self-help measures implemented have been reinvested in commercial activities including expansion of the sales force in order to target non-traditional end-user sectors.

Underlying adjusted operating profit finished at £3.9m, a decrease of £1.3m from the prior year, with a decrease of £2.8m for the first half of the year, offset by a recovery of £1.5m for the second half of the year. The division's Return on Sales fell from 12.5% to 10.5%, largely reflecting the revenue decline in the period. As with revenue and adjusted operating profit, the performance in the second half of the year improved when compared to the first. Return on Sales for the first half of 2016/17 was 6.7%, increasing to 13.8% for the second half.

Strategic actions

When the STEP 2020 Strategic Plan was originally implemented, the initial actions focused on the Chain division as this was significantly underperforming. At the time, the Torque Transmission division delivered strong margins. However, the decline in revenue experienced during 2015/16 and 2016/17 impacted significantly upon profitability, as the protective actions were not sufficiently developed to mitigate the margin impact.

Following the CEO taking direct day-to-day responsibility for the division, acting as Divisional Managing Director, greater focus has been given to the elements of the STEP 2020 Strategic Plan which impact on the Torque Transmission division, and a number of actions were delivered during the year.

As part of Phase I – Restructuring, the coupling manufacturing locations in the UK, Halifax and Cardiff, were consolidated into the Cardiff facility. This process completed in April 2017, but was the culmination of a number of project streams that upgraded the ERP systems of the businesses to the same platform, invested in capital equipment to increase capacity and trained the teams to ensure manufacturing 'know-how' was transferred. The one-off cost of the transfer was £2.9m (see Note 2(c)) and benefits are expected to be realised during the next financial year.

PICTURED: AN OPERATOR AT OUR COUPLINGS FACILITY IN CARDIFF CHANGING TOOLS ON THE MACHINING CENTRE.

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

In addition to the consolidation of the UK Coupling locations, the manufacture of couplings in Beicai, China, was transferred to Cardiff and South Africa, with this project completing in May 2017. Again, the one-off costs of transfer were incurred in 2016/17 (see Note 2(c)) with the benefits expected to be realised in 2017/18.

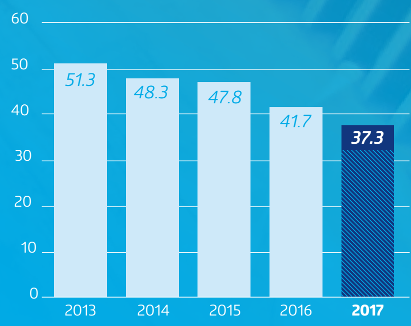
As part of Phase II – Organic Growth, the division has re-established its focus on new product development, product marketing and commercial capability. This, along with a reinvigorated focus on customer service is expected to deliver growth, particularly in non-traditional sectors.

Summary

The division has a strong portfolio of niche products and a reputation in the market for product performance and quality. Market conditions have stabilised during the year, and whilst we are not yet seeing demand recover to historical levels, the self-help actions delivered during the year are capable of improving the performance of the division in the absence of market recovery. As market conditions improve over the medium term, the division will be better placed to maximise returns.

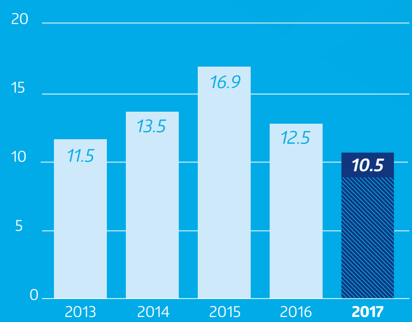
UNDERLYING REVENUE

£m



UNDERLYING ADJUSTED OPERATING MARGIN

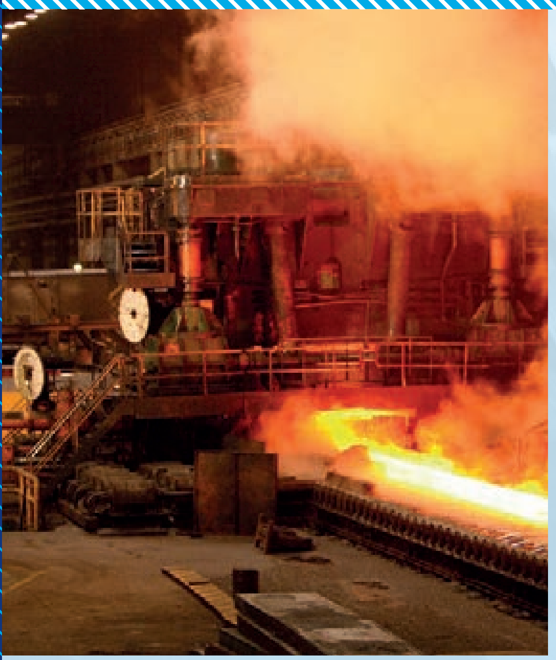
%



PICTURED: THE NEW MACHINING CENTRE IN USE AT OUR COUPLINGS FACILITY IN CARDIFF.

OUR PERFORMANCE:
Torque Transmission

Renold Gears has supplied one of the largest worm gear sets in the Company's history to a leading manufacturer of steel plate.



Giant screw-down worm gears were designed and manufactured for a leading manufacturer of steel plate to drive two large rollers for rolling steel slabs to the required plate thickness on a quarto reversing mill. The steel slabs could initially be up to 300mm thick and are rolled precisely to reduce thickness and produce steel plate to customers' exact specifications. During the rolling process the worm gears auto adjust by sliding on a special spline incorporated in the worm-wheel hub.

The giant screw-down worm gears have a centre distance of over 32 inches and a ratio of 36:1. The worm shaft is nearly two metres long and together with the wheel they weigh in at a colossal 4,850 kilograms, or nearly five tonnes, the approximate weight of three average sized family cars!

The original manufacturer of the mill press was no longer in business and the steel company was finding it impossible to obtain spares. A breakdown would have halted production and so Renold Gears was approached because of its unique ability to manufacture large worm gear sets of this size and specification. As only minimal technical drawings were available of the mill, it was necessary to reverse engineer the old worm gears to accurately and precisely reproduce the original design specifications.

The steel company is a leading supplier of steel plate and produces around 200,000 tonnes annually for a wide range of uses including buildings, bridges, yellow goods, industrial machinery, wind turbines and general construction.

KNOWLEDGE | SKILLS & FACILITIES | SERVICE | LOGISTICS

RENOLD COUPLINGS' PROJECT WINS

Renold Hi-Tec Supplies 4 DCB-GS Couplings to Wärtsilä

Renold Hi-Tec will supply 4 DCB-GS 658.5 couplings to Wärtsilä to be used by Geita Gold Mining Limited in Tanzania.

Each coupling transmits 10MW at 750rpm between a Wärtsilä 20V32TS duel fuel diesel engine and an alternator which is producing power to the gold mine.

The power plant will provide a reliable electricity supply to the Geita gold mine, located in the Lake Victoria goldfields of the Mwanza region in north-western Tanzania. Being off-grid means that the mine needs to secure its own power supply. Since the mine needs to remain operational at all times, the reliability, high efficiency, and quality of the Renold solution were key factors in the award of the contract.

KNOWLEDGE SKILLS & FACILITIES SERVICE LOGISTICS

FINANCE DIRECTOR'S REVIEW

IAN SCAPENS
FINANCE DIRECTOR

"We have taken a cautious approach to managing the business in the current volatile market conditions. Whilst operating margins have reduced in the year, this is largely due to market conditions. The self help actions delivered in the year provide the basis for a stronger recovery when market conditions improve."

Overview

Challenging market conditions, first experienced in the second half of the prior year, continued into the year under review, resulting in reduced revenue and profit in the first half. Relative performance improved through the year as trading in Torque Transmission stabilised and organic growth in Chain Europe was delivered. This helped to recover some of the declines from the first half.

Positive indications from order intake during the latter part of the year suggest some early signs of improving end-customer markets as we move into the new financial period.

Orders and revenue

	2017			2016		
Reconciliation to reported results	Order intake £m	Revenue £m	Operating profit £m	Order intake £m	Revenue £m	Operating profit £m
As reported	186.8	183.4	11.0	159.7	165.2	11.1
Impact of foreign exchange	–	–	–	18.8	19.5	2.6
Pension administration costs	–	–	0.7	–	–	0.7
Exceptional items	–	–	1.7	–	–	2.2
Amortisation of acquired intangible assets	–	–	1.1	–	–	0.2
Underlying adjusted	186.8	183.4	14.5	178.5	184.7	16.8

Order intake in the Chain division was higher than revenue with the underlying ratio of orders to revenue (book to bill) being 102.2% in the year (2016: 96.4%). All Chain regions had book to bill ratios greater than 100% for the year. Underlying order intake demonstrated good progress in the year with growth in the second half of 11.9% over the second half of the prior year. This compared to growth of 4.6% for the first half, and together resulted in growth for the full year of 8.2%.

In Torque Transmission, the weaker demand from commodity related and capital goods markets experienced in the second half of the prior year continued into the first half of the current year. Underlying order intake in the first half of the year declined by 13.4% when compared to the same period in the prior year. Whilst underlying order intake in the second half of the year grew by 0.2%, this is growth over the weaker second half of the previous year. The book to bill ratio for the division was 100.8% (2016: 97.4%).

Group revenue for the year increased by £18.2m (11.0%) to £183.4m, benefiting from foreign exchange tailwinds and continued strong performance of the Tooth Chain business acquired in December 2015.

Underlying revenue for the year was broadly unchanged with the small decline of £1.3m representing a 0.7% reduction. This includes the full-year benefit of the Tooth Chain acquisition. Excluding the effect of this acquisition, underlying revenue declined by £6.7m (3.6%). The reduction in underlying revenue was concentrated in the first half of the year with a year-on-year decline of 4.0%, reflecting a continuation of the weak

end-customer markets experienced in the second half of the prior year. The Group returned to growth for the second half of the year with revenue 2.8% ahead.

On a divisional basis, the Chain division saw underlying revenue increase by 2.1% with Torque Transmission weaker, 10.5% down.

Operating profit

The Group generated £7.0m of adjusted operating profit in the first half (2016: £7.9m), £7.5m in the second half (2016: £6.3m) and a full year result of £14.5m (2016: £14.2m).

At the half-year, we reported underlying adjusted operating profit down by £2.0m, which increased to £2.1m incorporating the mix effect of changing foreign exchange rates to March 2017. This shortfall significantly reduced during the second half of the year with underlying adjusted operating profit down by £0.2m, resulting in a full year shortfall of £2.3m.

Underlying adjusted operating margins fell during the year to 7.9% (2016: 9.1%). The Tooth Chain acquisition generated underlying revenue growth of £5.4m, delivering an incremental underlying adjusted operating profit of £1.6m. Excluding the impact of the acquisition, underlying revenue declined by £6.7m with a corresponding reduction in underlying adjusted operating profit of £3.3m. The combined effect of these elements is a small reduction to revenue with a reduction to the operating margin delivered in the year.

Although not readily transparent from the consolidated Group results, we continue to remain focused on improving the overhead efficiency of the Group. The monthly breakeven revenue has increased to £12.8m (2016: £11.3m; £12.4m on an underlying basis). The Tooth Chain acquisition introduces a monthly revenue requirement of £0.3m to breakeven. On an underlying basis, excluding the acquisition, the monthly breakeven revenue has increased by £0.2m (1.6%). This reflects the fact that we are spending more on marketing and commercial headcount in order to support the organic growth phase of the STEP 2020 Strategic Plan.

Foreign exchange rates

Foreign exchange rates have been extremely volatile during the year, reflecting the decline in the value of Sterling following the UK's Brexit vote in June 2016. The value of Sterling fell significantly in June, with an impact on the weighted average exchange rates used to convert the Group's results to Sterling in the first half. This fall was largely sustained throughout the second half of the year, compounding the impact on the weighted average rates.

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

FX Rates (% of Group sales)	Mar 16 FX rate	Sep 16 FX rate	Sep 16 Var %	Mar 17 FX rate	Mar 17 Var %
£GBP / Euro (30%)	1.26	1.16	(8%)	1.17	(7%)
£GBP / US$ (33%)	1.44	1.30	(10%)	1.25	(13%)
£GBP / C$ (4%)	1.86	1.70	(9%)	1.67	(10%)
£GBP / A$ (5%)	1.87	1.69	(10%)	1.64	(12%)

If the year end exchange rates had applied throughout the year, there would be an estimated increase of £5.6m to revenue and £0.4m to operating profit.

FINANCE DIRECTOR'S REVIEW

Exceptional items

Net exceptional charges of £1.7m were £0.5m lower than the prior year figure. Gross charges of £4.6m (2016: £3.4m) related to various restructuring and redundancy costs incurred as part of STEP 2020 (£4.3m) or costs of integrating the Tooth Chain acquisition (£0.3m). The more significant restructuring and redundancy costs were incurred in consolidating the UK Couplings manufacturing to Cardiff, relocating the European distribution facility to Uslar, Germany, and commencing the programme to relocate our Chain China manufacturing facility to a new purpose built facility.

Offsetting these gross exceptional costs is a net gain of £2.9m made on the sale and short-term leaseback of the Mulgrave manufacturing facility in Australia. For more details please see Note 2(c).

Other adjusting items

Other adjusting items include legacy pension scheme administration costs of £0.7m (2016: £0.7m) and amortisation of acquired intangible assets of £1.1m (2016: £0.2m).

Financing costs

External net interest costs in the year were £1.7m (2016: £1.5m). The annual charge includes £0.2m (2016: £0.2m charge) in respect of amortisation of the residual refinancing costs paid in 2012 and 2015. Financing costs also include £0.1m of unwinding discounts on onerous lease provisions established for the Bredbury factory site.

Certain elements of the Group's debt facilities are drawn in non-sterling currencies and the foreign exchange factors which impact upon revenue and operating profit also impact upon financing costs. The movement in foreign exchange rates in the year have the effect of increasing the external net interest cost by £0.1m in the year.

The net IAS 19 finance charge (which is a non-cash item) is £2.5m (2016: £2.0m). In the current year, the actual return on assets was £11.3m higher than the return used in the interest calculation as specified in IAS 19 due primarily to stronger equity markets and the offsetting impact of higher corporate bond yields on the value of corporate bond portfolios. The difference appears as a remeasurement gain in the asset section of Note 18.

Result before tax

Profit before tax was £6.7m (2016: £7.4m). Adjusted profit before tax, which excludes exceptional items, IAS 19 financing costs, amortisation of acquired intangible assets and legacy pension scheme costs, was £12.8m (2016: £12.7m).

Taxation

The current year tax charge of £1.9m (2016: charge of £2.0m) is made up of a current tax charge of £2.9m (2016: charge of £1.5m) and a deferred tax credit of £1.0m (2016: charge of £0.5m). The Group cash tax paid was much lower at £1.0m (2016: £1.0m). The difference between tax charges and cash tax paid is due to the utilisation of tax losses and other tax assets in various parts of the Group. The last of our historical tax losses in Germany were utilised in the year. The effect of this will be to increase tax payments in future years in this profitable territory, with a double impact in the year ended 31 March 2018 as payments on account become more significant.

Group results for the financial period

Profit for the financial year ended 31 March 2017 was £4.8m (2016: £5.4m). The basic and diluted adjusted earnings per share were both 4.6p (2016: earnings of 4.7p and 4.6p respectively).

Balance sheet

Net assets at 31 March 2017 were £7.8m (2016: £10.5m). The fall was driven by the increase in the net pension deficit as lower discount rates and increasing inflation rates result in increased liabilities. This has only been partially offset by outperformance of asset returns in the period.

The net liability for pension benefit obligations was £84.8m (2016: £68.1m) after allowing for a net deferred tax asset of £17.2m (2016: £14.8m). Overseas schemes now account for £25.0m (29.0%) of the post tax pension deficits and £26.2m of this is in respect of the German scheme which is not required to be prefunded.

Cash flow and borrowings

Cash generated from operations was £7.4m (2016: £10.8m). Gross capital expenditure was up in the year at £9.6m (2016: £9.5m). This investment was partially funded through the disposal proceeds from the sale of properties in the year of £10.2m (2016: £nil).

Capital expenditure in the new financial year is expected to exceed £13.0m. A number of major projects totalling approximately £7.8m are already committed as at the date of this report including £6.0m for the relocation of our Chinese Chain manufacturing facility 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 20.3% to 22.2% which was also adversely impacted by the slow down in demand. The absolute level of working capital was £3.4m higher than in the prior year.

Group net borrowings at 31 March 2017 of £17.4m were £6.1m lower than the opening position of £23.5m comprising cash and cash equivalents of £16.4m (2016: £13.5m) and borrowings of £33.8m (2016: £37.0m). The decrease in net debt is almost wholly explained by the proceeds received for the sale of properties in the year.

Debt facility and capital structure

The Group's core banking facilities are unchanged in the year and remain a committed £41.0m Multi-Currency Revolving Credit Facility (MCRF), with a £20.0m accordion. The facility matures in May 2020.

The Group continues to operate comfortably within covenant limits. The Net Debt/Adjusted EBITDA ratio as at 31 March 2017 is 0.82 times (covenant requirement: 2.5 times; 2016: 1.1 times), based on the reported figures for the period as adjusted for the banking agreement. The Adjusted EBITDA/interest cover as at 31 March 2017 is 12.1 times (covenant requirement: 4.0 times; 2016: 13.6 times), again on a banking basis.

At 31 March 2017, the Group had unused credit facilities totalling £5.3m and cash balances of £16.4m. Total Group credit facilities amounted to £43.3m, all of which were committed.

Treasury and financial instruments

The Group's treasury policy, approved by the Board, 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.

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 2017 this hedge was fully effective. The carrying value of these borrowings at 31 March 2017 was £6.9m (2016: £6.1m).

At 31 March 2017, the Group had 1% (2016: 1%) 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.

FINANCE DIRECTOR'S REVIEW

Pension assets and liabilities

The Group has a mix of UK (83% of gross liabilities) and overseas (17%) defined benefit pension obligations as shown below.

	2017			2016		
	Assets £m	**Liabilities £m**	**Deficit £m**	Assets £m	Liabilities £m	Deficit £m
Defined benefit schemes						
UK funded	146.4	(218.4)	(72.0)	137.7	(191.3)	(53.6)
Overseas funded	14.2	(18.0)	(3.8)	11.4	(16.2)	(4.8)
Overseas unfunded	–	(26.2)	(26.2)	–	(24.5)	(24.5)
	160.6	(262.6)	(102.0)	149.1	(232.0)	(82.9)
Deferred tax asset			17.2			14.8
Net deficit			(84.8)			(68.1)

The Group's retirement benefit obligations increased from £82.9m (£68.1m net of deferred tax) at 31 March 2016 to £102.0m (£84.8m net of deferred tax) at 31 March 2017. The largest element of the increase relates to the UK scheme where the deficit increased from £53.6m to £72.0m. The increase in the deficit of the overseas schemes of £0.7m arises from an underlying reduction in the deficit of £1.9m, offset by a £2.6m increase arising from foreign exchange movements in the year.

→ UK funded scheme

The major reason for the increase in the deficit of the UK funded scheme is the impact of the actuarial assumptions on the value of liabilities. Reductions to discount rates have combined with increasing inflation assumptions to increase the value of liabilities by £35.8m. However, this increase was offset by experience gains (the difference between assumptions previously made and experience of real events) and asset returns delivered above assumed levels, which together generated gains of £15.3m to offset the deficit increase.

→ Overseas funded schemes

The overseas funded schemes comprise a number of smaller schemes around the world. Deficits on these schemes reduced in the year by £1.0m, despite a £0.7m increase in net liability due to the movement in foreign exchange rates. Experience gains, asset outperformance and contributions to the schemes combined to reduce the underlying deficits in aggregate by £1.7m.

→ Overseas unfunded schemes

This category largely relates to the unfunded German schemes. The deficit increased in the year as foreign exchange movements increased the liability by £1.9m. The underlying deficit reduced by £0.2m as increases arising from actuarial assumptions were offset by payments of benefits in the year.

The aggregate expense of administering the pension schemes was £0.7m (2016: £0.7m) and is included in operating costs but is excluded in arriving at adjusted operating profit.

The latest triennial actuarial valuation of the UK Scheme, with an effective date of 5 April 2016, was recently agreed. This process concluded that contributions to the UK Scheme should continue unchanged and no additional contributions in excess of the previously agreed asset backed funding structure were deemed necessary. The next triennial valuation date will be 5 April 2019. The detailed structure and mechanics of the merger and underpinning asset backed funding structure are set out in Note 18 to the accounts.

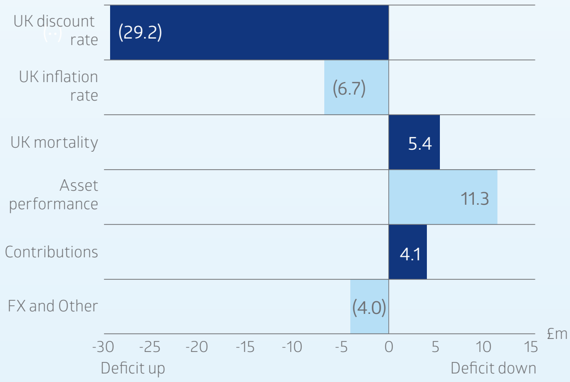
Total cash costs for UK deficit repair payments and UK administrative expenses in the period were £3.9m (2016: £3.4m) which includes £0.7m (2016: £0.7m) in administration costs. The increase in UK deficit repair payments in the year of £0.5m reflects a one-off additional contribution as part of the medically underwritten buy-ins which completed in the prior year.

Total cash costs for the overseas pension schemes increased in the period to £2.1m (2016: £1.9m) as a result of foreign exchange differences.

Ian Scapens
Finance Director

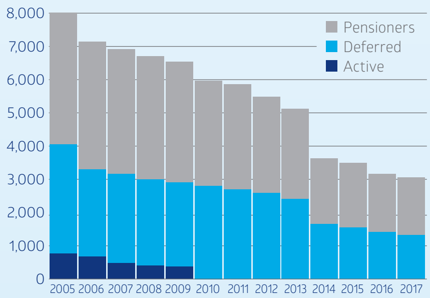
Pension Insights

DRIVERS OF PENSION DEFICIT MOVEMENT



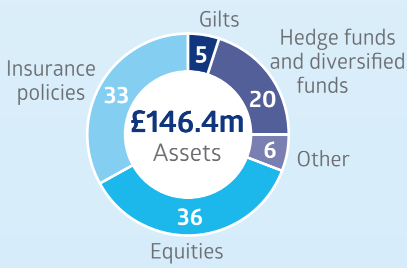
- The net pension deficit increased by 23% in the year to £102.0m.
- Liability assumptions for discount rates and inflation in the UK scheme were the largest cause of deficit increase combining to increase the UK liabilities by £35.9m.
- UK discount rates fell sharply in the early part of the year resulting in a significant increase in the UK deficit at 30 September 2016.
- UK discount rates increased in the second half of the year, but the expected reduction in liabilities did not crystalise as increases in UK inflation rates had an offsetting effect.
- UK asset performance was strong in the year, reducing the deficit by £10.7m with a further £0.6m delivered on overseas schemes.
- The movement in the deficit arising on overseas schemes was small as a reduction in the deficit was largely offset by foreign exchange movements.

TRENDS IN UK SCHEME MEMBERSHIP %



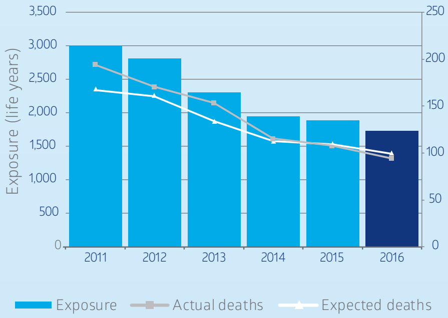
- The bar chart shows the evolution of the total membership of the UK scheme over the last six years and the numbers in each category.
- Total membership has fallen by 49% or 2,907 since 2010 or 63% since 2005.
- The step change in 2014 followed the merger of the three UK schemes when 1,316 members had their benefits paid out in full in wind up lump sums.
- A small pots exercise completed in 2016 and 207 members had their benefits paid out in full.
- Of the remaining 3,056 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 underwritten insured buy-ins, 58% of assets are 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 gain of £15.3m (or 11.1% gain).
- 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 actual mortality in the UK scheme based on the assumptions underlying the March 2017 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 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 deaths have been higher than expected levels. If mortality continues at a higher rate than assumed, all else being equal, the level of future pension payments would fall.

OUR RISKS

Proactive risk management is a key business process at Renold and is used to help management create and protect value. In the current uncertain markets its relevance to safeguarding shareholder value is even more critical.

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 (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'.

RISK MANAGEMENT FRAMEWORK

As described in the chart below, we consider risk across the organisation, blending a holistic top down view with site, functional and project specific assessments.

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 management's responsiveness to actions designed to treat excessive risk.

AUDIT COMMITTEE

- Supports the Board, reviewing the end to end risk management process.
- Particular emphasis is placed upon monitoring the implementation of risk mitigation actions.

EXECUTIVE RISK MANAGEMENT AND MONITORING COMMITTEE

- Oversight of risk registers and their maintenance.
- Challenge and review of completed actions.
- Review and critique of risk profiles presented by senior business leaders and challenge of risk mitigation plans.
- Shares best practice risks and solutions across the Group.

GROUP RISK FUNCTION

- Facilitates the maintenance of risk registers and action plans.
- Reviews status of risk management actions.

BUSINESS UNITS

- Maintains local risk registers and action plans.
- Ongoing action management and tracking.
- Embedding Group culture and risk appetite at a local level.

Our risk management process:

The Executive Risk Management and Monitoring Committee

The Group Audit Committee 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 sub-committee 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. Senior members of the business attend by invitation and are required to present risk profiles for their functional areas and the aligned action plans to manage or mitigate risk. The Group Business Systems Director, the Group HR Director, the Group Head of Risk and Assurance and the Group Legal Manager and Company Secretary also attend each meeting.

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 e.g. there is focus on the Group's response and management of important health and safety related events. The ERMMC is also provided with information in the form of reports on health and safety, treasury, insurance, material litigation and whistle blowing.

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

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.

Risks are assessed against the framework defined in the Group Risk Management Policy. Our risk assessment model considers:

- The probability of a risk crystallising.
- The potential impact if the risk crystallised – impact definitions cover a range of criteria including direct financial impact, reputational impact, people impact, e.g. in the event of an accident, regulatory censure and adverse movement of the share price.

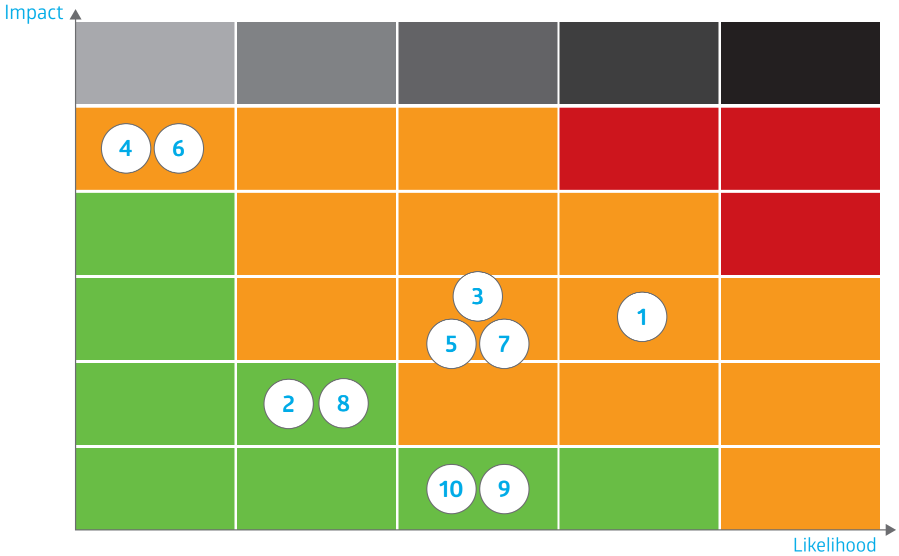
These are scored and then placed on the risk heat map above, which is a matrix of probability and impact and shows our principal risks and uncertainties. Our model also considers each risk from two different perspectives:

- 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).

This allows us to assess the positive impact of control on the underlying inherent risk.

The Group has deployed an online Integrated Risk Management System (IRMS) across all locations. This is used to capture risk profiles and actions under management. Action plans are maintained across the Group, with all system updates subject to review by the Group Head of Risk.

Risk heat map as at 31 March 2017



Key: 1 – 10 Residual risk after mitigation

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: out of appetite. Some actions are required to treat the risk to bring this within acceptable levels.
- Red: significantly out of appetite. High combination of residual probability and impact. Management actions required, with some urgency, to treat the risk, reducing this to acceptable levels.
- Grey/black: 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.

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. Risk reports for the various Executive committees derive data from the IRMS.

Key: Risk heat map

1. Macro-Economic and Political Volatility
2. Strategy Execution
3. Acquisitions Risk
4. Health and Safety in the Workplace
5. Effective Deployment and Utilisation of Information Technology Systems
6. Prolonged Loss of a Manufacturing Site
7. People and Change
8. Liquidity, Foreign Exchange and Banking Arrangements
9. Pensions Deficit Volatility
10. Regulatory and Legal Compliance

PRINCIPAL RISKS AND UNCERTAINTIES

The Board continues to carry out a robust assessment of the principal risks facing the business. 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 42 to 46 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 are continually monitored. The Board has critically reassessed the risks we face in light of the Group's progress on its STEP 2020 Strategic Plan coupled with the volatility in our end markets.

We indicate whether or not we consider the probability or impact of the risks materialising are increasing, decreasing or unchanged 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.

1 Macroeconomic and Political Volatility

2017 TREND
2016 TREND

Detailed risk

- Material changes in prevailing macroeconomic or political conditions could have a detrimental impact on business performance. We operate in 19 countries and sell to customers in over 100 and therefore we are necessarily exposed to economic and political risks in these territories.

LINK TO STRATEGIC OBJECTIVES

2 7

Potential impact

Potential touchpoints include:

- Commodity prices which have a negative impact on demand in the whole supply chain.
- Foreign exchange volatility can 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 performance and confidence.

Existing mitigation controls

- Our diversified geographic footprint inherently exposes us to more countries where risks arise but conversely provides some degree of resilience.
- Actions to lower the Group's overall breakeven point also serve to reduce the impact of any global economic slowdown.
- A focus on 'predict and respond', e.g. 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.

2 Strategy Execution

2017 TREND
2016 TREND

Detailed risk

The Group's strategy requires the co-ordinated delivery of a number of complex projects e.g. during the year we have rationalised certain production facilities.

LINK TO STRATEGIC OBJECTIVES

2 3 4 5 6 7

Potential impact

Whilst these projects are designed to deliver targeted benefits, if not appropriately managed, they have the potential to negatively impact the Group's operations.

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/Business Development

2017 TREND
2016 TREND

Detailed risk
Part of the Group's strategy is to grow through selective acquisitions. Performance of acquired businesses may not reach expectations, impacting Group profitability and cash flows.

LINK TO STRATEGIC OBJECTIVES

2 5 7

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

During the Acquisitions 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 to address risks specific to each acquisition.
- Formation of top-down cross functional business integration project teams and plans. These specifically address any issues or risks identified during the Acquisitions phase.
- Deployment of detailed benefits realisation plans.

4 Health and Safety in the Workplace

2017 TREND
2016 TREND

Detailed risk
The risk of death or serious injury to employees or third parties associated with Renold's worldwide operations.

We are proud of the progress we have made in recent years, but recognise that we have more to do.

LINK TO STRATEGIC OBJECTIVES

1

Potential impact
Accidents caused by a lack of robust safety procedures could result in life changing impacts for employees, visitors or contractors. This will always be 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, leading to reputational damage.

Existing mitigation controls
- Group policies and a Groupwide management system known as the Framework, to set control expectations, with a support training programme for all managers.
- The Group operates a rolling programme of Internal Audits to assess compliance against the Framework.
- Continual hazard assessments to ensure awareness of risks.
- Live tracking of accident rates and root cause analysis via the IRMS plus monthly Board reporting focused on a range of KPIs.
- Specific initiatives include the BAT safety logo and the Annual Health and Safety Awards Scheme to recognise success.

Trend Direction

High impact | Medium impact | Low impact

Trend Direction

Increasing | Unchanged | Decreasing

PRINCIPAL RISKS AND UNCERTAINTIES

5 Effective Deployment and Utilisation of Information Technology Systems

Detailed risk

We seek to leverage the use of IT to achieve competitive advantage. The Group continues to implement a global ERP system to replace numerous legacy systems which inherently brings with it the risks associated with a large scale change programme.

LINK TO STRATEGIC OBJECTIVES

3 4 5

Potential impact

Interruption or failure of IT systems (including the impact of a cyber attack) 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.

It is essential that we are able to rely on the data derived from our business system to feed routine but fundamental business performance monitoring.

An unsuccessful implementation of the global ERP system has the potential to materially impact that site's and possibly the Group's performance.

The risk is assessed as stable as we have already successfully implemented the ERP at two locations.

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 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.
- A range of preventative and detective controls to manage the risk of a cyber attack.

6 Prolonged Loss of a Manufacturing Site

Detailed risk

A catastrophic loss of the use of all or a significant portion of a strategic production facility. This could result from an accident, a strike by employees, fire, severe weather or other cause outside of management control.

LINK TO STRATEGIC OBJECTIVES

5 7

Potential impact

In the short or long-term, a related risk event 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 could result in loss of revenue. 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.
- A Group Fire Safety Policy, mandating preventive, detective and containment controls.
- Alternate manufacturing capacity exists for a substantial portion of the Group's product range.
- Core sites are required to 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

2017 TREND
2016 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.

Succession planning and the ability to swiftly replace staff retiring or leaving is also critical.

LINK TO STRATEGIC OBJECTIVES

1 4 6

Potential impact
Failure to retain, attract or motivate the required calibre of employees will negatively impact business performance. The delivery of the STEP 2020 Strategic Plan 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.
- Performance management introduced and training programmes, both being extended in the new financial year. 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, launched in 2015, continue to be embedded.

8 Liquidity, Foreign Exchange and Banking Arrangements

2017 TREND
2016 TREND

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.

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.
- In an extreme situation, the Group's ability to operate as a Going Concern could also be jeopardised.

Existing mitigation controls
- The Group's primary banking facility expires in 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.

Trend Direction

High impact | Medium impact | Low impact

Trend Direction

Increasing | Unchanged | Decreasing

PRINCIPAL RISKS AND UNCERTAINTIES

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.

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.
- 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.

Viability Statement

The 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 three year period to March 2020. The Group's core financing facility expires in May 2020 but, following normal market practice, is likely to be renegotiated at least 12 months earlier. The Board determined that the period to March 2020 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. The Board is not aware of any reason why the Group would not be able to refinance its core financing facility prior to expiry 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 66 to 68 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 the STEP 2020 Strategic Plan 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 refinance the Group in 2019.
- Macroeconomic and political volatility: uncertainty driven by global events is undoubtedly suppressing demand. These events range from Brexit, pressure on the stability of the Eurozone and volatility in the US. 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, e.g. 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 III of the STEP 2020 Strategic Plan. 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 2017 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.

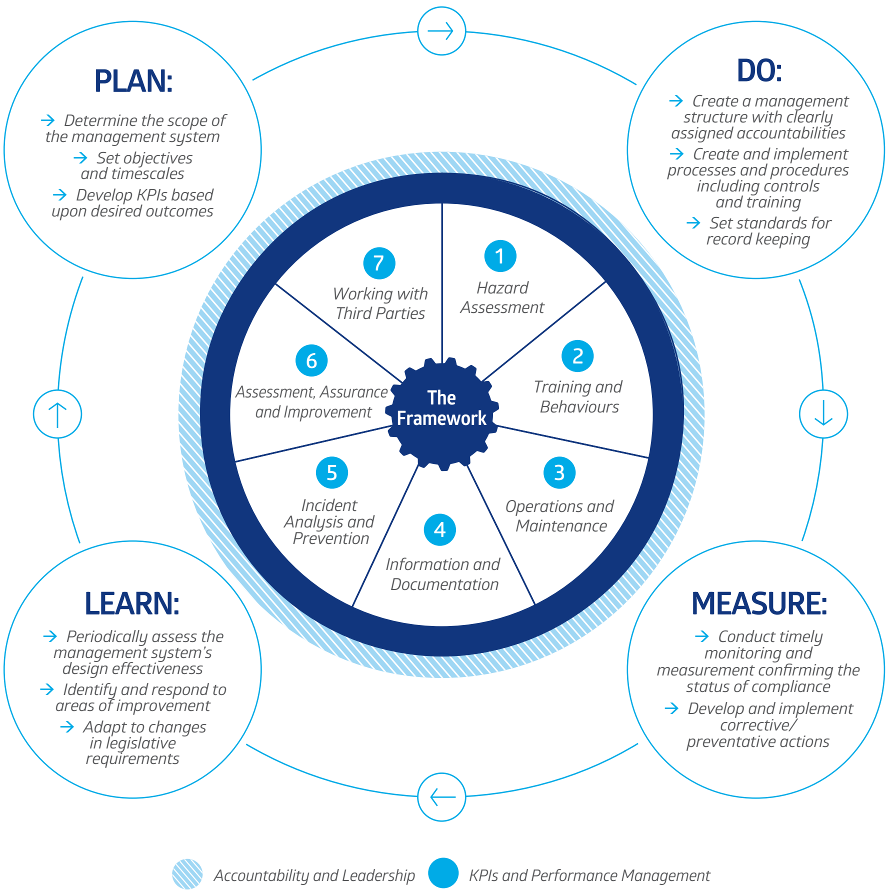
The Group maintains a conservative approach to borrowing and while our banking covenants have leverage limits of 2.5x Adjusted EBITDA, the Board makes a point of seeking always to operate within an internally imposed 2.0x leverage limit which ensures there is access to a short-term borrowing buffer to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

HEALTH AND SAFETY

A safe business provides the foundations for a profitable business. Our health and safety KPIs show considerable improvement and are the result of the considerable focus in this area in recent years. That focus will continue as we strive for further improvement.



Key Strategic Objective

Renold's locations across the world operate against a simple philosophy expressed in the Group Health and Safety Management Framework (the Framework) by our Group Chief Executive: "Everyone who works at Renold should expect to return home at night in the same fit and healthy state in which they came to work. Very simply, safety is our top priority."

Significantly improving our health and safety performance remains Renold's number one Strategic Objective. Health and safety features prominently in our assessment of Principal Risks and Uncertainties.

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 Framework which defines the Board's expectations regarding health and safety control and performance. Management across all 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 recognised standards, including the internationally adopted model of Plan-Do-Measure-Learn and OHSAS 18001, with accredited certification held by all of our major production facilities.

The Framework consists of seven core components, which include setting a supportive leadership tone, with sub-processes, covering e.g. hazard assessment, incident management and the management of third parties.

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 to inform monthly Board reporting and site reviews are derived from the system.

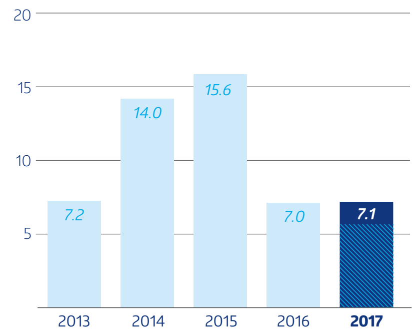
An independent programme of audits is in place, which requires all material sites to be audited within a 12 month period. This assesses compliance and performance against the Framework. Each audit typically takes a week to perform, to allow a robust assessment of compliance against the Framework. The 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

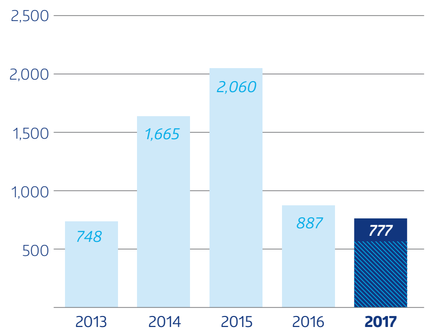
The following examples of health and safety initiatives and specific site improvements are indicative of the broad range of positive changes which continue to be made:

- Renold's Health and Safety Awards scheme is now an important part of the calendar for all sites.
- The BAT logo (shown on page 49) continues to be used by all sites to reinforce the message: Be safe; Act safe; Think safe.
- Personal protective equipment requirements are regularly reviewed and we have ensured that clear communication of standards is observed.

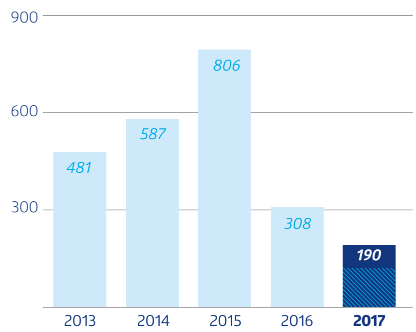
LOST TIME ACCIDENT FREQUENCY RATES[1]



TREND OF REPORTABLE INJURY RATES[2]



LOST TIME DAYS



1 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 Trend of reportable injury rates = (no. of accidents greater than three lost days divided by average number of employees in the 12 month period) x 100,000. Note that whilst accidents greater than seven days are reportable events in the UK, Renold monitors both three and seven lost day categories.

- 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 fitted to 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 Board 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 2017. Some key highlights during the year include:

- A year on year reduction of 13% in our reportable accident rate (greater than three lost days).
- Continuation of an exercise started in the prior year to develop hazard assessments against a standardised methodology – 3,541 assessments completed to date.
- A total of 1,416 employee generated safety improvement opportunities.
- In recognition of the improvements, we are working with our insurers to leverage a further reduction in related insurance premiums. A £50k bursary allowance has been made available to help deliver future improvement initiatives.

Renold Health and Safety Awards Scheme

RENOLD BAT Besafe. Actsafe. Thinksafe.

The annual Health and Safety Awards scheme was launched in 2014. The scheme rules encourage continuous improvement and align to the Framework. During the year, we refined the rules to implement stretch targets as part of a programme of continuous improvement. There is now an increased emphasis on innovative initiatives which are aimed at winning hearts and minds. Recognising the further improvements made across the Group, eight awards were made during 2016 (eight in 2015).

The images show awards being presented by Chief Executive, Robert Purcell, to our teams in Milnrow (left) and South Africa (above).

CORPORATE SOCIAL RESPONSIBILITY

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

Our Commitments

- Provide a rewarding and safe working environment
- Work in accordance with our values
- Act in an 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 48 and 49 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 on pages 58 to 59.

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 remains 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

As in previous years, the Group has continued to review and strengthen the management team and organisation structures, with new appointments into key roles including Group Finance Director, Managing Director – Couplings and Managing Director Chain – South East Asia. The business has increasingly been able to focus on clarifying, developing and strengthening the capability of management and staff at deeper levels in the organisation.

Our recruitment processes to enable the sourcing and assessment of high calibre people at the right time into well-defined roles with clear deliverables and accountabilities continues to evolve. As our understanding of what it takes to be successful in our business develops we are able to focus on the key competencies and capacities that are critical to identify in future hires. In particular, a more rigorous use of skills assessments in areas such as numerical and verbal reasoning, and the insistence on standards of high performance in these areas is beginning to bear fruit. The Company will continue to refine and standardise our capability in this area in the coming financial year, particularly with the introduction of a consistent methodology for definition, activation and assessment of roles and candidates across the Group globally.

As in the past, Renold continues to implement programmes to develop 'home grown' talent.

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

The UK currently has seven apprentices within our Torque Transmission business and is planning to add several more in the coming year. Our Chain business in Einbeck, Germany, has 21 apprentices working across a broad range of levels and disciplines including engineering, technical, administration and logistics functions.

From the coming financial year onwards, Renold will be making a contribution to the Apprenticeship Levy. In order to ensure that we are in a position to fully maximise our utilisation of the funds from the levy we are working with an external organisation (The Skills Company) to develop a bespoke action plan, specifically tailored to the future needs of Renold. We anticipate, for the UK in particular, that this will enhance the uptake in apprenticeships and the delivery of training to apprentices.

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

Each of these graduate Future Leaders has had a real job 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. Additionally, they have the opportunity to be involved in critical business projects and have regular exposure to the senior leadership team.

The new graduates were recruited in September 2016 into diverse functions, including business systems, engineering, commercial and manufacturing operations. Including the Future Leaders we recruited in September 2015 we now have eleven employees in this important programme. It is particularly pleasing that, to date, we have had no turnover in our Future Leaders cohort.

We expect this programme to be one of the key processes through which the business continues to ensure that we internally develop our leaders of the future. The intention in the next financial year is to seek to broaden the geographic scope of the programme beyond Europe.

Finally, this year we defined and selectively deployed a Talent Review Process. The process focused on a review of staff in key areas of the business and assesses both the performance and the longer term potential of those individuals and teams. Based on those evaluations, senior management teams were able to prioritise the key actions required in order to address both the short and longer term issues that were identified. This process will be repeated each year, enabling us to create a straightforward and practical continuous improvement ethos in the area of talent development.

CORPORATE SOCIAL RESPONSIBILITY

Our Values

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

Values, behaviour and engagement

The Renold Values and Behaviours continue to act as an important standard to which we hold both ourselves and our employees. Since the launch of the Renold Values we have continued the work of embedding these in the business.

The Values and Behaviours are clearly communicated across the Group and are increasingly becoming integrated into the way in which we do things. In particular, we have focused on ensuring that our recruitment methodology incorporates our Values and Behaviours and that we specifically seek future hires who are able to demonstrate alignment with these desirable traits. The Company has also incorporated an evaluation of senior manager awareness and adherence to our Values and Behaviours into our Performance and Development Review Process.

Across our global locations we continue to align the requirement to embed Organisational Values and Behaviours in the terms and conditions of employment. The importance of our Values is emphasised during the induction process for new employees.

We plan to continue to focus on the process of further embedding our Values and Behaviours in the business as Renold continues to develop, ensuring that, for the long-term, our Values and Behaviours shape our evolving culture.

Creating a high performance culture

Given the importance of setting clear expectations and targets for employees and regularly reviewing them, the Company launched in 2016, a new Performance and Development Review process. The process initially focused on senior managers and other key role holders and has generated positive feedback from both groups.

The process supports the setting and recording of goals and expectations and provides 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.

Renold will continue to develop the process, cascading it throughout the business. We will also seek ways of gathering feedback to refine and improve the process.

The Company has developed a bespoke management skills programme designed to provide our managers with the necessary knowledge and skills to be able to more effectively manage their teams and deliver their business objectives. This programme will be implemented over the coming months in a modular fashion. Action plans for each individual will be created within each module to ensure that the learning is embedded in the day to day activity of the attendees. The line managers of attendees will also be given training to ensure that they are in a position to support the development of managers as they return from each training session.

The pilot will be evaluated as it is implemented with the intention to further refine the content and delivery and enable continued roll out of the programme to a wider audience.

The delivery of targeted development activities and programmes designed to enhance the capability and performance of our employees is clearly a growing priority as we strive to develop our high performing culture. During the coming financial year we will further develop our capability to identify and deliver a broader suite of programmes for a wider geographic audience.

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.

The Group's intranet site enables access to the latest Group information as well as Group policies. We also undertake regular presentations to employees throughout the Group where the half year and year-end financial results are presented and explained by senior management. This helps to achieve a common awareness amongst employees of the financial and economic factors affecting the performance of the Group.

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.

We 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.

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

PICTURED: 40% OF OUR TEAM IN GRONAU, GERMANY ARE FEMALE.

Board*

* The Non-Executive Directors are not employees.

Other Employees

Group Executive

Senior Management

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 2017, the Group employed 2,139 people including 348 in the UK. Of the total number of employees 368 (17%) are female. The Company recognises the need to encourage and support more gender diversity throughout the employee population as well as at Board level.

Set out in the charts opposite is 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 2017. A senior manager is defined in the legislation as an employee who has responsibility for planning, directing or controlling the activities of a company or a strategically significant part of a company. Whilst falling within the definition of 'senior manager', the most senior leadership population (below the Board), the Group Executive, is shown in a separate chart.

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.

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.

Following the introduction of the UK Modern Slavery Act 2015, we have published 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.

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. Although the Group is limited in our ability to provide extensive financial support to projects, we do seek to provide support where we can in a number of ways.

During this financial year the Company agreed to support The Outward Bound Trust. The Trust is an educational charity that uses the outdoors to help develop young people from all walks of life. They run adventurous and challenging outdoor learning programmes that equip young people with valuable skills for education, work and life. This helps participants to become more confident, more effective and more capable at school, college and in the workplace. Although in the early stages of this partnership, in addition to providing some financial support to the Trust, we are in discussions with them about how we can arrange for a number of our employees to become involved in the activities of the Trust, in particular acting as mentors to the young people attending the outdoor learning programmes. As well as supporting the amazing work that the Trust does, this will help with the engagement and development of our own employees, particularly those that participate in the mentoring opportunities.

We plan to continue our relationship with The Outward Bound Trust into the next financial year.

THE OUTWARD BOUND TRUST

We are delighted to be a supporter of the Museum of Science and Industry in Manchester, having been involved in the Manchester Science Festival Supporters' Circle for a further year.

The Museum of Science and Industry is one of the most visited cultural attractions in the North West, with 700,000 visitors a year. A member of the Science Museum Group's family of world-class museums, its mission is to inspire all visitors with the story of how ideas can change the world, from the industrial revolution to today and beyond.

One of the flagship events in the Museum's cultural calendar, bringing science to life for people of all ages, is the eleven day Manchester Science Festival, which takes place across the city. Each October, it attracts the best scientists from Manchester and beyond to showcase current research and promote the region's rich heritage of innovation.

As a supporter, the Company provides financial support to enable the Museum to deliver a programme of exciting events, exhibitions, talks and performances. In 2016, the Festival celebrated its ten year anniversary and set a new visitor record.

Also this year, in a pro-active response to the Broad-Based Black Economic Empowerment (BBBEE) legislation in South Africa, Renold South Africa has implemented its own BBBEE trust. Renold South Africa has sold a new special class of share to the trust, the Renold SA Development Trust, by way of loan funding.

The BBBEE Act 2003 was introduced as a form of economic empowerment initiated by the South African Government in response to criticism of earlier statutory changes that had failed to lead to the enrichment of disadvantaged individuals. The goal of BBBEE is to distribute wealth across as broad a spectrum of previously disadvantaged South African citizens as possible.

Companies operating in South Africa are required to transform their businesses by operating according to the Codes of Good Practice implemented to give force to the BBBEE Act. Based on the Codes, companies receive a rating indicating the level of compliance.

The objectives of the Renold SA Development Trust are to provide training and development and/or further education in industrial manufacturing, engineering and general business fields and to assisting other BBBEE initiatives of Renold SA's customers. Beneficiaries can therefore be employees (e.g. paying for studies or training of employees) and customers' own BBBEE initiatives.

As reported last year, legislation in India requires companies of a certain size to spend a percentage of profit on Corporate Social Responsibility initiatives. As a result, this year Renold India has been working with communities and relevant stakeholders to assist local government schools in the provision of better infrastructure and educational facilities. Renold India's 'Corporate Social Responsibility Vision' has been formulated in connection with the statutory requirement in India. The areas listed in the statute include promoting education.

Renold India believes that education is the tool for creating an empowered, enlightened society. More than 60% of children in India are enrolled in government schools, however, the infrastructure and facilities and quality of the education are often below acceptable levels. Through better facilities and higher quality education all round it is anticipated there will be a reduction in the dropout rate of students.

The programme has been developed following discussions with local school management and covers the following:

- → To support government schools with basic access to infrastructure.
- → To support government schools with digital learning and teaching systems, capacity building of teachers, career orientation and counselling.
- → Life skills and spoken English projects, supporting the vocational skills sessions in the schools.
- → Providing lighting facilities for schools through solar energy.
- → Contributions have been made to change certain basic infrastructures including the building of walls to improve security, installation of electrical facilities such as fans and lights and the building of rest rooms for female students which are often lacking in local schools.

Our environment

The environmental impact of our activities is at the forefront of our strategy. Across all our operations, we meet all legislative requirements concerning environmental 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, neighbours and customers to develop and achieve improved standards of environmental protection. All of our production facilities either hold or are working towards ISO 14001.

During the year, a range of projects have delivered further environmental improvements. These include emission reductions at our Hangzhou site, waste reduction initiatives across a number of sites and insulation improvements from new and modified roofing structures. Our ongoing programme of investment in new equipment will bring further efficiencies over the coming year.

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 in June 2015. The reported findings are being used to inform the development of a series of energy reduction and management measures.

Greenhouse gas (GHG) 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.

Energy usage across the Group is collated using data captured through the Group's Integrated Risk Management web based IT system. This energy consumption database makes data readily available. Data is actively reviewed in order to target additional energy reduction programmes.

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 table below shows the Group's GHG data in tonnes for the last four financial years across all locations, derived from the consumption data collected and the DEFRA and International Energy Agency published conversion factor tables.

Renold continues to sustain an underlying reduction in energy usage. Related cross site initiatives include:

- → New roof and insulation projects;
- → Low energy lighting; and
- → More efficient production arising from investment.

	2014	2015	2016	2017
Scope[1]	11,175	9,750	8,097	5,432
Scope[2]	21,353	20,503	18,012	19,264
Emissions Intensity[3]	176.8	165.8	158.1	134.5
Total annual GHG emissions[4] on (tCO2e)	32,528	30,253	26,109	24,695

Strategic Report approval

The Strategic Report, on pages 8 to 55, incorporates: Our Customer Journey, Our Business Model, Our Key Performance Indicators, Chief Executive's Review, Our Performance, Finance Director's Review, Our Risks and Principal Risks and Uncertainties, Viability Statement, Health and Safety and Corporate Social Responsibility and was approved by the Board on 30 May 2017.

For and on behalf of the Board

Louise Brace
Company Secretary
30 May 2017

Notes

1 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.

2 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 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 market and location based methodologies.

3 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 2017.

4 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.

GOVERNANCE

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

MARK HARPER
CHAIRMAN

"The Board is ever mindful of the requirements of the UK Corporate Governance Code. The highest standards of corporate governance and behaviour must and do underpin the way the Board works."

Introduction

I am pleased to present the Corporate Governance report for the year ended 31 March 2017 on behalf of the Board.

The Board continues to give priority to consideration of corporate governance matters, good and effective corporate governance being critical to long-term business success.

A detailed list of contents of the Corporate Governance report can be found on page 57. 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.

Board changes

This year has seen significant changes to the Board which demonstrate the Board's commitment to orderly succession planning. In January 2017, we welcomed our new Group Finance Director, Ian Scapens, to the Board and a further Non-Executive Director, David Landless. Both new Directors will play vital roles as we continue to implement our STEP 2020 Strategic Plan.

Ian joined the Company from Keepmoat Group and brings extensive experience in all aspects of finance in large complex organisations. David was most recently Group Finance Director of Bodycote plc for 17 years and has significant experience at senior levels of international businesses in the industrials sector. David's appointment was a successful step in Renold's succession planning process for Board members which was outlined in the Nomination Committee Report in the 2016 Annual Report and Accounts.

David will become Chairman of the Audit Committee on completion of the AGM on 19 July 2017, succeeding John Allkins who will step down after nine years in the role. John is also currently Senior Independent Director and Ian Griffiths will step into this role after the AGM. John will continue as a Non-Executive Director until the conclusion of the 2018 AGM, facilitating a valuable handover period to David in particular. I would like to take this opportunity to thank John for his extremely valuable contribution to the Board and his Chairmanship of the Audit Committee to date.

Tone from the top

The Board will continue to set the right 'tone from the top' and firmly believes in operating to the highest standards of ethical business conduct. These principles are reflected in the statement of our Values and Renold requires the same from all employees in the performance of their duties.

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 64 of our Corporate Governance report we set out the areas of focus for the Board this year and highlight the links between the issues considered and the Group's Strategic Objectives.

Annual General Meeting

Our AGM will be held at 11.00am on Wednesday 19 July 2017 at the Manchester International Office Centre, Styal Road, Wythenshawe, Manchester, M22 5WB. We are pleased to receive feedback from shareholders at all times and I would encourage our shareholders to attend the AGM.

OUR NEWLY CONSTITUTED BOARD IS SHOWN ON PAGES 60 AND 61

Compliance with the UK Corporate Governance 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.

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 the Company for this reporting period. The Board's compliance statement is therefore provided against the requirements of the 2014 Code.

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 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 2017, except where highlighted in this report.

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

The Board continues to be mindful of the requirements of corporate governance and reviews its compliance regularly along with all revisions to the UK Corporate Governance Code made by the Financial Reporting Council. During the year, the Board has considered the provisions of the UK Corporate Governance Code 2016, which applies to reporting periods commencing after 17 June 2016, and therefore against which disclosure will be given in the 2018 Annual Report.

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 61, 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 AGM 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 55, 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.

IAN SCAPENS FINANCE DIRECTOR

Committee memberships E

Appointment to the Board: January 2017

Experience

Ian, aged 43, joined the Group on 3 January 2017 as Group Finance Director. Ian has extensive experience in all aspects of finance in large complex organisations. He joined Renold from Keepmoat Group, where he had been Deputy Chief Financial Officer since June 2015. Previously, Ian spent ten years at Speedy Hire Plc, latterly as Group Financial Controller, from 2010 to 2015.

IAN GRIFFITHS NON-EXECUTIVE DIRECTOR

Committee memberships A N R

Appointment to the Board: January 2010

Experience

Ian, aged 66, 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 Autins plc, a company admitted to trading on the AIM Market of the London Stock Exchange, in March 2016. He has also been a Non-Executive Director and Chairman of Hydro International plc and a Non-Executive Director of Ultra Electronics Holdings plc. Ian has also previously held Executive Director roles at Royal Mail Letters where he was Managing Director and was a Director of Royal Mail Holdings plc and 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 67, 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.

DAVID LANDLESS NON-EXECUTIVE DIRECTOR

Committee memberships A N R

Appointment to the Board: January 2017

Experience

David, aged 57, was appointed to the Board as Non-Executive Director on 9 January 2017. David, a fellow of the Chartered Institute of Management Accountants, has significant experience at senior levels of international businesses in the industrials sector. He was most recently Group Finance Director of Bodycote plc from 1999 until his retirement on 1 January 2017. Prior to that, he held a range of finance roles for 15 years at Courtaulds in the UK and US, latterly as Finance Director of Courtaulds Coatings (Holdings) Ltd, from 1997 to 1999. David is currently a Non-Executive Director and chair of the Audit Committee of both Luxfer Holdings plc and Innospec Inc.

LOUISE BRACE GROUP LEGAL MANAGER AND COMPANY SECRETARY

Appointment as Company Secretary

November 2012

Experience

Louise, aged 44, is a qualified solicitor and was appointed Company Secretary in November 2012. Louise also acts as secretary to all four Committees of the Board.

FURTHER DETAILS OF THE APPOINTMENTS OF THE NEW DIRECTORS AND CHANGES TO THE ROLES IN THE BOARD CAN BE FOUND IN THE NOMINATION COMMITTEE REPORT ON PAGES 76 AND 77.

Committee memberships key:

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

Board composition, responsibilities and activities

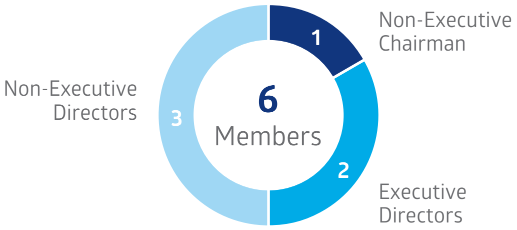
Membership of the Board

During the year ended 31 March 2017, there have been several changes to the Board.

Brian Tenner, Group Finance Director since September 2010, left the Company on 18 November 2016 to pursue new opportunities. Ian Scapens subsequently joined the Company as Group Finance Director on 3 January 2017. In the interim period, Louise Brace, Company Secretary, was appointed to the Board for a short period of time in order to maintain the minimum number of five Directors as required by the Company's Articles of Association[1]. In addition, David Landless joined the Board as a Non-Executive Director on 9 January 2017.

David will become Chairman of the Audit Committee on completion of the AGM on 19 July 2017 succeeding John Allkins who will step down after nine years in the role. John will continue as a Non-Executive Director until the conclusion of the 2018 AGM.

The newly constituted Board continues to have a balance of Executive and Non-Executive Directors. Currently, the Board comprises a Non-Executive Chairman, three Non-Executive Directors and two Executive Directors as shown below.

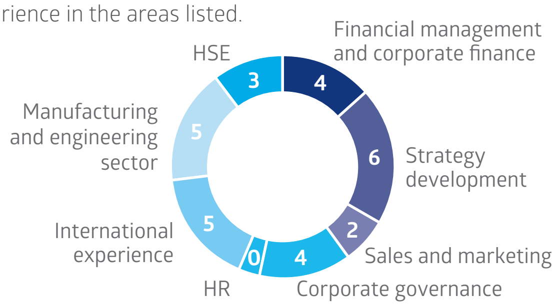


The Board's consideration of its composition in the context of its diversity is set out in the Nomination Committee Report on pages 76 and 77.

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 Directors' 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 Ian Scapens	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 Directors Ian Griffiths David Landless	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.

1. A resolution will be put to shareholders at the 2017 AGM to adopt new Articles of Association of the Company. The proposed new Articles of Association will change the minimum number of Directors to three which is in accordance with market practice. The full text of the resolution and an explanatory statement are included in the 2017 AGM Notice.

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 Board's responsibilities are discharged by way of scheduled Board meetings. In addition, the Board reviews written reports in months where there is no meeting and convenes ad hoc meetings during the year in order to resolve matters by written resolutions to deal with specific business requirements.

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. Eight core meetings have been held this year. In addition, the Board met for a separate full day to discuss the further evolution of the STEP 2020 Strategic Plan. All Directors attended all core scheduled Board meetings, as can be seen in the table of attendance below, other than the March 2017 meeting: David Landless joined the Board in January 2017 and was unable to attend the March meeting due to a pre-existing schedule conflict.

	Mark Harper*	Robert Purcell*	Ian Scapens‡	Brian Tenner†	John Allkins	Ian Griffiths	David Landless
Board (8 meetings)	8	8	2	5	8	8	1
Audit Committee (5 meetings)	5	5	1	4	5	5	0
Nomination Committee (4 meetings)	4	4	1	1	4	4	1
Remuneration Committee (7 meetings)	7	7	2	3	7	7	1
ERMM Committee (5 meetings)	–	5	1	3	–	–	–

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

† Brian Tenner attended all Board, Audit and Executive Risk Management and Monitoring Committee meetings prior to his resignation on 18 November 2016 other than one Executive Risk Management and Monitoring Committee meeting. He did not attend Remuneration and Nomination Committee meetings which dealt with the appointment of his successor.

‡ Ian Scapens has attended all meetings since his appointment.

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 2017 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 40 to 46 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 70.

GOVERNANCE
Board composition, responsibilities and activities

Board focus during the year

During the year ended 31 March 2017, the Board has provided its main focus on the following matters:

Strategic Objective

KEY ON PAGE 15

	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.	→ Consideration of the 2016 Corporate Governance Code. → Consideration of the Viability Statement and agreeing the Group's risk profile, principal risks and uncertainties.	→ Review of 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. → Review of ERP effectiveness and monitoring progress of new ERP implementation. → Review of customer service enhancement initiatives including European Distribution Centre consolidation into sister facility in Germany. → Reviewed and agreed strategy to relocate Chain manufacturing facility in China.	→ Monitoring of planning and execution of merger of the two UK Torque Transmission couplings businesses. → Considered and concluded on the sales of property in Australia for £9.3m and France for £1.1m. → Completion of sub-lease of Bredbury facility. → Oversight over the Tooth Chain acquisition integration. → Received presentations from Group senior management on operations and continued implementation of STEP 2020 across the divisions and functions.	1, 2, 3, 4, 5, 6, 7
Leadership	→ Responsibility for the overall leadership of the Group and setting the Group's Values. → Setting the 'tone at the top'.	→ Monitoring health and safety performance. → Succession planning in relation to the Board and senior management.	→ Support to ongoing 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 tax strategy. → Review of pension scheme de-risking initiatives. → Specific approval for major capital investment projects. → Review of 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 the AGM.	

Expected Board focus for next year

The Board will continue to review the areas set out in the chart on page 64. In addition, it is anticipated that the following areas will receive focus by the Board for the year ending 31 March 2018:

- Review of Board practice seeking input from new Board members.
- Initiatives to support organic growth.
- Review of progress on initiatives to enhance customer service.
- Any potential acquisitions.
- Any new major restructuring projects arising in the year.
- Review of the medium term capital structure and financing of the Company to ensure it is fully supportive of the corporate strategy.
- Review of governance structures for major projects including the development of new manufacturing facilities in China.

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 the Company Secretary in relation to the 2016 Code. Remuneration advisers, PwC, have also presented updates to the Remuneration Committee in relation to market trends in executive remuneration.

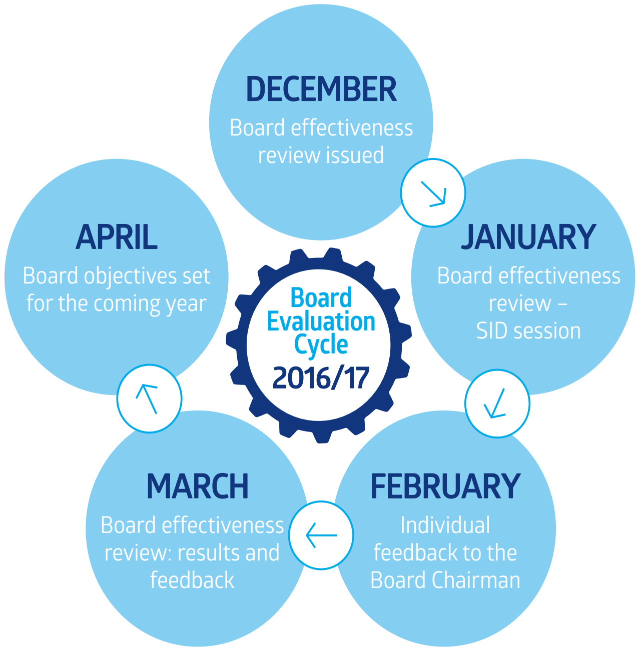
The Company has a detailed framework for the induction of new Directors. This includes the issuing of all key documents relating to the new Director's role on the Board, as well as site visits and face-to-face meetings with senior executives. Throughout the year the Executive Directors have continued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

Non-Executive Director independence

The Non-Executive Directors are considered to be independent in character and judgement, notwithstanding in the case of John Allkins that he has served on the Board for more than nine years. 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 making. 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.

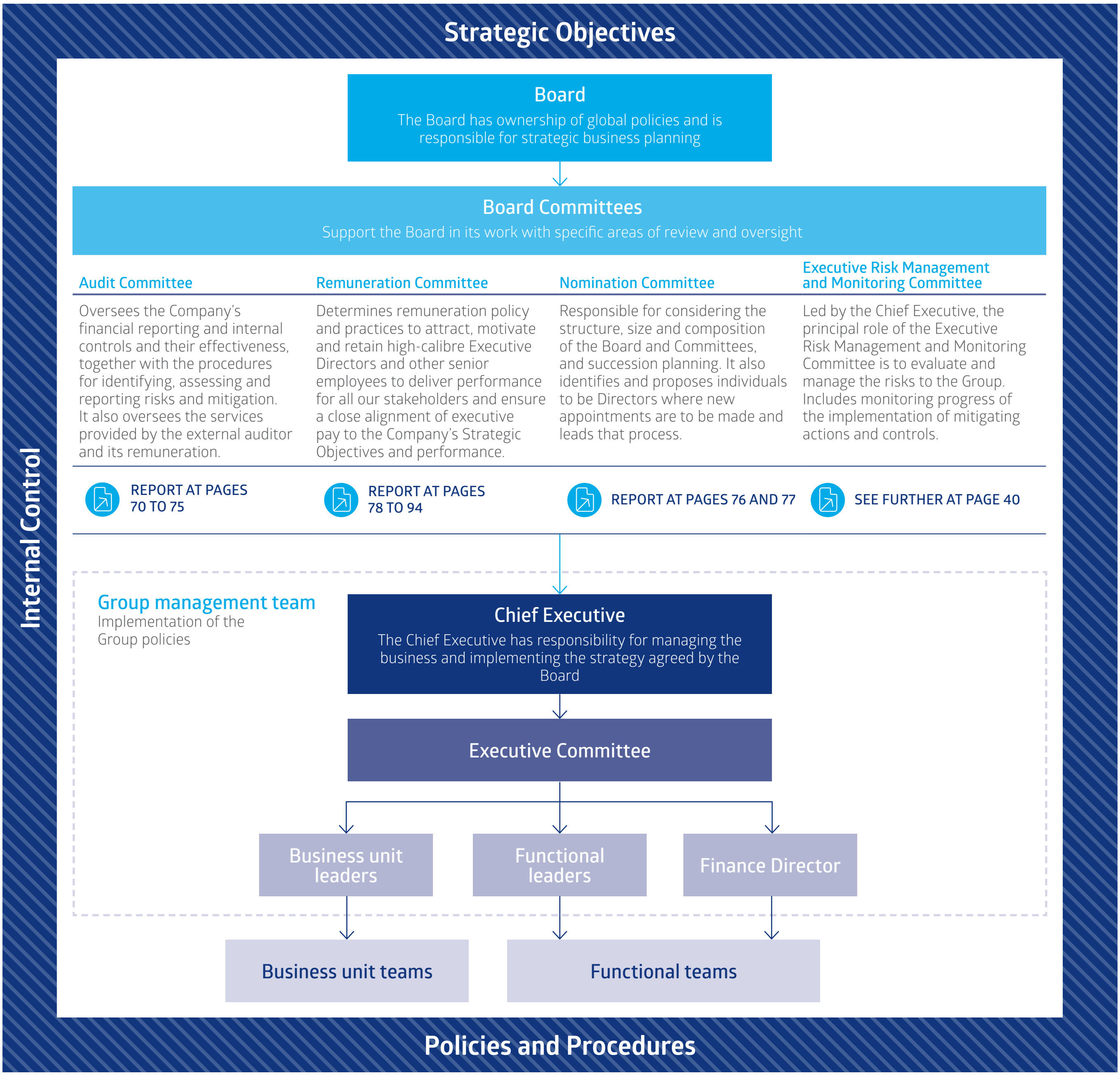
The evaluation process commences with the completion of a written questionnaire for each separate review, compilation of a summary of the results and feedback obtained and then discussion between the participants. The subsequent Board discussion highlighted a number of areas where objectives might be 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, all Non-Executive Directors are subject to annual election.

Governance structure



Biographical and experience details of the current Directors appear on page 60. Further details of the Directors' service contracts and letters of appointment are set out in the Directors' Remuneration Report.

WORKING TOGETHER TO ACHIEVE EXCELLENCE

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 2017.

Renold Internal Control Statement

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

GOVERNANCE
Governance structure

Internal control

During the year ended 31 March 2017, the responsibility to review internal control effectiveness was delegated to 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 67) 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 established 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 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 (FBU requirement)

Disclosure Committee

- Contributors to the Annual Report and Accounts (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.

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 98) of the ARA.

Fair, Balanced, Understandable

READ MORE IN THE AUDIT COMMITTEE REPORT ON PAGES 70 TO 75

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, can 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 40 to 46.

The Company continues to keep shareholders informed of its strategy and progress at other times during the year, with 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 AGM provides an opportunity for communication with private and institutional investors. shareholders are encouraged to attend the AGM and we welcome their participation.

At the AGM, the Chairman of the Board and the three Non-Executive Directors (including therefore the chairmen of 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 AGM 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 AGM will be held at 11.00am on Wednesday 19 July 2017 at the Manchester International Office Centre, Styal Road, Wythenshawe, Manchester, M22 5WB.

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 91%, the majority receiving votes in support exceeding 99%.

AUDIT COMMITTEE REPORT

"We continue to focus on enhancements to the control environment within our business and to the governance principles applied to the major business change programmes of the STEP 2020 Strategic Plan."

JOHN ALLKINS
AUDIT COMMITTEE CHAIRMAN

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 control structures operate over major change initiatives and targeted benefits are delivered. 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 arise 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 and advising the Board on the 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, reappointment 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.

Composition

The Committee was chaired by me during the year. Ian Griffiths, also an independent Non-Executive Director, was a member of the Committee throughout the year. Upon joining the Board in January 2017, David Landless became the third member of the Committee.

On his appointment, David received an extensive induction tailored in particular to his future role as Chairman of the Committee.

As a result of David's appointment, the composition of the Committee changed during the year, but at all times complied with the requirements of the UK Corporate 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	5 of 5
Ian Griffiths	Non-Executive Director	5 of 5
David Landless*	Non-Executive Director	0 of 1

* David Landless was unable to attend the March meeting (the only meeting of the Committee subsequent to his appointment) due to a schedule conflict that existed prior to his joining the Committee.

Biographical details and experience of members are set out on pages 60 and 61.

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 UK Corporate 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 2017 the Committee met five times. This was one fewer meeting than was held in the prior year when an additional meeting took place to complete the tender process for global audit and tax advisory services. 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 63.

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, also attended the majority of Committee meetings and receives all papers submitted to the Committee. 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

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, e.g. the Group's actuarial advisers, the Group Internal Audit and Assurance team as well as our external 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 £3.5m → RoS impact 1.9%	Moderate
Pension accounting and disclosure	Financing charges Net assets	→ IAS 19 finance charge £2.5m → Net pension liability £102.0m	Moderate
Carrying value of intangible assets, deferred tax assets and investments in subsidiary undertakings	Adjusted results Net assets	→ Amortisation charge £3.0m → Net intangible assets £56.1m → Deferred tax assets £20.6m → Unrecognised deferred tax assets £26.2m → Investments in subsidiary undertakings (Company balance sheet) £144.4m	High
Inventory valuations	Inventory value Average Working capital ratio Net assets	→ Net inventory value £40.4m → WC% of sales 22.2% → Net assets £7.8m	Moderate

Defined benefit pension accounting

(recurring annual item: see Note 18 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% increase in UK discount rates	£7.7m decrease
Impact of 0.25% decrease in UK discount rates	£8.7m increase
Impact of 0.25% increase in UK inflation rates	£5.0m increase
Impact of 0.25% decrease in UK inflation rates	£4.6m decrease
Impact of 1 year higher life expectancy in UK	£10.3m increase

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 consistent year on year or are justified by experience of the scheme or by third party metrics. 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 has also encouraged additional disclosure of forward looking financial information in respect of defined benefit pension schemes. Largely 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 38 and 39 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 18 to the financial statements.

Whilst the judgements on assumptions used in arriving at the deficit numbers is judged to be low as these use known published data/indices, there is more judgement in the nature of the disclosure hence the overall judgement required is viewed as moderate.

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

(recurring annual item: see Note 7, Note 8 and Note 17 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 discounted 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 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.

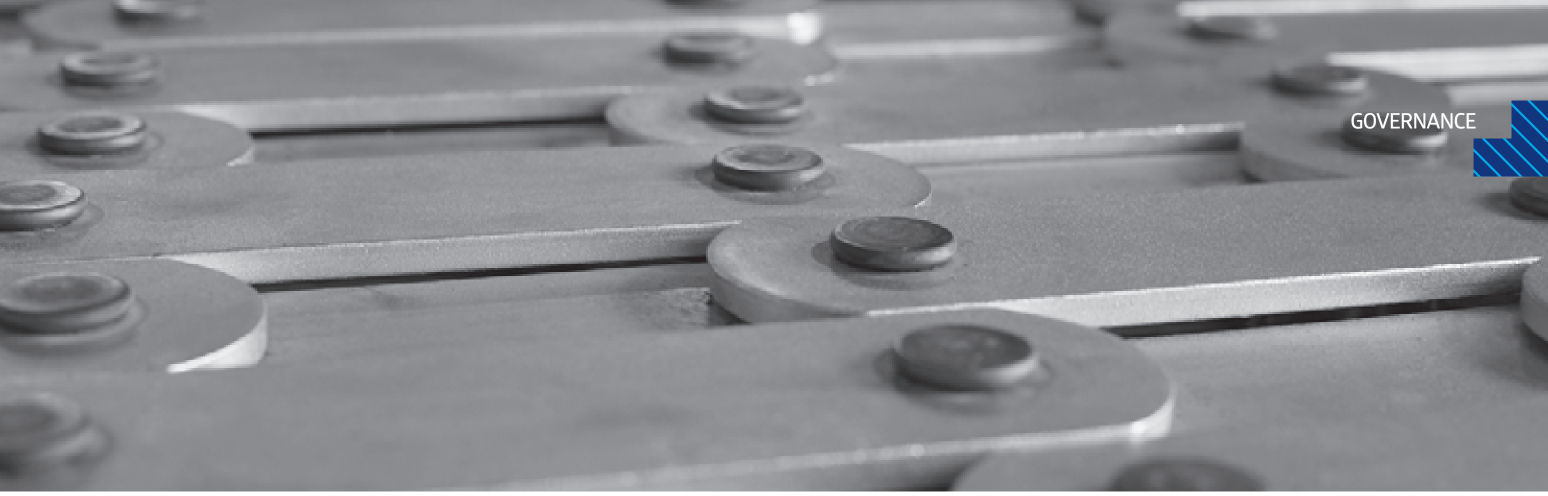
As part of the review of defined benefit pension accounting the Committee also reviews the carrying value and recoverability of the deferred tax assets, the corollary of the gross pension deficit. The Committee was satisfied that the extended duration of the pension liabilities in Germany and the UK, 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.

Review of inventory valuation and provisioning

(recurring annual item: see Note 11 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. The overall process is governed by understood accounting methodologies for the absorption of labour and overheads into stock. Whilst these methodologies help to reduce risk, based on the scale of inventory holdings and the extensive product range, the overall level of judgement required is assessed as moderate.

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 11 is appropriate and that any management judgements formed in arriving at those values are reasonable.



Review of the Viability Statement

(recurring annual item: see page 47)

In accordance with provision C2.2 of the UK Corporate Governance 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 47 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.

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 and credits 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.

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.

Further details of our internal control and risk management systems, including the financial reporting process, can be found on pages 40 and 41 and page 68. Our primary risk factors are shown in the Strategic Report on pages 42 to 46. Even though cyber security is not considered a key risk, due to the devolved and diffuse nature of the systems environment and the IT estate, the Committee did review cyber security risk. It reviewed policies and current mitigation strategies as well as third party testing of aspects of cyber security.

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 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 March 2016, and was built around focus areas such as organisational change, major projects, IT security, business resilience and capital spend.

In the new financial year, the plan will include site financial control audits, site health and safety audits and project assurance.

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) to the consolidated financial statements.

AUDIT COMMITTEE REPORT

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 second year end they have been in post.

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 2017, 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 2018.

Total non-audit services provided by Deloitte during the year ended 31 March 2017 were £nil (2016: £nil). 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.

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.
- The results of the questionnaire process noted above.

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

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 reappoint Deloitte as the Group's external Auditor and a resolution to that effect will be included in the ordinary business of the AGM scheduled on Wednesday 19 July 2017. There are no contractual obligations restricting the choice of external Auditor nor has the Company 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 68. 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.

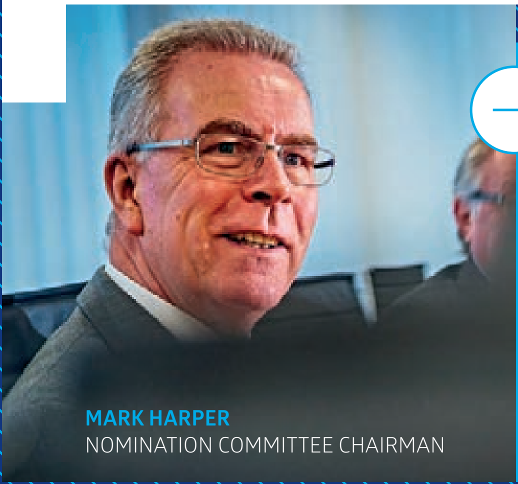
Committee evaluation

The Committee's effectiveness is assessed annually and on the basis of a programme of continuous improvement. Lessons from the assessment are used to try to improve the process, but the Committee has concluded that it acts within its terms of reference and carried out its responsibilities effectively.

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
30 May 2017

NOMINATION COMMITTEE REPORT



MARK HARPER
NOMINATION COMMITTEE CHAIRMAN

"The Nomination Committee's primary focus during the year has been to lead the process for the appointment of two new directors."

I am pleased to present the Nomination Committee Report for the year ended 31 March 2017 and to provide shareholders with an overview of the work carried out during the year under review.

This year has seen the first changes to our Board since 2012 and the Committee has led the recruitment processes for a new Group Finance Director and new Non-Executive Director in accordance with provision B2.1 of the 2014 UK Corporate Governance Code (2014 Code). Comprehensive recruitment processes were undertaken for both posts and are described below.

The Committee and the Board believe that the appointments of Ian Scapens and David Landless will be key to support the achievement of the STEP 2020 Strategic Plan.

Succession planning and recruitment of new Directors

David Landless' appointment to the Board forms a part of Renold's orderly succession planning process for Board members which I outlined in the Committee's report last year. David will become Chairman of the Audit Committee on completion of the 2017 AGM succeeding John Allkins who will step down after nine years in the role.

An independent recruitment consultancy, Odgers Berndston (Odgers), was retained to assist in the recruitment of the new Non-Executive Director. At the commencement of the recruitment process a role description was defined and agreed by the Committee detailing the skills and experience required for the position. The requirements for the role were finalised following my meetings with Odgers, who also considered the criteria proposed by the Chief Executive. A list of candidates was identified and interviewed. This ultimately led to the appointment of David Landless.

Following the resignation of Brian Tenner, Odgers was also retained to assist in the recruitment of his replacement. Again, at the commencement of this recruitment, the Committee agreed the requirements for the role with Odgers. A longlist of candidates was refined to a shortlist and interviews were held with the Chief Executive and Group HR Director in the initial stages and subsequently myself as Chairman of the Nomination Committee and the Audit Committee Chairman. The Committee considered Ian Scapens to be the most suitable candidate for the role and accordingly made a recommendation of appointment to the Board.

Extension of John Allkins' appointment

John Allkins was first appointed to the Board and as Chairman of the Audit Committee in 2008. He completed a nine year term in April 2017 and, after rigorous review, the Committee proposed that his appointment as Non-Executive Director be extended for a further year from the 2017 AGM. John Allkins will at the same time step down from the roles of Chairman of the Audit Committee and Senior Independent Director.

Having given careful consideration to the matter, the Committee and the Board concluded that John Allkins continues to demonstrate the qualities of independence in character and judgement notwithstanding the fact that the extension to his appointment means he will serve a term of more than nine years. Whilst service on the Board for more than nine years is a circumstance listed in provision B1.1 of the 2014 Code, none of the other relationships or circumstances listed in B1.1 exists. John Allkins has made a significant and valued contribution to the Board during his tenure and his continued appointment is considered to be in the best interests of the Company.

Appointment of Senior Independent Director

As a result of the above changes, the Committee also considered the appointment of a new Senior Independent Director. The Committee recommended to the Board the appointment of Ian Griffiths to this role which will commence from the completion of the 2017 AGM.

Ian Griffiths has been an independent director since his appointment in 2010 and has chaired the Remuneration Committee since that date.

John Allkins and Ian Griffiths did not participate in the discussions or voting in the Committee which related to their own positions.

Other succession planning

I reported last year that the Board is mindful of its obligations under the 2014 Code in relation to succession planning and a detailed review of succession planning for the Board and senior management took place. 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. This will continue to be an area of focus for the Committee.

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 as we continue to progress the STEP 2020 Strategic Plan.

Diversity

The Board is aware of the need to consider the benefits of diversity on the Board in all its aspects and the Board and Committee undertook both recruitments this year mindful of the issue of diversity, including gender, the formal Board diversity policy having been adopted and set out in the 2015 Annual Report. The overriding objective has and will always be to appoint the best possible candidate for the role. This year, the new appointments have not changed the Board's diversity profile.

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

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
30 May 2017

THE BIOGRAPHIES OF THE DIRECTORS CAN BE FOUND ON PAGES 60 AND 61 OF THE GOVERNANCE REPORT

AN ANALYSIS OF THE GENDER OF ALL EMPLOYEES IS SET OUT IN THE STRATEGIC REPORT ON PAGE 53

Role of the Nomination Committee

The Committee has delegated authority from the Board. In accordance with the 2014 Code, the Committee is responsible for the following:

- → Reviewing the structure, size and composition of the Board. This includes assessing skills, knowledge, experience and diversity of Board members and any resulting recommendations for change;
- → 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
- → Giving 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 three Non-Executive Directors are members of the Committee and have been so throughout the year or since their appointment.
- → The Committee meets during the year as required.

Nomination Committee members and meetings attended

Names	Position	Meetings attended
Mark Harper	Chairman	4 of 4
John Allkins	Non-Executive Director	4 of 4
Ian Griffiths	Non-Executive Director	4 of 4
David Landless*	Non-Executive Director	1 of 4

* David Landless joined the Board in January 2017. There has been one Committee meeting since his appointment.

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 shortlist for any appointment, the Board always considers candidates from a wide range of backgrounds and on merit and against objective criteria.

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 further information, see the chart on page 62.

A formal and rigorous process is followed during the recruitment process for a new Director. The process for making appointments commences with the evaluation process described in the recent Board recruitments. 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. Odgers is a signatory to the Voluntary Code of Conduct. Odgers does not have any other connection to the Company.

DIRECTORS' REMUNERATION REPORT
Annual Statement

IAN GRIFFITHS
REMUNERATION COMMITTEE CHAIRMAN

"The Directors' Remuneration Policy was amended last year and approved by over 90% of voting shareholders at the 2016 AGM. The Committee believes that the policy ensures remuneration arrangements are aligned with the interests of our shareholders and current best practice whilst supporting the delivery of the Company's STEP 2020 Strategic Plan."

As Chairman of the Remuneration Committee I present the Directors' Remuneration Report[1] for the year ended 31 March 2017. I summarise the main outcomes in the year for the remuneration of the Executive Directors and also the continued application of the remuneration policy.

Key remuneration outcomes for the year

All fixed elements of pay were unchanged for the Executive Directors for a further year, with base salaries having not increased since 2013 and 2010 in relation to the Chief Executive and Group Finance Director respectively. This continues to further the strategic aim of lowering the Group's breakeven point and also reflects the ongoing Group wide pay restraint.

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

- Annual bonus: The Company has again faced challenging market conditions during the year which resulted in a performance below the levels required to trigger bonus payments. As a result, no annual bonus payments were earned by the Executive Directors for the year ended 31 March 2017.

  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[2] for the year ended 31 March 2017 of £20.3m was below the threshold of £24.24m required for any payment of bonus. Average Net Debt[2] during the year was £30.4m, which was also above the threshold of £29.81m.
- Performance Share Plan (PSP): The first awards granted under the PSP, which was approved by shareholders at the 2013 AGM, vested in full in July 2016. The awards granted in 2013 required 50% growth per year in adjusted EPS[3] for maximum vesting. Growth of 50% per annum in adjusted EPS was achieved in the three year period ended 31 March 2016 and therefore the awards vested in full.
- The performance period for the second tranche of PSP awards made in June 2014 ended on 31 March 2017. The performance conditions required growth of 20% per year in adjusted EPS for threshold vesting. Growth of 12.9% per annum in adjusted EPS was achieved in the three year period ended 31 March 2017 and therefore the awards will not vest.

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 At constant budgeted rates in accordance with rules of the scheme.

3 Refer to the Glossary on page 157 for definition of EPS.

Remuneration policy

The Directors' Remuneration Policy was amended last year and approved by over 90% of voting shareholders at the 2016 AGM. The remuneration policy will continue to apply until its expiry in July 2019 unless otherwise amended. As I stated in last year's Directors' Remuneration Report, it is the Committee's intention to undertake a full review of the remuneration policy prior to its expiry.

The Committee continues to believe that the remuneration policy ensures remuneration arrangements are aligned with the interests of our shareholders and current best practice whilst supporting the delivery of the Company's STEP 2020 Strategic Plan.

Market conditions remain challenging; however, the Committee firmly believes that the focus on LTIP opportunity appropriately incentivises the Executive Directors and aligns with the delivery of the STEP 2020 Strategic Plan. In addition, the shareholding requirement (which was increased last year for the Chief Executive from 100% of salary to 200% of salary to reflect the increased LTIP award) continues to align management's interests with those of shareholders.

The Committee believes 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 LTIP opportunity will only become payable if the minimum threshold EPS improvement target is delivered. This is consistent with the Group's objective of delivering improving operating margins.

The Committee continues to focus on clear reporting of past remuneration and future policy. We are also aware that the landscape for executive pay is changing and we will respond appropriately to changes and best practice as they develop.

I will be available at the AGM to answer any questions about the Committee and its work. I would be pleased to welcome feedback from shareholders.

Ian Griffiths
Remuneration Committee Chairman
30 May 2017

DIRECTORS' REMUNERATION REPORT
The Committee and its Activities

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

- The Committee and its Activities which sets out the responsibilities and work undertaken by the Remuneration Committee.
- At a Glance section which 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 2017 and how it is proposed to be applied in 2018. The Annual Report on Remuneration together with this letter is subject to an advisory shareholder vote at the 2017 AGM.

This section of our report 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 pages 60 and 61:

- Ian Griffiths (Chairman)
- John Allkins
- David Landless[1]

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 2017 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.

[1] David Landless joined the Board and the Committee on 9 January 2017.

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. The remuneration 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 the Executive Directors' remuneration.

DIRECTORS' REMUNERATION REPORT
The Committee and its Activities

Adviser to the Committee

During the year, the Committee received independent advice from PwC in relation to remuneration reporting, operation of the Company's share plans, advice on long-term incentive performance measurement and information on market trends in executive remuneration. Total fees for services provided over the year amounted to £21,250.

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 governing reporting on remuneration 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 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.

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	Reviewing the current UK corporate governance environment and the implications for the Company
Annual Report on Remuneration	Considering and approving 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 2017
	Approving the annual bonus structure and performance targets for the financial year ending 31 March 2018
	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
Policy	Reviewing and determining of the quantum of annual bonus and PSP awards for Executive Directors

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

How we have performed this year

Element	Measure	Threshold target	Maximum target	Actual*
Bonus	Adjusted EBITDA Average Net Debt	£22.7m £29.8m	£24.3m £28.3m	£20.3m £30.4m
PSP	Growth in adjusted EPS	20% p.a. growth	30% p.a. growth	12.9% p.a. growth

* The 'actual' amounts disclosed are calculated using constant budgeted exchange rates in accordance with the rule of the Scheme.

Directorate changes

As previously announced, Brian Tenner left the business on 18 November 2016.

By mutual agreement, the requirement for Brian to serve a 12 month notice period was waived and Brian was paid six months' basic salary, car allowance and pension allowance in lieu of notice upon leaving the Company. He did not receive a bonus payment for the financial year ending 31 March 2017. Brian held a number of outstanding LTIP awards, and he was treated as a good leaver. Further detail on the treatment of individual LTIP awards is provided within this report.

Brian Tenner's successor, Ian Scapens, joined the Company in January 2017. His remuneration package was determined in accordance with the Directors' Remuneration Policy and is in line with Brian Tenner's package. Further information is given in the Directors' Remuneration Report.

Single total figure of remuneration for Executive Directors

Executive Directors	Salary (£'000)	Benefits (£'000)	Bonus (£'000)	LTIP (£'000)	Pensions (£'000)	Total 2017 (£'000)	Total 2016 (£'000)
Robert Purcell	300	18	–	–	45	**363**	1,015[1]
Brian Tenner*	131	8	–	–	18	**157**	483[2]
Ian Scapens†	46	3	–	–	7	**56**	–

* Brian Tenner left the Company on 18 November 2016.
† Ian Scapens joined the Company on 3 January 2017.

1 The figure has been restated to include the actual value of the vested LTIPs in 2016: further details are in footnote 3 of the Total Remuneration table on page 89.

2 The figure has been restated to include the actual value of the vested LTIPs in 2016: further details are in footnote 4 of the Total Remuneration table on page 89.

DIRECTORS' REMUNERATION REPORT
Directors' Remuneration Policy

Introduction

This section of the Directors' Remuneration Report (from pages 82 to 88) 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 89 to 94.

Following a review of remuneration carried out during the year ended 31 March 2016, the Directors' Remuneration Policy was approved by shareholders at the AGM on 20 July 2016 and took effect from that date. The Directors' Remuneration Policy will therefore apply for 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 policy was first 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.

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.

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.
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.

Directors' Remuneration Policy

Purpose and link to corporate strategy	Operation of the element	Maximum potential value and payment at threshold/review basis	Performance metrics
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.
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.

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. → Aligned to Strategic Objective of delivering improving 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	EPS excluding exceptional items, pension administration costs, IAS 19 financing charges and the tax thereon.	→ Align executives with goals for long-term growth. → EPS is a driver of shareholder value.
Total shareholder returns	Based on absolute share price targets.	→ 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 Group 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 Group 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.

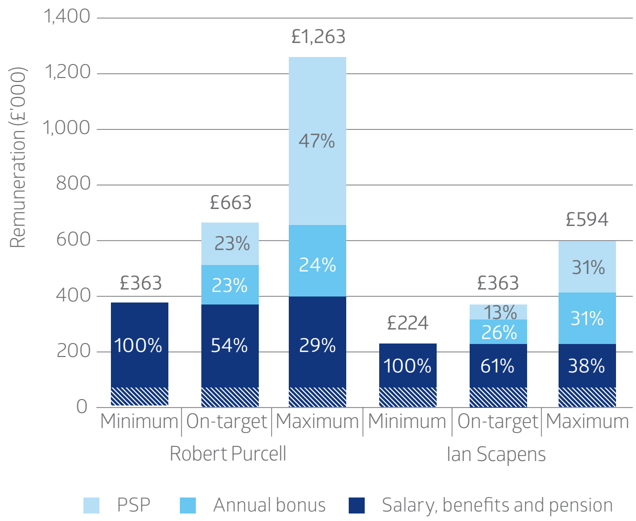
The Committee is provided with data on the remuneration structure for senior management in the three tiers below Executive Director and uses this information to work with the human resources team to ensure consistency of approach throughout the Group.

Total remuneration opportunity
The chart below demonstrates the total amount of remuneration payable to the Chief Executive, Robert Purcell and Group Finance Director, Ian Scapens, under the proposed remuneration policy for the year ending 31 March 2018 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.

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



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
Ian Scapens	3 September 2017	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.	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, retirement, ill-health or disability, an individual will be treated as a good leaver.	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.
	Bad leavers will forfeit outstanding PSP awards.	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 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 82 to 85 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 82 to 85.

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]	13	20 July 2016	£110,000
John Allkins	17 April 2008[2]	15	20 July 2016	£43,000[3]
Ian Griffiths	13 January 2010[4]	21	20 July 2016	£38,000
David Landless	9 January 2017	33	Not applicable[5]	£35,500

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 last substantive review of Non-Executive Directors' fees took place in 2011. Given the period since the last review, a full review of the fees for Non-Executive Directors will be undertaken by the Board during the financial year ending 31 March 2018; the results of that review will be reported in the 2018 Directors' Remuneration Report.

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.

1 Mark Harpers 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 2017 until the 2018 AGM.

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.

5 David Landless will be subject to first election by shareholders at the 2017 AGM.

DIRECTORS' REMUNERATION REPORT
Annual Report on Remuneration

Introduction

This section of the Directors' Remuneration Report sets out the remuneration paid to Directors for the financial year ending 31 March 2017. This section, together with the description of the composition of the Committee, which is set out on page 79 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 19 July 2017.

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	**2017**	**300**	**18**	**–**	**–**	**45**	**363**
	2016	300	16	–	654[3]	45	1,015[4]
Brian Tenner*	**2017**	**131**	**8**	**–**	**–**	**18**	**157**
	2016	185	11	–	259[5]	28	483[6]
Ian Scapens†	**2017**	**46**	**3**	**–**	**–**	**7**	**56**

* Brian Tenner left the Company on 18 November 2016. Payments made to Brian Tenner on leaving the Company are set out on page 91.
† Ian Scapens joined the Company on 3 January 2017.

Non-Executive Directors' fees	2017 £'000	2016 £'000	Change £'000
Mark Harper	**110**	110	–
John Allkins	**43**	43	–
Ian Griffiths	**38**	38	–
David Landless‡	**8**	–	8

‡ David Landless joined the Board on 9 January 2017.

(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. The Chief Executive's annual salary therefore remained at £300,000 and the Group Finance Director's annual salary at £185,000. These figures are outlined in the Total remuneration table above.

The proportion of the Group's basic salary bill attributable to the Executive Directors' base salaries for the year ended 31 March 2017 was 0.80% (2016: 0.95%).

(ii) Pension

The Executive Directors' only pension entitlements are Company contributions equivalent to 15% of base salary. During the year ended 31 March 2017, a cash payment of £45,000 (2016: £45,000) was made by the Company to Robert Purcell. Cash payments of £17,682 (2016: £27,750) and £6,866 were made to Brian Tenner, the outgoing Group Finance Director, and his successor, Ian Scapens, respectively. These figures are shown in the Total remuneration table above.

1 Further details in relation to the annual bonus arrangements in place for the Executive Directors in the year ended 31 March 2017 are on page 90 within the Directors' Remuneration Report.

2 Further details of awards to the Executive Directors under the 2004 Option Plans and PSP are on pages 90 and 91. 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 (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.

3 (b) Of the 1,065,089 options awarded to Robert Purcell on 25 July 2013 under the PSP, 100% (the maximum award) vested on 25 July 2016, the performance conditions measured to 31 March 2016 having been achieved in full. The figure has been restated in the table above to be the actual value of the awards on vesting of £419,326. This is based on the closing mid-market share price of 39.37p on 22 July 2016 which was the last trading day prior to vesting.

4 The figure has been restated to include the actual value of the vested LTIPs in 2016: further details are in footnote 3 above.

5 Of the 656,805 options awarded to Brian Tenner on 25 July 2013 under the PSP, 100% (the maximum award) vested on 25 July 2016, the performance conditions measured to 31 March 2016 having been achieved in full. The figure has been restated in the table above to be the actual value of the awards on vesting of £258,584. This is based on the closing mid-market share price of 39.37p on 22 July 2016 which was the last trading day prior to vesting.

6 The figure has been restated to include the actual value of the vested LTIPs in 2016: further details are in footnote 4 above.

DIRECTORS' REMUNERATION REPORT
Annual Report on Remuneration

(iii) Benefits

Benefits received by the Executive Directors during the period included company car or car allowance and private healthcare. These figures are outlined in the Total remuneration table on page 89.

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 2017 the annual bonus targets for Executive Directors were based upon the matrix below.

	Average Net Debt (£m)				
Adjusted EBITDA (£m)	29.8	29.3	28.8	28.5	28.3
22.7	–	10.0%	20.0%	30.0%	40.0%
23.1	20.0%	30.0%	40.0%	50.0%	60.0%
23.5	40.0%	50.0%	60.0%	70.0%	80.0%
23.9	60.0%	70.0%	80.0%	90.0%	95.0%
24.3	70.0%	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 2017, the Adjusted EBITDA for the year was £20.3m and the Average Net Debt was £30.4m (measured at budget exchange rates in accordance with the annual bonus rules). As both metrics were below the threshold targets, no bonus was payable.

(ii) PSP awards performance testing

The performance period for PSP awards granted on 5 June 2014 completed on 31 March 2017. The performance conditions applying to these awards are as follows:

	Threshold		Maximum		
Award date	EPS CAGR	% Vesting	EPS CAGR	% Vesting	Performance period
5 June 2014	20%	25%	30%	100%	3 years to 31 March 2017

The annual growth in EPS between 2014 and 2017 was 12.9%. As this is below the threshold growth of 20% p.a., none of the awards will vest.

(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 200% and 100% of salary were made respectively to the Chief Executive and Group Finance Director. No award was made to Brian Tenner in the year ended 31 March 2017.

	Type of award	Face value	Number of shares[1]	Date of award
Robert Purcell	Nil price Option	£600,000	1,643,836	21 July 2016
Ian Scapens	Nil price Option	£185,000	368,465	16 January 2017

The year ended 31 March 2017 was the fourth year in which awards were made under the PSP. The performance conditions attaching to options granted under the PSP during the year are:

→ For the Group Finance Director, 100% of the award is based on the compound annual growth rate in adjusted EPS over a three year period (EPS CAGR).

→ For the Chief Executive, 50% of the award is based on this EPS condition and 50% is based on TSR.

[1] The number of shares is based on the average mid-market share price for the three business days preceding the date of grant (36.50 pence and 50.21 pence respectively).

The targets applying to the awards are as follows:

	Threshold		Maximum		
Award date	EPS CAGR	% Vesting	EPS CAGR	% Vesting	Performance period
21 July 2016 and 16 January 2017	10%	25%	15%	100%	3 years to 31 March 2019

	Threshold		Maximum		
Award date	TSR	% Vesting	TSR	% Vesting	Performance period
21 July 2016	62.1p	25%	106.5p	100%	3 years to 31 March 2019

On achievement of threshold performance 25% of the award vests. Straight line vesting occurs between threshold and maximum performance.

(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

Brian Tenner resigned and left the Company on 18 November 2016. By mutual agreement, the requirement for Brian Tenner to serve a 12 month notice period was waived and he was paid six months' basic salary, car allowance and pension allowance (a cash payment of £111,375 in total : £92,500, £5,000 and £13,875 respectively) in lieu of notice upon leaving the Company. He did not receive a bonus payment for the financial year ending 31 March 2017. Brian Tenner held 807,422 share options under the Company Share Option Plan 2004 (CSOP) which had already vested in full in June 2014. The Committee agreed that, in accordance with the CSOP Plan rules, Brian Tenner would have six months from the end of his employment with the Company to exercise these options. Brian Tenner also held three PSP share awards. The Committee used its discretion and agreed that, in accordance with the Directors' Remuneration Policy, Brian would be treated as a good leaver. The first PSP award made on 24 July 2013 of 656,805 nil cost options had already vested in full in March 2016 and the Committee agreed that, in accordance with the PSP Plan rules and the Directors' Remuneration Policy, Brian Tenner would have six months from cessation of employment to exercise these options. In exercising its discretion, the Committee agreed that the second subsisting PSP award of 283,887 nil-cost options made on 4 June 2014 would be pro-rated from the date of the grant to the date of cessation (232,601 nil cost options); vesting will remain subject to the original performance conditions measured over the original performance period. The Committee agreed that, due to the short length of time elapsed from the date of award to the date of cessation of employment, and, the extent to which the performance condition has been met at the date of cessation of employment, and in accordance with the Directors' Remuneration Policy and the PSP Plan rules, the subsisting award of 241,830 nil-cost options, made on 4 June 2015, would lapse in their entirety upon cessation.

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 and PSP over the last five years as a percentage of the total award to Executive Directors.

	Award 2009/10 Vesting 2012/13	Award 2010/11 Vesting 2013/14	Award 2011/12 Vesting 2014/15	Award 2012/13 Vesting 2015/16	**Award 2013/14 Vesting 2016/17**
Vesting %	Nil	47.9%	100%	100%	**Nil**

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 2017 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. This includes beneficially owned shares and vested but unexercised options. Unvested shares are not counted within the shareholding requirement. The table below sets out the extent to which this requirement was met as at 31 March 2017. Ian Scapens joined the Company on 3 January 2017 and does not currently hold shares. No such minimum shareholding requirement exists for Non-Executive Directors.

	Shareholding requirement (% of salary)	Holding as per Remuneration Policy at 31 March 2017	**Shareholding at 31 March 2017 (% of salary)**
Robert Purcell	200%	5,958,653	**1,100%**
Ian Scapens (target required to be satisfied by 2022)	100%	–	**–**

Non-Executive Directors	**31 March 2017**
Mark Harper	**511,924**
John Allkins	**144,500**
Ian Griffiths	**10,000**
David Landless	**–**

Annual Report on Remuneration

(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 2017 and the date of this report.

	Number of share options								
Robert Purcell	Options held at 1 April 2016	Granted in year	Lapsed in year	Exercised in year	Options held at 31 March 2017	Options vested at 31 March 2017	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	21.01.2023
Total 2004 Options Plan	**1,145,038**	**–**	**–**	**–**	**1,145,038**	**1,145,038**			
PSP	1,065,089	–	–	–	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
	–	1,643,836	–	–	1,643,836	–	Nil	21.07.2019	21.07.2026
Total PSP	**1,917,604**	**1,643,836**	**–**	**–**	**3,561,440**	**1,065,089**			
Total	**3,062,642**	**1,643,836**	**–**	**–**	**4,706,478**	**2,210,127**			

	Number of share options								
Brian Tenner	Options held at 1 April 2016	Granted in year	Lapsed in year	Exercised in year	Options held at 31 March 2017	Options vested at 31 March 2017	Option price (p)	Date from which exercisable	Expiry date
2004 Options Plan	311,444	–	–	311,444	–	–	27.25	27.09.2013	26.09.2020
	495,978	–	–	495,978	–	–	37.30	08.06.2014	07.06.2021
Total 2004 Options Plan	**807,422**	**–**	**–**	**807,422**	–	–			
PSP	656,805	–	–	656,805	–	–	Nil	25.07.2016	18.05.2017
	283,887	–	283,887	–	–	–	n/a	n/a	n/a
	241,830	–	241,830	–	–	–	n/a	n/a	n/a
Total PSP	**1,182,522**	**–**	**525,717**	–	–	**656,805**			
Total	**1,989,944**	**–**	**525,717**	**1,464,227**	–	**1,464,227**			

	Number of share options								
Ian Scapens	Options held at 1 April 2016	Granted in year	Lapsed in year	Exercised in year	Options held at 31 March 2017	Options vested at 31 March 2017	Option price (p)	Date from which exercisable	Expiry date
PSP	–	368,465	–	–	368,465	–	Nil	16.01.2020	16.01.2027
Total	**–**	**368,465**	**–**	**–**	**368,465**	**–**			

The performance conditions for the share options are disclosed on pages 90 and 91 and are included in this audited information section by reference. None of the terms and conditions of the share options were varied in the year.

Performance graph and table

The graph on page 93 shows the Company's total shareholder return (share price growth plus dividends reinvested where applicable) for each of the last eight 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.

The market capitalisation of the Company at 31 March 2017 was £126.8m and the lowest and highest share prices during the year were 33.13p and 59.75p respectively, with a share price on 31 March 2017 of 56.25p.

Chief Executive's remuneration for the years ended 31 March 2012 to 2017

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 eight years.

	2010	2011	2012	2013	2014	2015	2016	2017
Chief Executive's total remuneration[1] £'000	337	667	494	311	659	561	1015	**363**
Annual bonus as % of maximum awarded	–	81%	44%	16%	100%	67%	–	–
LTI as % of maximum vesting	100%	–	–	–	N/A	N/A	100%	–

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 89).

	Percentage change in salary	Percentage change in benefits	Percentage change in annual bonus
Chief Executive	0%	7%	–
Workforce[2]	<2%[3]	0%	3%

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 89) 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
2017	£67.5m	Nil	£126.8m	£183.6m	£14.5m	£21.3m	£0.6m
2016	£59.1m	Nil	£74.7m	£165.2m	£14.2m	£20.2m	£1.5m
Difference (%)	(14%)	Nil	70%	11%	2%	5%	(60%)

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 82 to 85 for three years from the date of 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 next review will take place in July 2017 and any change implemented from 1 August 2017. The current base salaries for the Executive Directors are set out on page 89 and below:

	2017
Robert Purcell £'000	300
Ian Scapens £'000	185

1 The values use the same methodology as that shown in calculating the single figure basis of remuneration in the table on page 89.
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.
4 Note 2 to the Company financial statements sets out the calculation of revenue (total operating costs) and adjusted operating profit.
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.

Annual Report on Remuneration

Annual bonus

The performance measures for the 2016/17 annual bonus are unchanged from 2015/16. As set out on page 90, the performance measures are based upon a metric of EBITDA and net debt performance conditions.

The performance targets for the annual bonus are based on internal targets and considered commercially sensitive. Performance targets will continue to be disclosed retrospectively in the Remuneration Report in the interests of transparency.

Long-Term Incentive Plan – PSP

The performance conditions attaching to options that will be granted under the PSP in the year commencing 1 April 2017 are in line with those granted during 2016 and are as follows:

- For the Group Finance Director, 100% of the award will be based on the compound annual growth rate in adjusted EPS over a three year period (EPS CAGR).
- For the Chief Executive, 50% of the award will be based on this EPS condition and 50% will be based on TSR.

The targets applying to the award will be as follows:

Threshold		Maximum		
EPS CAGR	% Vesting	EPS CAGR	% Vesting	Performance period
10%	25%	15%	100%	3 years to 31 March 2020

Threshold		Maximum		
TSR	% Vesting	TSR	% Vesting	Performance period
83.9p	25%	109.9p	100%	3 years to 31 March 2020

Performance under the EPS condition will be measured from an adjusted EPS figure of 4.6p for the year to 31 March 2017.

On achievement of threshold performance 25% of the award vests. Straight line vesting occurs between threshold and maximum performance.

Statement of shareholder voting

The Directors' Remuneration Report received significant shareholder support at the AGM held on 20 July 2016. Votes cast in respect of this resolution at the 2016 AGM are detailed in the table below.

Remuneration Report	2016 AGM	%
Votes cast in favour	170,204,238	96.73
Votes cast against	5,745,449	3.27
Total	175,949,687	
Votes withheld	51,639	

Remuneration Policy	2016 AGM	%
Votes cast in favour	160,871,566	91.90
Votes cast against	14,174,772	8.10
Total	174,898,256	
Votes withheld	954,988	

Approved by the Board and signed on its behalf by:

Ian Griffiths
Remuneration Committee Chairman
30 May 2017

DIRECTORS' REPORT

The Directors submit their report and the financial statements as set out on pages 100 to 155.

The Directors' Report, which comprises pages 95 to 97, 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 2017 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 97 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 2017 is £6.7m compared with a profit of £7.4m for the year ended 31 March 2016.

Dividends

Details about dividend policy are set out in Note 6 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 2017, 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 2016 and 1 January 2017.

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 AGM following their appointment. In addition, all Non-Executive Directors are subject to annual election: please refer to the Corporate Governance report on page 65 for further details.

As a result, Mark Harper, John Allkins, Ian Griffiths, Ian Scapens and David Landless will be standing for election/re-election at the 2017 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 76 and 77.

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 89 to 94. 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 AGM, 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 2017, the issued share capital of the Company was £27,264,309 divided into 225,417,740 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 increase in the issued share capital (2016: £27,146,657) follows the issue of 2,353,037 ordinary shares of 5p each in July 2016 to the Company's Employee Benefit Trust to facilitate the exercise of share options by employees across the Company.

The ordinary shares represent 41.34% of the Company's total share capital, the preference stock represents 2.13% and the deferred shares represent 56.53%. The Company's ordinary shares and preference stock are listed on the London Stock Exchange.

DIRECTORS' REPORT

The deferred shares have no voting or dividend rights and are not able to be traded. As stated in the Company's interim results for the half year ended 30 September 2016, it is intended that the deferred shares be cancelled given they have had no value or voting rights since their issue. In accordance with the rights granted to the Company in 2009 when the shares were issued in connection with a placing, it is proposed that the Company will purchase all the deferred shares for 1p in aggregate and they are subsequently cancelled. Shareholder approval will be sought accordingly at the 2017 AGM.

The Company obtained shareholder authority at the 2016 AGM to make market purchases of up to 22,306,470 ordinary shares in the Company, which remains outstanding until the conclusion of the 2017 AGM. 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 AGM for the Company to purchase, in the market, up to 22,541,774 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 19 to the Group financial statements.

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 were first adopted on 30 July 2008 and last amended on 15 July 2010. A special resolution will be proposed at the 2017 AGM to change the current articles in order to reflect developments in practice and legislation, including shareholder association guidance, which have arisen since they were last amended.

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 AGM are set out in the Notice of AGM.

Major shareholdings

As at 31 March 2017, the Company had been notified or is aware 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
Schroder Investment Management Limited[1]	33,829,851	15.01
Prudential plc group of companies, of which 11% is managed by M&G Investment Funds 3[2]	32,264,466	14.31
Henderson Global Investors Limited	25,995,747	11.53
JP Morgan Asset Management	20,792,723	9.22
BlackRock Investment Mgt (UK) Limited[3]	13,374,465	5.93
Discretionary Unit Fund Managers Limited	12,020,405	5.33
AXA Investment Managers UK	11,812,605	5.24

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 £557,661.75, 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 2016 AGM. The authority will expire at the forthcoming AGM. The Directors will seek authority from shareholders at the AGM 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 £563,544.35.

1 Subsequent to the year ended 31 March 2017, the Company was notified of reductions in the share holding of Schroder Investment Management Limited to 27,719,851 ordinary shares.

2 M&G Investment Funds 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.

3 Subsequent to the year ended 31 March 2017, the Company was notified of an increase in the share holding of BlackRock Investment Management (UK) Limited to 13,831,258 ordinary shares.

In addition, the Directors have authority to allot shares up to a maximum nominal amount of £7,428,054, representing approximately two thirds of the issued ordinary share capital as at the date of the Notice of the Company's 2016 AGM. The authority will expire at the forthcoming AGM. The Directors will seek authority from shareholders at the AGM to allot shares up to a maximum nominal amount of £7,506,410, representing approximately 66.6% of the issued ordinary share capital as at the date of the Notice of the AGM.

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 (e.g. 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 18 to the Group financial statements on pages 132 to 137 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 87 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 113 which is incorporated by reference here.

Other disclosures

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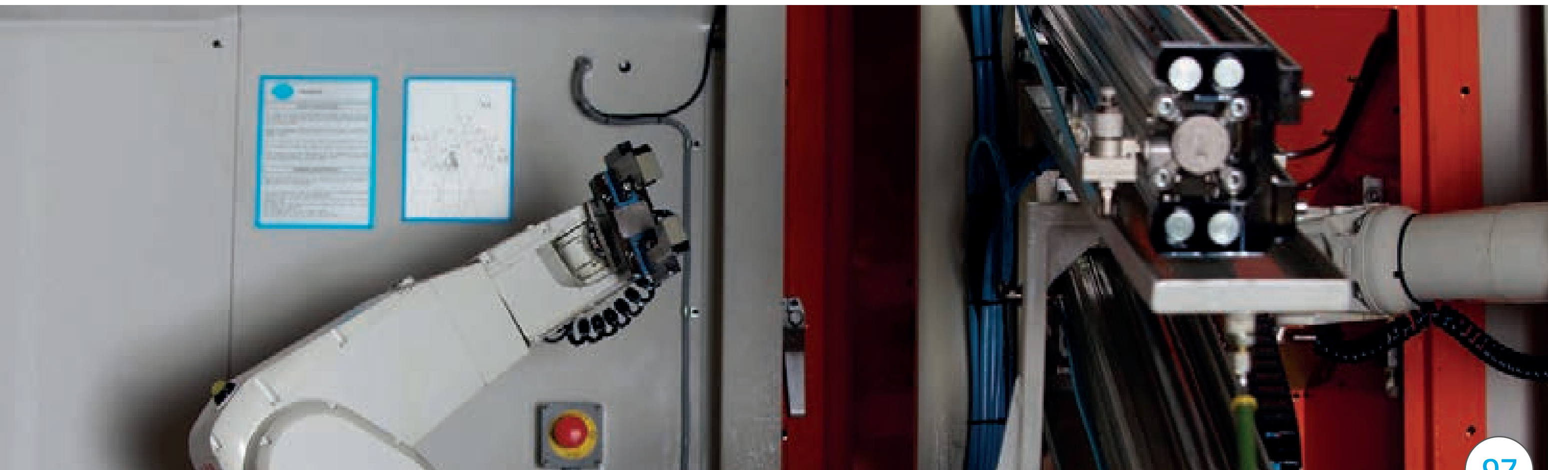
The Directors' Report was approved by the Board on 30 May 2017.

For and on behalf of the Board:

Louise Brace
Company Secretary
30 May 2017



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 judgements 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 30 May 2017 and is signed on its behalf by:

Robert Purcell
Chief Executive

Ian Scapens
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 156. 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 (the 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

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STEP 2020 *in Action*

Manufacturing efficiency

During the year we completed the transfer of our European Distribution Centre from France to a new logistics centre near the Einbeck facility in Germany. This increases manufacturing capacity in the Einbeck facility through the availability of additional space for manufacturing. We also completed the consolidation of our two UK Couplings facilities into one site in Cardiff. Both of these projects should realise significant savings going forward further lowering the breakeven point.

READ MORE ABOUT STEP 2020 STRATEGIC PLAN IN THE CHIEF EXECUTIVE'S REVIEW ON PAGES 16 TO 25

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 2017 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 that we have audited comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the related Group accounting policies and Notes 1 to 26; and
- the related Parent Company Notes i to xiv.

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'.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: → The carrying value of inventory → Impairment of goodwill and intangible assets → Defined benefit pension scheme accounting → Deferred tax asset recognition
Materiality	We determined materiality for the Group to be £455,000 which is 5% of adjusted pre-tax profit.
Scoping	We focused our Group audit scope primarily on the audit work at 14 locations (2016: 14 locations). 7 (2016: 7) of these were subject to a full audit, 5 (2016: 5) were subject to an audit of specified account balances and the remaining 2 (2016: 2) were subject to review procedures.
Significant changes in our approach	Apart from the acquisition risk from the prior year which has not been included in the current year, there have been no significant changes in our audit approach.

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 113 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the Strategic Report on page 47.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 47 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 40 to 47 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; and
- the Directors' explanation on page 47 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 confirm that we have nothing material to add or draw attention to in respect of these matters.

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 confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The acquisition of Aventics Tooth Chain is a risk which we commented on in our 2016 report which we have not included in 2017 due to no further acquisitions being made by the Group.

INDEPENDENT AUDITOR'S REPORT

to the Members of Renold plc

The carrying value of inventory

Risk description

As shown in Note 11 the Group holds inventory of £40.4m (2016:£36.3m). As discussed on page 72, management judgement is applied to the cost of inventories in order to accurately reflect the manufacturing costs incurred in bringing them to their current condition and physical location. This primarily relates to the assessment of direct labour costs incurred, manufacturing overheads to be absorbed and other relevant production costs.

A risk surrounding the carrying value of inventory when compared to the net realisable value as a result of inadequate provisioning has also been identified. Establishing a provision for slow-moving, obsolete and damaged inventory involves estimates and judgements, taking into account forecast sales and historical usage information.

How the scope of our audit responded to the risk

We evaluated the design and implementation of key controls relating to the assessment of inventory valuation and inventory provisioning;

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 actual overheads incurred in the year to assess whether they were materially different;
- Assessed the net realisable value (NRV) on a sample basis 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 understood these by gaining supporting documentation.

Impairment of goodwill and intangible assets

Risk description

The goodwill £26.4m (2016: £22.7m) and intangible assets £9.7m (2016: £10.3m) balance shown in Note 7 principally relates to Jeffrey Chain and are supported by an annual impairment review. Other intangibles as shown in Note 8 amount to £9.7m comprising largely of computer software of £6.5m (2016: £6.1m).

As discussed on page 72, the risk identified is in respect of Management's judgements in relation to the financial forecasts of the business units, discount rates and perpetuity growth rates used to determine the value in use of the cash generating units which are subjective and could lead to an impairment charge if incorrect.

How the scope of our audit responded to the risk

- We assessed the design and implementation of key controls concerning management's impairment review process;
- We have evaluated the future cash flow 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 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 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 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; and
- We also assessed whether the disclosures in the accounting policies of the financial statements appropriately disclose the key judgements taken so that the reader of the financial statements is aware of the impact of the financial statement of changes to key assumptions that may lead to impairment.

Defined benefit pension scheme accounting	
Risk description	The Group have a number of defined benefit pension schemes that are in a net deficit position of £102.0m as shown in Note 18 which is significant both in the context of the overall balance sheet and the results of the Group. As described on page 72, 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 the number of the key assumptions (including salary increases, inflation, discount rates and mortality) can have a material impact on the calculation of the liability.
How the scope of our audit responded to the risk	→ We assessed the design and implementation of key controls concerning management's valuation process; → We challenged the discount rate and inflation rates used in the valuation of the pensions liabilities by comparison 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	
Risk description	The Group has a net deferred tax asset (DTA) of £20.6m (2016: £16.7m) and an unrecognised DTA of £26.2m (2016: £21.7m). IAS 12 states that a DTA shall be recognised for the carry forward 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. As described on page 72, the key judgement in this area is that there will be sufficient future taxable profits available against which the unused tax losses and future pension deductions can be utilised.
How the scope of our audit responded to the risk	→ We evaluated the design and implementation of key controls relating to the assessment of the future profitability of the Group; → We challenged management's assumptions used in the forecast model by using our knowledge of the Group and the industry in which it operates; → In assessing Management's judgements we have considered, amongst other things, historical levels of taxable 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 used our own tax specialists to assist in assessing and challenging the assumptions and judgements made by the Directors; and → 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.

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£455,000 (2016: £480,000)
Basis for determining materiality	5% of adjusted pre-tax profit (as defined on page 108) was the basis for which materiality was determined, which is consistent with the prior year. Pre-tax profit has been adjusted for exceptional items of £1.7m (2016: £2.2m) which are considered to be one-off in nature as per Note 2(c).
Rationale for the benchmark applied	We have used adjusted pre-tax profit as we deem this an appropriate benchmark which better reflects the underlying performance of the business and reduces the risk of volatility.

INDEPENDENT AUDITOR'S REPORT

to the Members of Renold plc

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £23,000 (2016: £20,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The change in the reporting threshold has been made following our reassessment of what matters require communicating. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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 (2016: 14 locations). 7 (2016: 7) of these were subject to a full audit, 5 (2016: 5) 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 (2016: 2) were subject to review procedures. These 14 locations represent the principal business units and account for 100% (2016: 100%) 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 £225,000 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 and Germany.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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
30 May 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2017

	Note	2017 Statutory £m	2017 Adjustments £m	2017 Adjusted[1] £m	2016 Statutory £m	2016 Adjustments £m	2016 Adjusted[1] £m
Revenue	1	183.4	–	183.4	165.2	–	165.2
Operating costs	2	(172.4)	3.5	(168.9)	(154.1)	3.1	(151.0)
Operating profit		11.0	3.5	14.5	11.1	3.1	14.2
Operating profit is analysed as:	2						
Before adjusting items		11.0	–	11.0	11.1	–	11.1
Exceptional costs		–	1.7	1.7	–	2.2	2.2
Amortisation of acquired intangible assets		–	1.1	1.1	–	0.2	0.2
Pension administration costs		–	0.7	0.7	–	0.7	0.7
Operating profit		11.0	3.5	14.5	11.1	3.1	14.2
Financial costs		(1.7)	–	(1.7)	(1.5)	–	(1.5)
Net IAS 19 financing costs		(2.5)	2.5	–	(2.0)	2.0	–
Discount on provisions		(0.1)	0.1	–	(0.2)	0.2	–
Net financing costs	3	(4.3)	2.6	(1.7)	(3.7)	2.2	(1.5)
Profit before tax		6.7	6.1	12.8	7.4	5.3	12.7
Taxation	4	(1.9)	(0.4)	(2.3)	(2.0)	(0.2)	(2.2)
Profit for the financial year		4.8	5.7	10.5	5.4	5.1	10.5
Other comprehensive income/(expense):							
Items that may be reclassified to the income statement in subsequent periods:							
Foreign exchange translation differences		9.8	–	9.8	1.2	–	1.2
Foreign exchange differences on loans hedging the net investment in foreign operations		(0.9)	–	(0.9)	(0.2)	–	(0.2)
		8.9	–	8.9	1.0	–	1.0
Items not to be reclassified to the income statement in subsequent periods:							
Remeasurement losses on retirement benefit obligations		(19.0)	–	(19.0)	(8.1)	–	(8.1)
Tax on remeasurement losses on retirement benefit obligations		2.1	–	2.1	(0.5)	–	(0.5)
		(16.9)	–	(16.9)	(8.6)	–	(8.6)
Other comprehensive income/(expense) for the year, net of tax		(8.0)	–	(8.0)	(7.6)	–	(7.6)
Total comprehensive income/(expense) for the year, net of tax		(3.2)	5.7	2.5	(2.2)	5.1	2.9
Attributable to:							
Owners of the parent		(3.2)	5.7	2.5	(2.3)	5.1	2.8
Non-controlling interest		–	–	–	0.1	–	0.1
		(3.2)	5.7	2.5	(2.2)	5.1	2.9
Earnings per share	5						
Basic earnings per share		2.1p	2.5p	4.6p	2.4p	2.3p	4.7p
Diluted earnings per share		2.1p	2.5p	4.6p	2.3p	2.3p	4.6p

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 2017

	Note	2017 £m	2016 £m
ASSETS			
Non-current assets			
Goodwill	7	26.4	22.7
Other intangible assets	8	9.7	10.3
Property, plant and equipment	9	47.2	44.4
Deferred tax assets	17	20.9	17.0
		104.2	94.4
Current assets			
Inventories	11	40.4	36.3
Trade and other receivables	12	36.8	30.5
Cash and cash equivalents	13	16.4	13.5
		93.6	80.3
Non-current asset classified as held for sale	10	0.3	1.0
		93.9	81.3
TOTAL ASSETS		198.1	175.7
LIABILITIES			
Current liabilities			
Borrowings	14	(0.8)	(0.9)
Trade and other payables	15	(41.9)	(36.2)
Current tax		(4.2)	(2.2)
Derivative financial instruments	25	(0.1)	(0.1)
Provisions	16	(3.6)	(1.7)
		(50.6)	(41.1)
NET CURRENT ASSETS		43.3	40.2
Non-current liabilities			
Borrowings	14	(32.5)	(35.6)
Preference stock	14	(0.5)	(0.5)
Trade and other payables	15	(0.3)	(0.3)
Deferred tax liabilities	17	(0.3)	(0.3)
Retirement benefit obligations	18	(102.0)	(82.9)
Provisions	16	(4.1)	(4.5)
		(139.7)	(124.1)
TOTAL LIABILITIES		(190.3)	(165.2)
NET ASSETS		7.8	10.5
EQUITY			
Issued share capital	19	26.7	26.6
Share premium account		30.1	29.9
Currency translation reserve	21	12.2	3.3
Other reserves	21	1.0	1.0
Retained earnings	21	(64.9)	(53.0)
Equity attributable to equity holders of the parent		5.1	7.8
Non-controlling interests		2.7	2.7
TOTAL SHAREHOLDERS' EQUITY		7.8	10.5

Approved by the Board on 30 May 2017 and signed on its behalf by:

Robert Purcell
Chief Executive

Ian Scapens
Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2017

	Share capital £m Note 19	Share premium account £m	Retained earnings £m Note 21	Currency translation reserve £m Note 21	Other reserves £m Note 21	Attributable to owners of parent £m Note 21	Non-controlling interests £m	Total equity £m
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**
Profit for the year	–	–	4.8	–	–	4.8	–	4.8
Other comprehensive income/(expense)	–	–	(16.9)	8.9	–	(8.0)	–	(8.0)
Total comprehensive income/(expense) for the year	–	–	(12.1)	8.9	–	(3.2)	–	(3.2)
Proceeds from share issue	0.1	0.2	–	–	–	0.3	–	0.3
Employee share options:								
– value of employee services	–	–	0.2	–	–	0.2	–	0.2
At 31 March 2017	**26.7**	**30.1**	**(64.9)**	**12.2**	**1.0**	**5.1**	**2.7**	**7.8**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

	2017 £m	2016 £m
Cash flows from operating activities (Note 24)		
Cash generated from operations	8.4	11.8
Income taxes paid	(1.0)	(1.0)
Net cash from operating activities	7.4	10.8
Cash flows from investing activities		
Proceeds from property disposals	10.2	–
Purchase of property, plant and equipment	(8.4)	(7.9)
Purchase of intangible assets	(1.2)	(1.6)
Consideration paid for acquisition	–	(3.7)
Net cash from investing activities	0.6	(13.2)
Cash flows from financing activities		
Financing costs paid	(1.5)	(1.8)
Proceeds from share issue	0.2	–
Proceeds from borrowings	–	4.5
Repayment of borrowings	(4.5)	(0.5)
Net cash from financing activities	(5.8)	2.2
Net increase/(decrease) in cash and cash equivalents	2.2	(0.2)
Net cash and cash equivalents at beginning of year	12.4	12.2
Effects of exchange rate changes	0.8	0.4
Net cash and cash equivalents at end of year (Note 13)	15.4	12.4

ACCOUNTING POLICIES

To aid the reader of the financial statements, certain accounting policies can 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's 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; these are presented on pages 147 to 155. The financial statements were approved by the Board on 30 May 2017.

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 Pounds 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 retranslation 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 interest's 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 8 to 55.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report on pages 8 to 55. In addition, Note 25 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 13, 14 and 25 of the financial statements. There were no significant post balance sheet events to report (see Note 26).

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

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 7.

(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 which could require a material adjustment to the carrying amounts. Further details are contained in Note 17.

(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 18.

(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. An additional onerous lease provision was created in the year following the sale and leaseback of the Australian Mulgrave facility. For further details refer to Notes 2(c) and 16.

(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 1 (amended) 'Presentation of Financial Statements'. The amendment addresses perceived impediments to preparers exercising their judgement in presenting their financial reports.
- → IAS 16 (amended) 'Property, Plant and Equipment'. This amendment clarifies that depreciation methods based on revenue are inappropriate and adds guidance that expected future reductions in the selling price of an item produced using an asset could indicate the expectation of technological or commercial obsolescence, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.
- → IAS 19 (amended) 'Employee Benefits'. As part of the 2012–2014 cycle of the Annual Improvements Project, this standard was amended to clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
- → IAS 27 (revised) 'Separate Financial Statements'. This revision introduces new disclosure requirements for investment entities.
- → IAS 28 (amended) 'Investments in Associates and Joint Ventures (2011)'. This amendment clarifies that, when applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- → IAS 38 (amended) 'Intangible Assets'. This amendment clarifies that amortisation methods based on revenue are inappropriate except in limited circumstances.
- → IFRS 5 (amended) 'Non-current Assets Held for Sale and Discontinued Operations'. As part of the 2012–2014 cycle of the Annual Improvements Project, this standard was amended to add specific guidance for cases in which an entity re-classifies an asset from held for sale to held for distribution or vice versa and cases in which held for distribution accounting is discontinued.

- IFRS 7 (amended) 'Financial Instruments: Disclosures'. As part of the 2012–2014 cycle of the Annual Improvements Project, this standard was amended to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.
- IFRS 10 (amended) 'Consolidated Financial Statements'. This amendment clarifies the exemptions from preparing consolidated financial statements for a parent entity that is a subsidiary of an investment entity.
- 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 (amended) 'Disclosure of Interests in Other Entities'. This amendment clarifies that a subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary is an investment entity. In addition, the amendment clarifies that an investment entity measuring all of its subsidiaries at fair value should provide the disclosures relating to investment entities.

(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 2012–2014 cycle
- Annual improvements 2014–2016 cycle
- IAS 7 (amended) 'Statement of Cash Flows'
- IAS 12 (amended) 'Income Taxes'
- IFRS 2 'Share-based Payment'
- IFRS 9 'Financial Instruments'
- IFRS 14 'Regulatory Deferral Accounts'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 (amended) 'Leases'
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'.

The Directors are in the process of assessing the potential impact of IFRS 15 on both revenue recognition and disclosure requirements and the impact of IFRS 16 on liability recognition and disclosure requirements. With the exception of IFRS 15 and 16, the Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

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 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. Disclosure has not been included in respect of the operating assets of each segment as they are not reported to the CODM on a regular basis. 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 2017	Chain[2] £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	146.1	37.3	–	183.4
Inter-segment[1]	0.3	4.1	(4.4)	–
Total revenue	146.4	41.4	(4.4)	183.4
Adjusted operating profit/(loss)	16.6	3.9	(6.0)	14.5
Pension administration costs	–	–	(0.7)	(0.7)
Exceptional items	1.5	(3.1)	(0.1)	(1.7)
Amortisation of acquired intangible assets	(1.1)	–	–	(1.1)
Operating profit/(loss)	17.0	0.8	(6.8)	11.0
Net financing costs				(4.3)
Profit before tax				6.7
Other disclosures				
Working capital[3]	26.5	10.0	(1.5)	35.0
Capital expenditure[4]	5.8	4.0	1.1	10.9
Depreciation and amortisation	4.9	1.2	1.8	7.9

Year ended 31 March 2016	Chain[2] £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	126.8	38.4	–	165.2
Inter-segment[1]	–	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[3]	23.7	8.8	(2.2)	30.3
Capital expenditure[4]	5.1	1.9	1.8	8.8
Depreciation and amortisation	3.5	1.1	1.4	6.0

1. Segmental information continued

The Group uses a variety of alternative performance measures, which are non-IFRS, to assess the performance of its operations. The Group considers these performance measures to provide useful historical financial information to help investors evaluate the underlying performance of the business by adjusting for volatility created by one-off items and non-trading performance related costs such as amortisation and legacy pensions costs.

The two consistently applied performance measures which are disclosed within this annual report and accounts include adjusted results and underlying results.

Adjusted results exclude the impact of exceptional items, pension financing charges, pension administration costs and the amortisation of acquired intangible assets and the tax thereon. A reconciliation of these results is shown on the face of the consolidated statement of comprehensive income and in the tables opposite. Adjusted profit of £14.5m is derived from the statutory profit of £11.0m.

Underlying results are retranslated to current year exchange rates and therefore only prior year comparatives would be deemed an alternative performance measure. A reconciliation is provided below.

Year ended 31 March 2016	Chain[2] £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	126.8	38.4	–	165.2
Foreign exchange	16.2	3.3	–	19.5
Underlying external sales	143.0	41.7	–	184.7
Adjusted operating profit/(loss)	15.4	5.0	(6.2)	14.2
Foreign exchange	2.4	0.2	–	2.6
Underlying adjusted operating profit/(loss)	17.8	5.2	(6.2)	16.8

1. Inter-segment revenues are eliminated on consolidation.
2. Included in Chain external sales is £4.7m (2016: £3.8m) of Torque Transmission product sold through the Chain NSCs, usually in countries where Torque Transmission does not have its own presence.
3. 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.
4. 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	
	2017 %	2016 %	2017 £m	2016 £m	2017 £m	2016 £m	2017	2016
United Kingdom	7.5	9.1	13.8	15.0	14.8	14.0	364	364
Rest of Europe	31.0	27.3	56.9	45.2	18.8	17.6	576	523
North America	37.0	38.8	67.9	64.2	37.2	30.5	327	341
Australasia	10.0	10.2	18.3	16.8	3.0	6.6	133	144
China	3.9	4.4	7.1	7.3	3.1	3.0	293	342
India	4.2	3.8	7.7	6.2	5.7	5.1	425	459
Other countries	6.4	6.4	11.7	10.5	0.7	0.6	65	59
	100.0	100.0	183.4	165.2	83.3	77.4	2,183	2,232

All revenue relates to the sale of goods and services. No individual customer, or group of customers, represents more than 10% of Group revenue (2016: Nil).

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):

	2017 £m	2017 £m	2016 £m	2016 £m
Change in finished goods and work in progress		(0.9)		0.4
Raw materials and consumables		63.8		57.3
Other external charges		27.5		25.8
Employee costs				
Gross wages and salaries	59.8		51.2	
Social security costs	6.0		5.4	
Pension costs				
– defined benefit (Note 18)	0.3		0.1	
– defined contribution (Note 18)	1.3		1.3	
Share-based incentive plans	0.2		1.1	
		67.6		59.1
Depreciation of property, plant and equipment				
– owned assets		4.9		4.2
Amortisation of intangible assets		1.9		1.6
Operating leases – minimum lease payments				
– plant and machinery	0.5		0.3	
– property	1.3		0.8	
		1.8		1.1
Other operating income		–		(0.4)
Loss on disposal of property, plant and equipment		0.3		0.2
Research and development expenditure		1.0		1.1
Auditor's remuneration (Note 2(b))		0.5		0.4
Trade receivables impairment		–		0.1
Foreign exchange		0.5		0.1
Operating costs before adjusting items		168.9		151.0
Adjusting items and exceptional items (Note 2(c))				
Pension administration costs		0.7		0.7
Amortisation of acquired intangible assets		1.1		0.2
Exceptional items		1.7		2.2
Adjusting items		3.5		3.1
Total operating costs		172.4		154.1

(b) Auditor's remuneration

	2017 £000 Total	2016 £000 Total
Audit of the Group's annual financial statements	200	160
Audit of the Company's subsidiaries	283	192
Total audit fees	483	352
This is analysed in the following captions in the financial statements:		
Operating costs	483	352
	483	352

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 item' on the face of the income statement.

	2017 £m	2016 £m
Included in operating costs		
Acquisition costs – Renold Tooth Chain	0.3	0.4
STEP 2020 restructuring costs	4.3	2.5
Net gain on sale of Australian property	(2.9)	–
Net pension settlement gains (Note 18)	–	(1.2)
Property impairments	–	0.5
Exceptional items	1.7	2.2
Pension administration costs	0.7	0.7
Amortisation of acquired intangible assets (Note 8)	1.1	0.2
Adjusting items	3.5	3.1

	2017 £m	2016 £m
Included in net financing costs		
Discount unwind on onerous lease provision	0.1	0.2
Net IAS 19 financing costs	2.5	2.0
	2.6	2.2

As part of the acquisition of the Renold Tooth Chain business completed in the prior year, the Group was obliged to pay for some transitional services provided by the seller's group until the business migrated to Renold's IT systems. Costs of £0.3m were incurred until migration was completed in December 2016 and have now ceased.

Various restructuring costs were incurred in the year as part of the STEP 2020 Strategic Plan. The European distribution and sales operations were relocated with the sales functions transferred to a nearby rented office in Lille, France and the European distribution operations moved to a new warehouse in Uslar, Germany located close to the Einbeck Chain manufacturing factory. These moves resulted in redundancy and restructuring costs of £0.6m. The former European distribution site at Seclin, France was sold for £1.0m resulting in no gain or loss on disposal following the £0.5m impairment charge incurred in the prior year.

Also in the year, redundancy and restructuring costs of £2.5m were incurred transferring the HiTec Couplings business, located in Halifax, to our existing Couplings facility in Cardiff. As a result of this transfer, the Halifax property is now held for sale at a value of £0.3m (sold on 15 May 2017 - see Note 10). The increased manufacturing capability at the Cardiff site permitted the closure of the China Couplings facility with manufacturing moving to Cardiff and South Africa. This incurred redundancy and restructuring costs of £0.6m in the year.

A further restructuring cost of £0.4m was incurred in the year as we commenced a multi-year project to transfer the China Chain manufacturing facility from leased premises in Hangzhou to a purpose-built facility near Changzhou in Jiangsu province. Other restructuring costs included £0.1m incurred following the relocation of the Malaysian manufacturing facility into larger premises and £0.1m of other STEP 2020 restructuring incurred in the year.

In March 2017, the Mulgrave manufacturing facility in Australia was sold realising net proceeds of £9.3m resulting in a gain on disposal net of associated costs of £2.9m. As part of the sale agreement, Renold can remain as a tenant and retain full use of the property for three years until March 2020 at which point the property must be vacated.

Prior year restructuring costs included £0.5m incurred at the Milnrow facility, where the business was downsized following the end of a long-term supply agreement (offshored by the customer), £0.6m of costs related to the relocation of the head office and £1.4m of other STEP 2020 restructuring costs incurred in the year.

Also in the prior year, a 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 2014. This was offset by a £0.1m settlement loss relating to the liquidation of the Australian pension scheme.

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:

	2017 £000	2016 £000
Statutory Directors' remuneration	892	777
Share-based payments	(57)	531
Social security costs	114	144
Total	**949**	1,452

The remuneration listed in the table above differs from the single total figure table in the Directors' Remuneration Report on page 89 for the following reasons:

- Only pensions payable directly to pension schemes are included in the post employment benefits in the table on page 89. £70,000 (2016: £73,000) of additional cash payments for pensions paid indirectly were included in Directors' remuneration;
- it excludes LTIPs vested in the form of share options; and
- it includes £111,375 in respect of payments on leaving the Company.

Further details of the remuneration of Directors are provided in the Directors' Remuneration Report on pages 78 to 94.

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 2017 was 2,139 (2016: 2,187).

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.

	2017 £m	2016 £m
Financing costs:		
Interest payable on bank loans and overdrafts	(1.5)	(1.3)
Amortised financing costs	(0.2)	(0.2)
Total financing costs	**(1.7)**	(1.5)
Net IAS 19 financing costs	(2.5)	(2.0)
Discount unwind on provisions	(0.1)	(0.2)
Net financing costs	**(4.3)**	(3.7)

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 17.

4. Taxation continued

Analysis of tax charge in the year

	2017 £m	2016 £m
United Kingdom		
UK corporation tax at 20% (2016: 20%)	–	–
Overseas taxes		
Corporation taxes	2.8	1.4
Withholding taxes	0.1	0.1
Current income tax charge	2.9	1.5
Deferred tax		
UK – origination and reversal of temporary differences	(0.3)	(0.3)
Overseas – origination and reversal of temporary differences	(0.7)	0.8
Total deferred tax (credit)/charge	(1.0)	0.5
Tax charge on profit on ordinary activities	1.9	2.0

	2017 £m	2016 £m
Tax on items taken to other comprehensive income		
Deferred tax on changes in net pension deficits	(2.1)	0.5
Tax (credit)/charge in the statement of other comprehensive income	(2.1)	0.5

Factors affecting the Group tax charge for the year

The UK Government announced that it intends to reduce the main rate of corporation tax to 17% with effect from 1 April 2020. This change was substantively enacted in September 2016. Accordingly, deferred tax balances have been revalued to the lower rate of 17% in these financial statements which has resulted in a £0.5m deferred tax charge to 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:

	2017 £m	2016 £m
Profit on ordinary activities before tax	6.7	7.4
Theoretical tax charge at 20% (2016: 20%)	1.3	1.5
Effects of:		
Permanent differences	0.5	0.9
Overseas tax rate differences	–	0.7
Prior year adjustments	1.5	0.2
Deferred tax utilised	(1.4)	(1.3)
Total tax charge	1.9	2.0

Effective tax rate

The effective tax rate of 28% (2016: 27%) is higher than the UK tax rate of 20% (2016: 20%) due to the following factors:

- Permanent differences including items that are disallowed from a tax perspective such as entertaining and certain employee costs;
- Prior year adjustments arising as tax submissions are finalised and agreed in specific jurisdictions; and
- Differences in overseas tax rates, typically being higher than the rates in the UK.

Tax payments

Cash tax paid in the year of £1.0m (2016: £1.0m) is lower than the total tax charge due to the utilisation of tax losses in various jurisdictions.

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:

	2017			2016		
	Earnings £m	Shares (thousands)	Per share amount (pence)	Earnings £m	Shares (thousands)	Per share amount (pence)
Basic EPS						
Profit attributed to ordinary shareholders	4.8	224,830	2.1	5.3	223,065	2.4
Basic EPS	4.8	224,830	2.1	5.3	223,065	2.4

	2017			2016		
	Earnings £m	Shares (thousands)	Per share amount (pence)	Earnings £m	Shares (thousands)	Per share amount (pence)
Adjusted EPS						
Basic EPS	4.8	224,830	2.1	5.3	223,065	2.4
Effect of adjusting items, after tax:						
Exceptional items in operating costs	2.3		1.0	2.5		1.1
Pension administration costs included in operating costs	0.6		0.3	0.7		0.3
Discount unwind on exceptional items	0.1		–	0.2		0.1
Amortisation of acquired intangible assets	0.7		0.3	0.2		0.1
Net pension financing costs	2.0		0.9	1.5		0.7
Adjusted EPS	10.5	224,830	4.6	10.4	223,065	4.7

Inclusion of the dilutive securities, comprising 3,293,000 (2016: 4,097,000) additional shares due to share options in the calculation of basic and adjusted EPS does not change the amounts shown above (2016: 2.3p and 4.6p respectively).

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. 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 2015	23.3
Exchange adjustment	0.6
Arising on acquisition of Tooth Chain business	0.2
At 1 April 2016	24.1
Exchange adjustment	3.4
Fair value adjustment arising on the acquisition of the Tooth Chain business	0.3
At 31 March 2017	**27.8**
Accumulated amortisation and impairment	
At 1 April 2015	1.4
At 1 April 2016	1.4
At 31 March 2017	**1.4**
Net book amount at 31 March 2017	**26.4**
Net book amount at 31 March 2016	22.7
Net book amount at 31 March 2015	21.9

The Group performed its annual impairment test of goodwill at 31 March 2017 which 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	
	2017 %	2016 %	2017 %	2016 %	2017 £m	2016 £m
Jeffrey Chain, USA	1.6	2.1	16.2	12.4	23.2	20.2
Ace Chains, Australia	2.8	2.9	10.3	13.2	0.5	0.5
Renold Chain, India	8.1	7.7	30.1	30.5	2.2	1.8
Renold Tooth Chain, Germany	1.2	–	12.8	–	0.5	0.2
					26.4	22.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Goodwill continued

Key assumptions used in the value in use calculations:

Sales volumes, selling prices and cost changes

The Group prepares cash flow forecasts based on the latest management estimates for the next two financial years. 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 2017.

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.

Provisional fair value adjustment – Renold Tooth Chain

During the year, the provisional fair values calculated at the Tooth Chain acquisition date have been reassessed, resulting in an adjustment to the provisional fair values of inventories (£0.2m reduction) and provisions (£0.2m increase) calculated at the date of acquisition. Furthermore, the contingent consideration paid in the year was lower than the provisional amount anticipated at the acquisition date (£0.1m). These adjustments have been reflected in goodwill arising upon acquisition resulting in a £0.3m increase.

8. 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 programs 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.

8. Intangible assets continued

	Customer orderbook £m	Customer lists £m	Technical know-how £m	Computer software £m	Total £m
Cost					
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	0.3	3.5	0.2	–	4.0
Disposals	–	–	–	(0.4)	(0.4)
At 1 April 2016	0.3	3.9	0.2	13.9	18.3
Exchange adjustment	–	0.1	–	0.3	0.4
Additions	–	–	–	1.2	1.2
Disposals	–	–	–	(0.4)	(0.4)
At 31 March 2017	**0.3**	**4.0**	**0.2**	**15.0**	**19.5**
Accumulated amortisation and impairment					
At 1 April 2015	–	–	–	6.6	6.6
Amortisation charge	–	0.2	–	1.6	1.8
Disposals	–	–	–	(0.4)	(0.4)
At 1 April 2016	–	0.2	–	7.8	8.0
Exchange adjustment	–	–	–	(0.8)	(0.8)
Amortisation charge	0.3	0.8	–	1.9	3.0
Disposals	–	–	–	(0.4)	(0.4)
At 31 March 2017	**0.3**	**1.0**	**–**	**8.5**	**9.8**
Net book amount at 31 March 2017	**–**	**3.0**	**0.2**	**6.5**	**9.7**
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

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 is amortised when the orderbook at the date of acquisition has been fulfilled. This is now fully amortised.

Customer lists and technical know-how

Customer lists and technical know-how is being 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.

9. 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 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	0.1	0.4	0.5
Disposals	(0.4)	(4.1)	(4.5)
At 1 April 2016	21.1	110.6	131.7
Exchange adjustment	1.8	9.4	11.2
Additions	0.6	9.1	9.7
Transfer to assets held for sale (Note 10)	(0.4)	–	(0.4)
Disposals	(5.0)	(12.4)	(17.4)
At 31 March 2017	**18.1**	**116.7**	**134.8**
Accumulated depreciation and impairment			
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 1 April 2016	3.7	83.6	87.3
Exchange adjustment	0.4	7.7	8.1
Transfer to assets held for sale (Note 10)	(0.1)	–	(0.1)
Charge for the year	0.3	4.6	4.9
Disposals	(0.8)	(11.8)	(12.6)
At 31 March 2017	**3.5**	**84.1**	**87.6**
Net book amount at 31 March 2017	**14.6**	**32.6**	**47.2**
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

9. Property, plant and equipment continued

Future capital expenditure

At 31 March 2017 capital expenditure contracted for but not provided for in these accounts amounted to £2.6m (2016: £2.0m).

Asset held for sale

In the current year the former HiTec Couplings manufacturing site located in Halifax, UK was reclassified as an asset held for sale (see Note 10).

10. 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.

	2017 £m	2016 £m
At 1 April	1.0	1.4
Exchange adjustment	–	0.1
Disposal	(1.0)	–
Transferred from tangible fixed assets (see Note 9)	0.3	–
Impairment charge	–	(0.5)
At 31 March	0.3	1.0

In October 2016, the asset held for sale, the former Chain manufacturing facility located in Seclin, France was sold for £1.0m. Proceeds of £0.9m have been received to date with a further £0.1m receivable subject to environmental tests due to be completed in December 2017.

During the year, the HiTec Couplings business was transferred from the manufacturing facility based in Halifax to the existing UK Couplings facility in Cardiff. The Halifax site was sold on 15 May 2017 for net proceeds of £0.5m realising a gain of £0.2m to be recognised in the first half of the next financial year.

11. 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.

	2017 £m	2016 £m
Raw materials	5.9	6.0
Work in progress	4.6	4.0
Finished products and production tooling	29.9	26.3
	40.4	36.3

Inventories pledged as security for liabilities amounted to £32.8m (2016: £30.2m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. 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.

	2017 Current £m	2017 Non-current £m	2016 Current £m	2016 Non-current £m
Trade receivables[1]	31.2	–	26.9	–
Less: impairment provision	(0.3)	–	(0.4)	–
Trade receivables: net	30.9	–	26.5	–
Other receivables[1]	2.6	–	1.5	–
Prepayments	3.3	–	2.5	–
	36.8	–	30.5	–

[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.

Trade receivables are non-interest bearing and are generally on 30–90 days terms. See Note 25(d) for the Group's credit risk policy. As at 31 March, the ageing analysis of trade receivables is as follows:

	Total £m	Neither past due nor impaired £m	Past due but not impaired <30 days £m	30–60 days £m	60–90 days £m	>90 days £m
2017	31.2	26.7	3.1	0.4	0.3	0.7
2016	26.9	22.0	3.4	0.7	0.2	0.6

	2017 £m	2016 £m
Movement on impairment provision		
Opening provision	0.4	0.5
Net charge to income statement	–	0.1
Utilised in year through assets written off	(0.1)	(0.2)
Closing provision	0.3	0.4

13. 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:

	2017 £m	2016 £m
Cash and cash equivalents	16.4	13.5
Less: Overdrafts (Note 14)	(1.0)	(1.1)
Net cash and cash equivalents	15.4	12.4

14. Borrowings

	2017 £m	2016 £m
Amounts falling due within one year:		
Overdrafts	1.0	1.1
Capitalised costs	(0.2)	(0.2)
	0.8	0.9
Amounts falling due after more than one year:		
Bank loans	32.9	36.1
Capitalised costs	(0.4)	(0.5)
Preference Stock	0.5	0.5
	33.0	36.1
Total borrowings (Note 25(d))	33.8	37.0

All financial liabilities above are carried at amortised cost.

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 revised facility replicates the previous £41m Multi-Currency Revolving 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 £5.3m (2016: £3.4m). 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 1.91% for Sterling denominated facility and LIBOR plus 1.82% for the Euro and US Dollar denominated facility (2016: LIBOR plus 1.79% for Sterling denominated facility and LIBOR plus 1.81% for the Euro and 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 £2.2m.

Secured borrowings

Included in Group borrowings are secured borrowings of £32.3m (2016: £35.0m). 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 2017 there were 580,482 units of Preference Stock in issue (2016: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Trade and other payables

	2017 Current £m	2017 Non-current £m	2016 Current £m	2016 Non-current £m
Trade payables[1]	23.6	–	18.5	–
Other tax and social security	2.1	–	2.1	–
Other payables[1]	1.9	–	1.6	–
Accruals[1]	14.3	0.3	14.0	0.3
	41.9	0.3	36.2	0.3

[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.

16. 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, e.g. 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 2016	0.3	4.0	1.9	6.2
Exchange	–	–	0.2	0.2
Arising during the year	3.2	1.6	–	4.8
Utilised in the year	(2.1)	(0.9)	(0.6)	(3.6)
Discount unwind on provision	–	0.1	–	0.1
At 31 March 2017	1.4	4.8	1.5	7.7

Allocated as:	2017 £m	2016 £m
Current provisions	3.6	1.7
Non-current provisions	4.1	4.5
	7.7	6.2

Business restructuring

This provision relates to the reorganisation and restructuring of various parts of the business: £0.6m relates to the Chinese Torque Transmission facility closure initiated in March 2017 and £0.8m relates to the remaining UK HiTec Couplings redundancy costs due to be paid in the first half of the next financial year. See Note 2(c) on exceptional charges for more details.

Onerous lease

This provision relates to onerous lease costs in respect of the lease of the Bredbury plant in the UK and the Mulgrave facility in Australia. The Bredbury lease expires in May 2030. A lease was agreed in August 2016 to sublet a significant part of the property for a five year term for an annual rent of £0.6m. £0.9m of the provision was utilised in the year leaving a provision of £3.2m in respect of this lease.

In addition, as part of the sale agreement of the Mulgrave facility in Australia completed in March 2017, it was agreed that the business could remain in the property for a maximum of three additional years for an annual rent of £0.5m. This lease was deemed to be onerous and as a result a provision was established in relation to the total lease cost of £1.6m. This charge was included in the net exceptional gain on the sale of the property of £2.9m (see Note 2(c)).

16. Provisions continued

Contingent consideration

Renold (Hangzhou) Co Limited: China

A provision of £0.8m (2016: £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 first two years based upon achieving certain sales targets (up to a maximum of €1.5m). The first year target resulted in consideration of £0.5m (€0.6m) becoming payable. This was paid in April 2017. The reduction has been adjusted though goodwill (see Note 7). Management expect that the second year target will be met and therefore the amount has been provided in full.

17. 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	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Accelerated capital allowances	–	(1.8)	(0.3)	(0.3)	(0.3)	(2.1)
Pension plans	17.2	14.8	–	–	17.2	14.8
Tax losses	5.3	6.0	–	–	5.3	6.0
Other temporary differences	(1.6)	(2.0)	–	–	(1.6)	(2.0)
Tax assets/(liabilities)	20.9	17.0	(0.3)	(0.3)	20.6	16.7
Net off (liabilities)/assets	(0.3)	(0.3)	0.3	0.3	–	–
Net deferred tax assets	20.6	16.7	–	–	20.6	16.7

The net deferred tax asset recoverable within one year is £1.3m (2016: £2.2m) and recoverable after more than one year is £19.3m (2016: £14.5m).

The movement in the net deferred tax balance relating to assets is as follows:

2017	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
Accelerated capital allowances	(1.8)	(0.3)	2.1	–	–
Pension plans	14.8	0.5	(0.2)	2.1	17.2
Tax losses	6.0	0.8	(1.5)	–	5.3
Other temporary differences	(2.0)	(0.2)	0.6	–	(1.6)
	17.0	0.8	1.0	2.1	20.9

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

17. Deferred tax continued

The movement in the net deferred tax balance relating to liabilities in the year is as follows:

2017	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)	–	–	–	(0.3)
	(0.3)	–	–	–	(0.3)

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)
	(0.2)	–	(0.1)	–	(0.3)

During the year the Group has reported an adjusted operating profit of £14.5m (2016: £14.2m). 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 £26.2m (2016: £21.7m) arising from unrecognised losses of £20.7m (2016: £14.5m) (representing losses of £83.2m (2016: £52.3m)) and other timing differences of £5.5m (2016: £7.2m). 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.

18. 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.

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 is in surplus, the asset recognised is limited to the value of any amount expected to be recoverable by the Group by way of refunds or reduction in future contributions.

Under the Group's UK pension scheme rules, any 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.

18. Pensions continued

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 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.

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.

This 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. Prior to the SLP, the contributions had been at a higher level. However, the Trustees agreed to lower contributions for longer under the SLP. 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.

Following the implementation of the two medically underwritten insured buy-ins that fully de-risked approximately 25% of current pensioner liabilities implemented in the year ended 31 March 2016 the growth assets of the RPS represented over 90% of the remaining invested assets of the scheme. Following review, a revised investment strategy has been adopted by the Trustees (with the agreement of the Company) which will redress the balance to circa 67% growth assets and 33% protection assets whilst further diversifying the risk with the introduction of multi-asset credit (MAC) and liability driven investments (LDI) to the portfolio.

Total cash costs for UK deficit repair payments and UK administrative expenses in the period were £3.7m (2016: £3.4m). The current year figure includes the £2.7m noted above in connection with the SLP, £0.5m in respect of an additional payment from the Company towards the medically underwritten buy-ins and a further £0.5m in respect of the costs of other pension projects that were carried out or initiated during the year.

18. Pensions continued

The latest triennial actuarial valuation of the RPS, with an effective date of 5 April 2016, was recently agreed. This process concluded that contributions to the scheme should continue unchanged and no additional contributions in excess of the previously agreed asset backed funding structure were deemed necessary. The next triennial valuation date will be 5 April 2019.

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. 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.

In aggregate, the two (2016: two) German pension schemes have a net liability of £25.5m (2016: £23.8m). The change in the net deficit is due to a reduction in the discount rate 1.9% (2016: 2.0%) and the adverse impact of the change in the Euro foreign exchange rate.

United States of America

In the US the Group operates three defined benefit pension schemes in the US Torque Transmission business. In 2015, one of the three schemes was formally terminated and members benefits secured in full. 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 (2016: two) defined benefit schemes in the US have combined assets of £11.2m (2016: £8.8m) and liabilities of £15.0m (2016: £13.4m), giving a net deficit of £3.8m (2016: £4.6m). The change in the net deficit was due to an increase in the discount rate to 3.8% (2016: 3.6%) offset by the adverse impact of the change in the US Dollar foreign exchange rate.

Other overseas schemes

In aggregate the other overseas defined benefit schemes have combined assets of £2.4m (2016: £2.0m) and liabilities of £3.0m (2016: £2.7m) giving a net deficit of £0.6m (2016: net deficit of £0.7m).

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 (2016: 15 years) and 14 years (2016: 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 2017 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	
	2017	2016	2017	2016	2017	2016
Rate of increase in pensionable salaries[1]	–	–	–	–	2.2%	2.1%
Rate of increase in pensions in payment and deferred pensions	1.7%	1.7%	1.5%	1.5%	–	–
Discount rate	2.5%	3.5%	1.9%	2.0%	3.7%	3.5%
Inflation assumption[2]	2.2%	1.8%	1.5%	1.5%	2.2%	2.1%

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.

18. Pensions continued

The predominant defined benefit obligation for funded plans within the Group resides in the UK (£218.4m of the £236.4m 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:

	2017	2016
Males		
Currently aged 45	21.2	21.4
Currently aged 65	20.3	20.4
Females		
Currently aged 45	23.4	23.7
Currently aged 65	22.3	22.6

The post-retirement mortality tables used for the UK plan are the S2PA 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 £7.7m/increase by £8.7m
Rate of inflation	Increase/decrease by 0.25%	Increase by £5.0m/decrease by £4.6m
Rate of mortality	Increase/decrease by 1 year[1]	Increase by £10.3m/decrease by £10.5m

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:

	2017			2016		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Medically underwritten insurance policies	47.5	–	47.5	47.0	–	47.0
UK quoted equities	20.5	–	20.5	16.8	–	16.8
Overseas quoted equities	31.8	6.9	38.7	27.2	5.1	32.3
Hedge funds and diversified growth funds	29.1	–	29.1	37.2	–	37.2
Corporate bonds	2.1	3.1	5.2	3.3	4.4	7.7
Gilts	–	2.1	2.1	–	0.1	0.1
Liability driven investments (LDI)	4.8	–	4.8	4.6	–	4.6
Other	10.6	2.1	12.7	1.6	1.8	3.4
Total market value of assets	146.4	14.2	160.6	137.7	11.4	149.1

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.

Liability Driven Investments (LDI) are a portfolio of assets that are linked to the drivers of movements in pension liabilities such as inflation and interest rates. These are assets designed to deliver geared movements in the underlying liabilities as they reflect changes to inflation and interest rates.

18. Pensions continued

Pension obligations

The movement in the present value of the defined benefit obligation is as follows:

	2017			2016		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Opening obligation	(191.3)	(40.7)	(232.0)	(201.5)	(45.5)	(247.0)
Arising on acquisition	–	–	–	–	(0.4)	(0.4)
Current service cost	–	(0.3)	(0.3)	–	(0.1)	(0.1)
Past service credit	–	–	–	–	1.3	1.3
Interest expense	(6.5)	(1.1)	(7.6)	(6.4)	(0.9)	(7.3)
Remeasurement gains /(losses) by changes in:						
– Experience	2.7	0.3	3.0	–	0.3	0.3
– Demographic assumptions	2.7	–	2.7	–	2.2	2.2
– Financial assumptions	(35.8)	(0.2)	(36.0)	3.5	(0.2)	3.3
Liabilities extinguished on settlement	–			–	3.3	3.3
Benefits paid	9.8	2.1	11.9	13.1	1.9	15.0
Exchange adjustment	–	(4.3)	(4.3)	–	(2.6)	(2.6)
Closing obligation	(218.4)	(44.2)	(262.6)	(191.3)	(40.7)	(232.0)
The total defined benefit obligation can be analysed as follows:						
Funded pension plans	(218.4)	(18.0)	(236.4)	(191.3)	(16.2)	(207.5)
Unfunded pension plans	–	(26.2)	(26.2)	–	(24.5)	(24.5)
	(218.4)	(44.2)	(262.6)	(191.3)	(40.7)	(232.0)

The UK liabilities above include £47.5m that are fully insured (2016: £47.0m).

Pension assets

The movement in the present value of the defined benefit plan assets is as follows:

	2017			2016		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Opening assets	137.7	11.4	149.1	156.6	14.7	171.3
Interest income	4.7	0.4	5.1	5.0	0.4	5.4
Remeasurement gains/(losses)	10.6	0.7	11.3	(13.5)	(0.4)	(13.9)
Employer contributions	3.2	0.9	4.1	2.7	0.8	3.5
Benefits paid	(9.8)	(0.9)	(10.7)	(13.1)	(0.9)	(14.0)
Assets distributed on settlement	–	–	–	–	(3.4)	(3.4)
Exchange adjustment	–	1.7	1.7	–	0.2	0.2
Closing assets	146.4	14.2	160.6	137.7	11.4	149.1
Balance sheet reconciliation:						
Plan obligations	(218.4)	(44.2)	(262.6)	(191.3)	(40.7)	(232.0)
Plan assets	146.4	14.2	160.6	137.7	11.4	149.1
Net plan deficit	(72.0)	(30.0)	(102.0)	(53.6)	(29.3)	(82.9)

18. Pensions continued

The net amount of remeasurement gains and losses taken to other comprehensive income is as follows:

Remeasurement gains/(losses)	2017 UK £m	2017 Overseas £m	2017 Total £m	2016 UK £m	2016 Overseas £m	2016 Total £m
On plan obligations	(30.4)	0.1	(30.3)	3.5	2.3	5.8
On plan assets	10.6	0.7	11.3	(13.5)	(0.4)	(13.9)
Net (losses)/gains	(19.8)	0.8	(19.0)	(10.0)	1.9	(8.1)

The actual return on plan assets was a gain of £16.4m (2016: loss £8.5m) which equates to 10.2% (2016: 5.7%) of plan assets.

An analysis of amounts charged to operating costs is set out below:

	2017 £m	2016 £m
Operating costs		
Pension administration costs	(0.7)	(0.7)
Current service cost	(0.3)	(0.1)
Past service credit	–	1.3
Settlement loss	–	(0.1)
	(1.0)	0.4

The past service credit of £1.3m in the prior year arose in Germany following the confirmation that the pension scheme was properly closed to future accrual with effect from 31 March 2014. Also in the prior year, the £0.1m settlement loss relates to the liquidation of the Australian scheme when the net surplus was £0.1m. See Note 2(c) for further details.

The cost for the period of the various defined contribution schemes was £1.3m (2016: £1.3m) and was fully paid up.

19. Called up share capital

	Issued 2017 £m	2016 £m
Ordinary shares of 5p each	11.3	11.2
Deferred shares of 20p each	15.4	15.4
	26.7	26.6

At 31 March 2017, the issued ordinary share capital comprised 225,417,740 ordinary shares of 5p each (2016: 223,064,703) and 77,064,703 deferred shares of 20p each (2016: 77,064,703). The deferred shares noted above have had no value or voting rights since the Rights Issue in late 2009 and it is intended to cancel these following approval at the 2017 AGM. The balance above will be transferred to a non-distributable Capital Reserve at that time.

In July 2016, the Company issued 2,353,037 fully paid ordinary shares of 5p each (2016: nil) at a cost of £117,651.85 to its Employee Benefit Trust to facilitate the exercise of share options by employees across the Company.

20. 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.

20. Share-based payments continued

The fair value per option granted in the period and the assumptions used in the calculation are as follows:

	2017 Executive share option scheme				2016 Executive share option scheme	
Grant date	16.01.17	21.07.16*	21.07.16*	05.06.16	05.06.15	10.02.16
Share price of grant	50.21p	36.50p	36.50p	40.12p	76.50p	42.75p
Exercise price	0.0p	0.0p	0.0p	0.0p	0.0p	0.0p
Number of employees	1	1	1	24	25	1
Shares under option	368,465	821,918	821,918	2,395,947	1,678,327	22,290
Vesting period (years)	3	3	3	3	3	3
Expected volatility	39%	43%	43%	43%	58%	58%
Option life (years)	10	10	10	10	10	10
Expected life (years)	6	6	6	6	6	6
Risk free interest rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Assumed dividends expressed as a dividend yield	Zero	Zero	Zero	Zero	Zero	Zero
Fair value per option	50.21p	36.50p	11.24p	40.12p	76.50p	42.75p

* A single grant was made on 21 July 2016. The options are subject to market conditions and non-market conditions (50% each) so have been shown separately here due to differing fair values.

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 2017 is shown below:

Executive share option schemes

	2017 Number	2017 Weighted average exercise price	2016 Number	2016 Weighted average exercise price
Outstanding at 1 April	8,638,911	8.6p	7,454,402	9.9p
Granted	4,408,248	0.0p	1,700,617	0.0p
Exercised	(1,992,926)	13.5p	–	–
Lapsed	(111,534)	71.3p	–	–
Forfeited	(668,776)	6.4p	(516,108)	0.0p
Outstanding at 31 March	10,273,923	3.4p	8,638,911	8.6p
Exercisable at 31 March	3,247,096	10.7p	2,303,973	36.0p

For those share options exercised in the year, the weighted average share price at the date of exercise was 48.3p.

	2017		Weighted average remaining life		2016		Weighted average remaining life	
Range of exercise prices	Weighted average exercise price	Number of shares	Expected	Contractual	Weighted average exercise price	Number of shares	Expected	Contractual
Nil	–	9,004,221	8.2	4.2	–	6,334,938	8.9	4.9
20p to 30p	26.2p	1,145,038	5.8	1.8	26.4p	1,456,482	7.3	3.3
30p to 40p	37.3p	124,664	4.2	0.2	37.3p	735,923	6.2	2.2
40p to 100p	–	–	–	–	71.3p	111,568	1.5	–

1,992,926 options have been exercised in the period (2016: nil). The total charge for the year relating to employee share-based payment plans was £0.2m (2016: £1.1m), all of which related to equity settled share-based transactions.

The middle market price of ordinary shares at 31 March 2017 was 56.25p and the range of prices during the year was 33.13p to 59.75p.

Details of the share-based payment arrangements for Executive Directors are provided in the Directors' Remuneration Report on pages 78 to 94. At 31 March 2017, unexercised options for ordinary shares amounted to 10,273,923 (2016: 8,638,911).

21. 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 2017 amounted to £3.5m (2016: £3.5m).

Included in retained earnings is an amount of £3.5m (net of tax) (2016: £5.4m) 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.

22. 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:

	2017		2016	
	Properties £m	Equipment £m	Properties £m	Equipment £m
Within one year	2.8	1.0	1.7	0.8
Between two and five years	8.3	2.5	6.5	2.5
Over five years	10.2	–	10.8	0.1
	21.3	3.5	19.0	3.4

Certain of the leased properties have been sublet and the future minimum sublease payments expected to be received under non-cancellable sublease agreements is £5.0m (2016: £2.7m).

An onerous lease provision of £3.2m (2016: £4.0m) (see Note 16) 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. A significant proportion of this site is now sublet for a term of five years for a rent of £0.5m per annum.

An additional onerous lease provision of £1.6m was established in the year following the sale of the Mulgrave manufacturing facility. The lease expires in March 2020 at a cost of £0.5m per annum.

23. Contingent liabilities and commitments

Performance guarantees given to third parties in respect of Group companies were £nil (2016: £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 employer's defaulted on the agreed deficit repair plan. As one of the sponsoring employer's 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

24. Additional cash flow information

Reconciliation of operating profit to net cash flows from operations:

	2017 £m	2016 £m
Cash generated from operations:		
Operating profit	11.0	11.1
Depreciation and amortisation	7.9	6.0
Loss on disposals of plant and equipment	0.3	–
Exceptional gain on sale of Australian property	(2.9)	–
Property impairment	–	0.5
Equity share plans	0.2	1.1
(Increase)/decrease in inventories	(0.4)	1.7
(Increase)/decrease in receivables	(3.4)	0.7
Increase/(decrease) in payables	1.3	(2.1)
Decrease in provisions	(0.5)	(1.6)
Past service credit – German pension scheme (Note 18)	–	(1.3)
Movement on pension plans	(5.1)	(4.3)
Cash generated from operations	8.4	11.8

Reconciliation of net change in cash and cash equivalents to movement in net debt:

	2017 £m	2016 £m
Increase/(decrease) in cash and cash equivalents	2.2	(0.2)
Change in net debt resulting from cash flows	4.5	(4.0)
Foreign currency translation differences	(0.4)	(0.1)
Non-cash movement – refinancing cost capitalised	–	0.5
Non-cash movement – amortisation of refinancing costs	(0.2)	(0.2)
Change in net debt during the period	6.1	(4.0)
Net debt at start of year	(23.5)	(19.5)
Net debt at end of year	(17.4)	(23.5)
Net debt comprises:		
Cash and cash equivalents (Note 13)	16.4	13.5
Total borrowings (Note 14)	(33.8)	(37.0)
	(17.4)	(23.5)

25. 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 34 to 39.

25. 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$) (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
2017	**25%**	**–**	**2.0**
	(10%)	**–**	**(1.1)**
2016	25%	(0.1)	1.4
	(10%)	0.1	(0.7)

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	2017 Effect on profit before tax £m	2016 Effect on profit before tax £m
Sterling	+150	**(0.3)**	(0.4)
US Dollar	+150	**(0.1)**	(0.1)
Euro	+150	**(0.1)**	(0.1)
Other	+150	**–**	–
		(0.5)	(0.6)

(a) The balance sheet position on financial instruments is set out below:

	2017 £m	2016 £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 (2016: £nil) was transferred to operating costs in the income statement.

(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 2017 was £6.9m (2016: £6.1m). £0.9m of exchange loss (2016: £0.2m 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.

25. Financial instruments continued

(d) Currency and interest rate profile of financial liabilities of the Group

Currency	2017 Fixed rate £m	2017 Floating rate £m	2017 Total £m	2016 Fixed rate £m	2016 Floating rate £m	2016 Total £m
Sterling						
– Financial liabilities	–	21.2	21.2	–	26.5	26.5
– Preference Stock	0.5	–	0.5	0.5	–	0.5
US Dollar	–	6.9	6.9	–	6.1	6.1
Euro	–	4.2	4.2	–	3.9	3.9
Other	–	1.0	1.0	–	–	–
	0.5	33.3	33.8	0.5	36.5	37.0

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 12. 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 2017

Cash at bank and in hand by currency	2017 £m	2016 £m
Sterling	4.6	(1.1)
Euro	8.4	8.3
US Dollar	(0.8)	2.2
Other	4.2	4.1
	16.4	13.5

Cash balances are held with the Group's bankers. These deposits are held largely in Germany 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:

2017	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	–	–	33.3	–	33.3
Interest paid on borrowings	1.7	–	–	–	1.7
Trade payables, other payables and accruals	39.8	–	–	0.3	40.1
Provisions – contingent consideration	1.5	–	–	–	1.5
Forward foreign exchange contracts – outflow	2.9	–	–	–	2.9
Preference Stock[1]	–	–	–	0.5	0.5
	45.9	–	33.3	0.8	80.0

1. No fixed repayment date.

25. Financial instruments continued

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, other payables and accruals	34.1	–	–	0.3	34.4
Provisions – contingent consideration	–	1.9	–	–	1.9
Forward foreign exchange contracts – outflow	0.9	–	–	–	0.9
Preference Stock[1]	–	–	–	0.5	0.5
	36.5	1.9	37.0	0.8	76.2

1 No fixed repayment date.

The Group has contracted forward contracts consisting of Euro forward contracts of £nil (2016: £nil) and US Dollar forward contracts of £2.9m (2016: £0.9m). The US Dollar contracts are sell contracts, given that the UK Group tends to have a surplus in US Dollars and a deficit in Euros.

(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:

	2017 £m	2016 £m
Expiring within one year or less, or on demand	1.9	1.8
Expiring between one and two years	–	–
Expiring between two and five years	5.3	3.4
	7.2	5.2

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	
	2017 £m	2016 £m	2017 £m	2016 £m
Financial assets – cash	16.4	13.5	16.4	13.5
Financial liabilities – floating rate bank overdraft	1.0	1.1	1.0	1.1
Interest bearing loans and borrowings				
Floating rate borrowing	32.3	35.4	32.3	35.4
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 opposite, the above financial instruments are level 2 except Preference Stock which is level 1.

25. 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 2017, the Group held the following financial instruments measured at fair value:

	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)	–

As at 31 March 2016:

	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 2017 and 31 March 2016.

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.

	2017 £m	2016 £m
Net debt (Note 24)	17.4	23.5
Total capital	5.1	7.8
Capital and net debt	22.5	31.3
Gearing ratio	77%	75%
Adjusted EBITDA[1] (£m)	21.3	20.2
Net debt to adjusted EBITDA	0.82 times	1.16 times

1 Adjusted EBITDA is calculated as adjusted operating profit adding back depreciation and amortisation charges in the period.

26. Post balance sheet events

There were no significant post balance sheet events to report.

GROUP FIVE YEAR FINANCIAL REVIEW

	2017 £m	2016 £m	2015 £m	2014 £m	2013 (restated[3]) £m
Group revenue	183.4	165.2	181.4	184.0	190.3
Adjusted operating profit	14.5	14.2	15.5	11.1	7.2
Operating profit/(loss)	11.0	11.1	12.1	(1.3)	(6.4)
Profit/(loss) before tax	6.7	7.4	7.7	(5.9)	(11.9)
Taxation	(1.9)	(2.0)	(2.1)	(4.8)	0.1
Profit/(loss) for the year	4.8	5.4	5.6	(10.7)	(11.8)
Net assets employed					
Tangible and intangible fixed assets	56.9	54.7	45.8	46.7	50.7
Working capital and other net assets	35.2	31.2	30.0	32.0	33.3
Operating assets	92.1	85.9	75.8	78.7	84.0
Goodwill	26.4	22.7	21.9	19.8	21.8
Net debt	(17.4)	(23.5)	(19.5)	(24.8)	(22.8)
Deferred and current taxation	16.4	14.5	15.5	12.8	19.4
Provisions	(7.7)	(6.2)	(6.4)	(7.7)	(1.9)
Net assets excluding pension obligations	109.8	93.4	87.3	78.8	100.5
Pension obligations	(102.0)	(82.9)	(75.7)	(64.9)	(69.5)
Total net assets	7.8	10.5	11.6	13.9	31.0
Other data and ratios					
Return on capital employed (restated) (%)[1]	12.6	13.7	15.6	11.1	6.5
Return on sales (restated) (%)[2]	7.9	8.6	8.5	6.0	3.8
Capital expenditure (£m)	10.9	8.8	6.6	7.1	4.9
Basic earnings/(loss) per share (restated) (p)	2.1	2.4	2.5	(4.9)	(5.4)
Employees at year end[4]	2,139	2,187	2,243	2,208	2,466

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)'.

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 and significant accounting judgement, estimates and assumptions 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).

COMPANY BALANCE SHEET

as at 31 March 2017

	Note	2017 £m	2016 £m
ASSETS			
Non-current assets			
Intangible assets	i	6.0	6.8
Property, plant and equipment	ii	0.3	0.3
Investments in subsidiary undertakings	iii	144.4	148.4
Trade and other receivables	v	9.9	9.8
Deferred tax assets	iv	3.1	2.4
		163.7	167.7
Current assets			
Trade and other receivables	v	4.4	3.0
Cash and cash equivalents		8.2	2.9
		12.6	5.9
TOTAL ASSETS		176.3	173.6
LIABILITIES			
Creditors: amounts falling due within one year			
Trade and other payables	vi	(4.2)	(3.8)
Derivative financial instruments	viii	(0.1)	(0.1)
		(4.3)	(3.9)
NET CURRENT ASSETS/(LIABILITIES)		8.3	2.0
Creditors: amounts falling due after more than one year			
Trade and other payables	vi	(62.5)	(65.8)
Borrowings	ix	(17.1)	(20.6)
Preference Stock	ix	(0.5)	(0.5)
Retirement benefit obligations	x	(18.0)	(13.4)
		(98.1)	(100.3)
TOTAL LIABILITIES		(102.4)	(104.2)
NET ASSETS		73.9	69.4
Capital and reserves			
Issued and called up share capital	xi	26.7	26.6
Share premium account		30.1	29.9
Currency translation reserve		8.6	2.3
Retained earnings		8.5	10.6
SHAREHOLDERS' FUNDS		73.9	69.4

The Company reported a profit for the financial year ended 31 March 2017 of £2.1m (2016: loss of £0.2m). These financial statements were approved by the Board on 30 May 2017 and signed on its behalf by:

Robert Purcell
Chief Executive

Ian Scapens
Finance Director

COMPANY STATEMENT IN CHANGES IN EQUITY

for the year ended 31 March 2017

	Share capital £m Note xi	Share premium account £m	Retained earnings £m	Currency translation reserve £m	Total equity £m
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
Profit for the year	–	–	2.1	–	2.1
Other comprehensive income/(expense)	–	–	(4.4)	6.3	1.9
Total comprehensive income/(expense) for the year	–	–	(2.3)	6.3	4.0
Proceeds from share issue	0.1	0.2	–	–	0.3
Employee share options:					
– value of employee services	–	–	0.2	–	0.2
At 31 March 2017	**26.7**	**30.1**	**8.5**	**8.6**	**73.9**

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	11.1
Additions at cost	1.0
At end of year	**12.1**
Depreciation	
At beginning of year	4.3
Depreciation for the year	1.8
At end of year	**6.1**
Net book value at end of year	**6.0**
Net book value at beginning of year	6.8

(ii) Property, plant and equipment

	Property £m	Equipment £m	Total £m
Cost			
At beginning of year	0.2	0.1	0.3
At end of year	**0.2**	**0.1**	**0.3**
Depreciation			
At beginning of year	–	–	–
At end of year	**–**	**–**	**–**
Net book value at end of year	**0.2**	**0.1**	**0.3**
Net book value at beginning of year	0.2	0.1	0.3

Future capital expenditure

At 31 March 2017, contracted capital expenditure not provided for in these financial statements for which contracts have been placed amounted to £0.1m (2016: £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 cash flows 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	86.4	148.4
Net additions/(repayments)	–	(4.0)	(4.0)
At end of year	**62.0**	**82.4**	**144.4**

The subsidiary undertakings of the Company at 31 March 2017 are set out in Note (xiv).

(iv) Deferred tax assets

2017	Opening balance £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
Pension plans	2.4	–	0.7	3.1
	2.4	–	0.7	3.1

Unrecognised deferred tax assets amount to £0.3m (2016: £2.1m), arising from accelerated capital allowances of £0.3m (2016: £0.4m) and £nil (2016: £1.7m) representing losses of £nil (2016: £9.6m).

(v) Trade and other receivables

	2017 Current £m	2017 Non-current £m	2016 Current £m	2016 Non-current £m
Amounts owed by subsidiary undertakings	3.4	–	1.7	–
Other debtors	0.1	–	0.1	–
Prepayments	0.9	9.9	1.2	9.8
	4.4	9.9	3.0	9.8

NOTES TO THE COMPANY FINANCIAL STATEMENTS

(vi) Trade and other payables

	2017 £m	2016 £m
Amounts falling due within one year:		
Trade creditors	1.7	1.7
Other taxation and social security	0.2	0.3
Accruals	2.3	1.8
	4.2	3.8

	2017 £m	2016 £m
Amounts falling due after one year:		
Loan from subsidiary undertakings	62.5	65.8

A 25 year loan of £62.5m was established with Renold International Holdings Limited in 2014. 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

	2017 £m	2016 £m
At beginning of year	–	0.2
Charge for the year	–	0.2
Utilised in the year	–	(0.4)
At end of year	–	–

In the prior year, a provision for Head Office restructuring costs of £0.4m was utilised. No movements in the current year.

(viii) Derivative financial instrument

	2017 £m	2016 £m
Forward foreign currency contracts – cash flow hedge	(0.1)	(0.1)

The Group has contracted forward contracts consisting of US Dollar forward contracts £2.9m (2016: £1.8m). The US Dollar contracts are sell contracts, given that the UK Group companies have a surplus in US Dollars.

(ix) Borrowings

	2017 £m	2016 £m
Amounts falling due after one year:		
Bank loans repayable in two to five years	17.1	20.6
Summary of total borrowings:		
Bank loans	17.1	20.6
Preference Stock	0.5	0.5
Total borrowings	17.6	21.1

(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 18 to the Group financial statements.

No contributions are outstanding at the year end.

(xi) Called up share capital

	Issued 2017 £m	2016 £m
Equity interests		
Ordinary shares of 5p each	11.3	11.2
Deferred shares of 20p each	15.4	15.4
Preference Stock[1]	0.5	0.5
	27.2	27.1

1 Included in borrowings – see Note (ix).

At 31 March 2017, the issued ordinary share capital comprised 225,417,740 ordinary shares of 5p each (2016: 223,064,703) and 77,064,703 deferred shares of 20p each (2016: 77,064,703). The deferred shares noted above have had no value or voting rights since the Rights Issue in late 2009 and it is intended to cancel these following approval at the 2017 AGM. The balance above will be transferred to a non-distributable Capital Reserve at that time.

In July 2016, the Company issued 2,353,037 fully paid ordinary shares of 5p each (2016: nil) at a cost of £117,651.85 to its Employee Benefit Trust to facilitate the exercise of share options by employees across the Company.

Disclosures in respect of capital management can be found in Note 25 to 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) to 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) Co Limited and its 75% owned subsidiary, Renold Chain India Private Limited. Trading balances outstanding at 31 March with Renold (Hangzhou) Co Limited and Renold Chain India Private Limited are as follows:

	2017 £m	2016 £m
Amounts receivable as at 31 March		
– Renold (Hangzhou) Co Limited	4.9	4.4
– Renold Chain India Private Limited	–	–
	4.9	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

(xiv) Subsidiary undertakings as at 31 March 2017

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 2017 is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of the Renold Group. The registered address of all offices is Trident 2, Trident Business Park, Styal Road, Wythenshawe, Manchester, M22 5XB unless stated.

United Kingdom

Renold Power Transmission Limited*
Renold International Holdings Limited*
Renold Europe Limited*
Renold Holdings Limited*

United Kingdom (dormant companies)

Anchor Chain and Power Transmission Co Limited
Hans Renold Limited*
John Holroyd & Company Limited*
Jones & Shipman Limited*

United Kingdom (pension companies)

Renold Pensions Limited* (dormant)	
Renold Group General Partner Limited*	
Renold Scottish Limited Partnership	3–5 Melville Street, Edinburgh, Scotland, UK, EH3 7PE*

Europe (other than the United Kingdom)

Austria	Renold GmbH	Kärntner Ring 12, A-1010 Wien
Belgium	Renold Continental Limited (incorporated in the United Kingdom)	
Denmark	Renold A/S	Kaerup Alle 2, 1. Benlose, 4100, Ringstad
France	Brampton Renold SAS*	100 rue du Courbillon, 59175, Vendeville
Germany	Renold GmbH*	Juliusmühle, 37574, Einbeck
	Renold Holding GmbH*	Juliusmühle, 37574, Einbeck
	Renold Automotive Systems Germany	Juliusmühle, 37574, Einbeck
Poland	Renold Polska sp. z o.o.	ul. Mlyńska 11, 40-098 Katowice, Poland
	Renold Poland sp. z o.o.	ul. Mlyńska 11, 40-098 Katowice, Poland
Spain	Renold Hi-Tec Couplings SA	C/ Antoni Gaudi 21, Bajos 2o, Gavá, Barcelona
Sweden	Renold Transmission AB (Sweden)	
Switzerland	Renold (Switzerland) GmbH	Ringstrasse 16, CH-8600, Dübendorf 1

North America

Canada	Renold Canada Limited*	622 rue De Hull, Montreal, Quebec, H8R 1VG
USA	Renold Inc	100 Bourne Street, Suite 2, Westfield, NY 14787
	Jeffrey Chain LP	2307 Maden Drive, Morristown, TN 37813
	Renold Holdings Inc	2307 Maden Drive, Morristown, TN 37813
	Jeffrey Chain Acquisition Co Inc	2307 Maden Drive, Morristown, TN 37813
	Jeffrey Chain Corp	2307 Maden Drive, Morristown, TN 37813

(xiv) Subsidiary undertakings as at 31 March 2017 continued

Other countries

Australia	Renold Australia Proprietary Limited*	508-520 Wellington Road, Mulgrave, Victoria 3170
China	Renold Transmission (Shanghai) Company Limited	Section A, Floor 3 of Composite Building, No. 18 North Fute Road, China (Shanghai) Pilot Free-Trade Zone, Shanghai
	Renold Technologies (Shanghai) Company Limited	Building 3, No. 385 Zheng Zhong Xin Road, Beicai Town, Pudong, Shanghai
	Renold (Hangzhou) Co Limited	No.82 Dongfang Road, Yiqiao Town, Xiaoshan District, Hangzhou Municipality, Zhejiang Province
	Renold (China) Transmission Products Co Ltd	No. 168 Huacheng Road, Jintan District, Changzhou
India	Renold Chain India Private Limited	S.F No: 568/1A, 569/1&2, D. Gudalur (P.O), Vedasanthur (T.K), Dindigul (D.T), Tamil Nadu – 624 620
Malaysia	Renold (Malaysia) Sdn Bhd	No. 2, Jalan Anggerik Mokara 31/44, Kota Kemuning, Seksyen 31, 40460 Shah Alam, Selangor, Malaysia
New Zealand	Renold New Zealand Limited*	594 Rosebank Road, Avondale, Auckland
	Renold Retirement Trustee Limited	Melville Jessup Weaver, Level 5, 40 Mercer St, Wellington, 6142
Singapore	Renold Transmission Limited (incorporated in the United Kingdom)	
South Africa	Renold Crofts (Pty) Limited*	Cnr Liverpool Road and Bolton Street, Nestadt Industrial Sites, Benoni, 2007, Gauteng
Thailand	Renold (Thailand) Limited	399 Interchange Building, Unit 10, 24th Floor, Sukhumvit 21 Road, Klongtoey Nua Sub-District, Wattana District, Bangkok

* Directly held by Renold plc.

All of our companies, with the exception of Renold (Hangzhou) Co 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 below) interest in the equity shares and voting rights.

The Group has the following interests in the exceptions noted above:

Subsidiary undertaking	Equity shares	Voting rights
Renold (Hangzhou) Co 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.

CORPORATE INFORMATION

Corporate Calendar

Annual General Meeting	19 July 2017
Half year end 2016/17	30 September 2017
Announcement of half year 2016/17 results	14 November 2017
Year end 2017/18	31 March 2018
Announcement of annual results 2017/18	29 May 2018
Payment of preference dividends	1 July 2017 and 1 January 2018

Company details

Registered office

Trident 2, Trident Business Park
Styal Road
Wythenshawe
Manchester
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 8.30 am to 5.30 pm, 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 FRC 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 month's closing working capital divided by rolling 12 months' sales.
Board	The Board of Directors of the Company (for more information see pages 60 and 61).
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 pages 60 and 61 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 adviser, Price Waterhouse Coopers 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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