Fenner
Inspiring solutions

2016 Fenner PLC Annual Report

Contents

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Report, in particular Outlook, constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievements of Fenner, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such statements. Such risks, uncertainties and other factors include, among others, exchange rates, the commodity markets, general economic conditions and the business environment.

Visit our website
www.fenner.com

Financial Highlights

Revenue
£572.5m
2015: £666.7m

Underlying operating profit [1,5]
£37.1m
2015: £56.4m

Underlying profit before taxation [2,5]
£23.2m
2015: £42.5m

Exceptional items
£(40.8)m
2015: £(34.4)m

Loss before taxation
£(30.3)m
2015: £(5.3)m

Operating cash flow [4,5]
£62.2m
2015: £69.2m

Underlying earnings per share [2,3,5]
8.4p
2015: 15.5p

Dividend per share
3.0p
2015: 12.0p

1 Underlying operating profit is before amortisation of intangible assets acquired and exceptional items.

2 Underlying profit before taxation and underlying earnings per share are before amortisation of intangible assets acquired, exceptional items and notional interest.

3 Underlying earnings per share is based on the basic weighted average number of shares in issue.

4 Operating cash flow is underlying operating profit adjusted for depreciation and amortisation, capital expenditure (net of disposals) and movements in working capital.

5 Underlying and non-GAAP measures have been presented to provide a more meaningful measure of the underlying performance of the business. Reconciliations of these amounts from the most directly comparable measures recognised under International Financial Reporting Standards can be found in Alternative Performance Measures on pages 107 to 108.

"The Group's results were ahead of our expectations at the time of the Annual General Meeting in January 2016, assisted by currency. Management actions have started to outweigh market pressures.

The Group has made important progress in repositioning those businesses which have been most affected by market conditions. We achieved another strong performance in terms of generating cash and controlling costs.

As the financial year progressed, there were increasing signs that the measures we have taken are leading to improvements in the trading results of many of the Group's businesses. We expect these improvements to continue in the new financial year and to benefit the Group's strategic position over the medium term."

Mark Abrahams
Chief Executive Officer

Understanding Fenner

- Fenner is a world leader in reinforced polymer technology
- Fenner uses its expertise to identify, design and manufacture locally-engineered and performance-critical polymer products for niche markets around the world
- Fenner has two divisions: Advanced Engineered Products and Engineered Conveyor Solutions

Fenner
Inspiring solutions

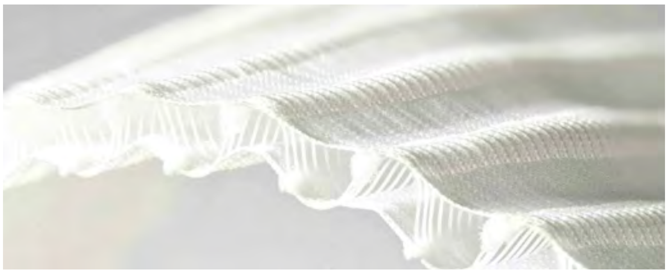
AEP Advanced Engineered Products

AEP provides high value-added solutions using advanced polymeric materials in three related product areas

ADVANCED SEALING TECHNOLOGIES

PRECISION POLYMERS

SOLESIS MEDICAL TECHNOLOGIES

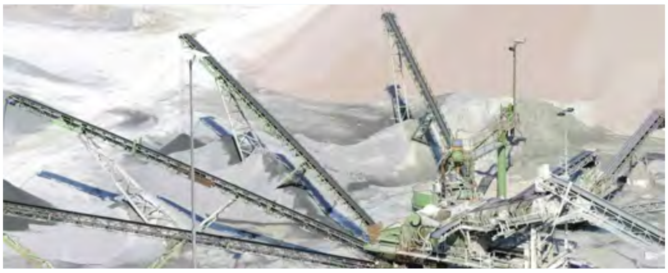


ECS Engineered Conveyor Solutions

ECS is a recognised global leader in the heavyweight conveying market, operating in the Northern and Southern Hemispheres

BELTING FOR MINING CUSTOMERS

BELTING FOR INDUSTRIAL APPLICATIONS



STRATEGIC SERVICE OFFERING

Vision and strategic framework

Our vision is to enhance Fenner's position as a world leader in reinforced polymer technology through being the leading global provider of local engineered solutions for performance-critical applications.

Fenner's strategic framework has been developed in support of this vision. The framework has enabled the Group to respond to the challenging conditions that it has faced in several of its key markets and to provide the basis on which the Group expects to resume growth and deliver shareholder value.

AEP and ECS have leading competitive positions in their chosen markets

- AEP businesses have strong positions in niche markets. ECS is one of two leading global suppliers of heavyweight conveyor belt
- Market leaderships are based on established brands, applied technology and product quality, supported by a strong ethos of customer service

Fenner participates in markets which offer good prospects of stabilisation, recovery and sustained growth

- Fenner's medical markets have particularly exciting growth prospects
- Our oil & gas and mining markets are stabilising and there are some early indications that recovery has commenced
- The industrial niche markets in which we operate have generally shown steady growth in excess of GDP
- We expect Fenner businesses to outperform their markets by increasing share

Fenner is a global group with businesses located across developed and emerging economies

- Fenner operates on every continent with particular strengths in North America
- Earnings are generated predominantly in US dollars, euros and Australian dollars
- Fenner is able to direct investment into those regions where prospective returns are most attractive

Fenner is led by a restructured and experienced management team

- Fenner management has deep knowledge of the specialised industries in which it operates
- Significant changes have been made during the year to reflect the challenges and opportunities which the Group now has
- Fenner has continued to invest in human resources in important areas such as product development, marketing and health & safety

Fenner has a strong record of cost savings and cash generation

- We have taken action to restructure and reposition the Group's businesses to reflect changes in end market dynamics whilst maintaining business mandates and growth potential
- Significant reductions in operating costs have been achieved and will continue through continuous improvement programmes
- The Group continues to have a strong underlying operating cash flow

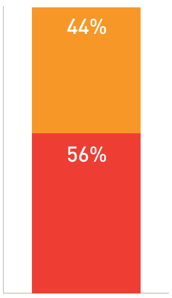
Fenner has a strong balance sheet and is soundly financed

- Fenner's businesses are well invested, with facilities operated to high standards and with appropriate production capacity
- The Group's balance sheet is underpinned by medium-term debt maturity

Summary financials

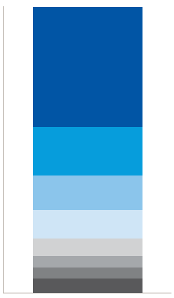
REVENUE

By division



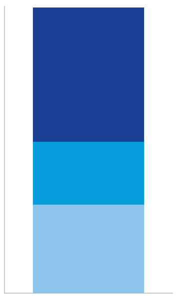
AEP	£250.7m
ECS	£321.8m
	£572.5m

By markets served



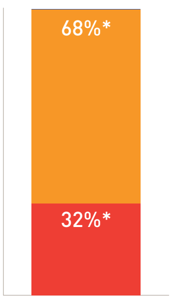
Mining	42%
Construction	17%
General Industrial	12%
Medical	10%
Oil & Gas	6%
Transportation	4%
Agriculture	4%
Other	5%

By destination



Americas	47%
EMEA	22%
Asia Pacific	31%

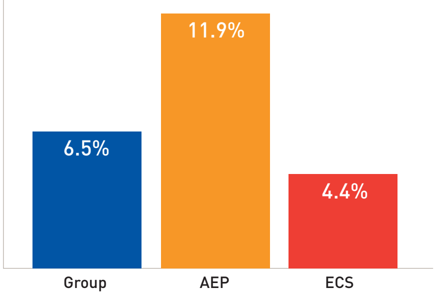
UNDERLYING OPERATING PROFIT



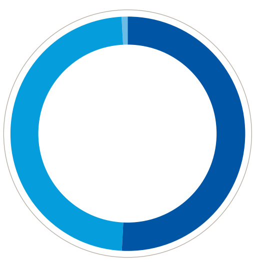
AEP	£29.9m
ECS	£14.2m

*before unallocated corporate costs (£7.0m)

UNDERLYING OPERATING MARGIN



EMPLOYEES



AEP	2179
ECS	2072
Corporate	33

As at 31 August 2016

Chairman's Statement

The Board is committed to the creation of long-term value for Fenner shareholders.

Vanda Murray OBE
Chairman
16 November 2016

Dear Shareholder

This is the first time that I have written to shareholders in my capacity as Chairman of the Company since my appointment in June 2016.

On the following pages you will find the Chief Executive Officer's Review which sets out the steps taken by the Group in response to the difficult trading conditions which persisted throughout the year in several key markets, the continued progress being made to reshape and reposition our businesses in response to these conditions and the resulting outlook for the new financial year.

STRATEGIC DEVELOPMENT AND SHAREHOLDER VALUE

The Board is committed to the creation of long-term value for Fenner shareholders. The Board regularly reviews the Group's strategy and structure to ensure that this commitment is delivered; in doing so, it takes into account the views of financial advisers and feedback received from principal shareholders.

Certain of the Group's businesses, especially those in the medical industry, have the potential for significant growth and the creation of substantial value for Fenner shareholders. In order to realise the growth opportunities, the Group will continue to invest in these businesses; a significant part of this investment is likely to be in the form of product development and human resources.

The Group's principal strategic priorities for those of its businesses with challenging end markets, which are particularly those related to the mining and oil & gas industries, have been the close management of costs and cash whilst maintaining the strengths which have made these businesses leaders in their respective fields. These businesses have been successful in gaining market share and the benefits of these gains should become increasingly apparent as their end markets stabilise and recover.

Acquisitions have been a central part of the Group's growth strategy, the most recent being Charter Medical in 2015. Current and future market volatility may lead to opportunities for a strategic acquisition which the Group would pursue provided that the acquisition was on terms which met our business and financial criteria and provided that it could be appropriately financed.

The Group will also dispose of businesses which are no longer seen as capable of generating sufficient growth or returns to the Company's shareholders while under our ownership; accordingly, the Group disposed of Xeridiem Medical Devices shortly after the end of the financial year.

DIVIDENDS

The Board is recommending a final dividend of 2.0p per share, which gives a total dividend for the year of 3.0p. The total dividend for the year is covered 2.8 times by underlying earnings and 6.7 times by free cash flow.

The Board has rebased the dividend to a level which is more appropriate to the Group's current level of earnings and one from which it intends to adopt a progressive dividend policy.

BOARD AND GOVERNANCE

There have been significant changes to the Board during the year.

In June 2016, Nicholas Hobson, who was previously Chief Executive Officer, stepped down from the Board having taken leave of absence from the Company since the beginning of January 2016 to undergo medical treatment. He will be leaving the Group at the end of his contractual notice period and, until that time, will remain on garden leave to enable him to continue with his treatment. The Board wishes him well and would like to extend its thanks to Nick for his many years of valued service to the Group.

At that time, Mark Abrahams, who was Chief Executive Officer from 1994 until 2011 at which time he became Non-Executive Chairman, resumed the role of Chief Executive Officer.

The Board considered that it would be appropriate for Mark to relinquish chairmanship of the Company and I accepted the Board's invitation to become acting Non-Executive Chairman.

During the year, we have been delighted to welcome two new non-executive directors to the Board. As indicated in last year's Annual Report, Geraint Anderson joined the Board at the conclusion of the 2016 Annual General Meeting and sits on the Audit, Remuneration and Nomination Committees. Chris Surch joined the Board on 1 May 2016; most recently, Chris was Group Finance Director of FirstGroup plc and prior to that he had been Group Finance Director at Shanks Group plc. He is Chairman of the Audit Committee and also sits on the Remuneration and Nomination Committees.

Alan Wood retired from the Board at the conclusion of the 2016 Annual General Meeting and John Sheldrick retired from the Board on 1 May 2016. Both had been directors since 2010 and I would like to express gratitude to both on behalf of the Board and the wider Group for their valued contributions.

The Board recognises that appropriate, well managed corporate governance processes help to ensure that the Group continues to be managed in the best interests of both shareholders and wider stakeholders. The Board is committed to maintaining high standards of governance, which we view as central to delivering long-term shareholder value. The Board regularly holds discussions with major shareholders covering the Group's performance and governance issues; these discussions also provide opportunities to discuss other matters as appropriate.

The Board is satisfied that, following Nick Hobson ceasing to be a director of the Company, it has an appropriate composition of executive and non-executive members for the time being. The Board has continuing processes for the appointment of a Non-Executive Chairman and a Chief Executive Officer. The Board is aware that the appointment of a new Chief Executive Officer is a crucial and potentially lengthy process and is grateful to Mark Abrahams for his undertaking that he will remain in the role until an appointment has been made which may be beyond his previously indicated retirement date of February 2017. He has also agreed to assist in the transition to a new Chief Executive Officer.

Further information on Corporate Governance is set out on **pages 30 to 36**

EMPLOYEES

I would like to take this opportunity to express my sincere thanks to all of our employees for their continued hard work, commitment and determination during a year which has presented the Group with many and varied challenges.

CORPORATE RESPONSIBILITY

Fenner recognises that conducting its operations in a safe and responsible manner underpins its long-term sustainability. By acting responsibly, we can provide a safe and supportive working environment, minimise our environmental impact and support the communities in which we operate. Fenner's Code of Business Conduct, together with our health & safety, environmental and various supporting policies, reinforce the behaviours we expect the Group's employees to demonstrate at all times.

Further information on Corporate Responsibility is set out on **pages 24 to 28**

ANNUAL GENERAL MEETING

You will find enclosed a notice convening the Company's Annual General Meeting which will be held on 11 January 2017.

My Board colleagues and I look forward to welcoming you to the meeting.

Chief Executive Officer's Review

Management actions have started to outweigh market pressures.

Mark Abrahams
Chief Executive Officer
16 November 2016

Dear Shareholder

The Group's results were ahead of our expectations at the time of the Annual General Meeting in January 2016, assisted by currency, despite certain of the Group's principal markets having shown no recovery and, in some cases, having deteriorated further. This outcome reflects our determination to enhance the Group's business mandates whilst maintaining a tight control on costs and cash.

The Group has made important progress in repositioning those businesses which have been most affected by market conditions. Generally across the Group, we have sought to build market share and strengthen market positions with particular emphasis on customer service and product development. As part of this process, a number of changes have been made to the Group's senior management.

This has been an especially important year for our medical businesses. Secant Group, our principal medical business, is in the process of completing its move into new, purpose-built premises. We believe that this, together with its strong pipeline of new products, will provide the basis for further significant growth. In its first full year as part of the Group, Charter Medical produced results ahead of our expectations.

The Group's revenue was £572.5m and underlying operating profit was £37.1m. Revenue and underlying operating profit both fell during the year, primarily reflecting continued difficulties in the US coal mining industry and the slowdown in the oil & gas industry. AEP's medical businesses once again provided a bright spot, with an improved result compared with the previous year.

We achieved another strong performance in terms of generating cash and controlling costs. Free cash flow for the year was £38.8m, resulting in year end net debt of £150.0m, better than our earlier expectations and little changed on the previous year before taking into account foreign exchange movements. Total operating costs excluding materials were reduced by a further £42m, at constant currencies.

SUMMARY OF RESULTS AND PERFORMANCE

		2015		Change	
	2016	As reported	Constant currency	**As reported**	**Constant currency**
Revenue (£m)					
AEP	**250.7**	266.2	279.1	**-6%**	**-10%**
ECS	**321.8**	400.5	409.5	**-20%**	**-21%**
Fenner	**572.5**	666.7	688.6	**-14%**	**-17%**
Underlying operating profit (£m)					
AEP	**29.9**	41.0	44.3	**-27%**	**-33%**
ECS	**14.2**	23.3	23.9	**-39%**	**-41%**
Corporate	**(7.0)**	(7.9)	(7.9)	**-11%**	**-11%**
Fenner	**37.1**	56.4	60.3	**-34%**	**-38%**
Underlying operating margin					
AEP	**11.9%**	15.4%	15.9%	**-3.5pcp**	**-4.0pcp**
ECS	**4.4%**	5.8%	5.8%	**-1.4pcp**	**-1.4pcp**
Fenner	**6.5%**	8.5%	8.8%	**-2.0pcp**	**-2.3pcp**
Fenner					
Underlying profit before taxation (£m)	**23.2**	42.5	45.8	**-45%**	**-49%**
Loss before taxation (£m)	**(30.3)**	(5.3)	(2.6)	**n/a**	**n/a**
Operating cash flow (£m)	**62.2**	69.2	73.1	**-10%**	**-15%**
Underlying earnings per share	**8.4p**	15.5p	16.7p	**-46%**	**-50%**

The restructuring programmes across the Group led to restructuring costs of £15.8m, the largest part of which arose in relation to ECS's North American business.

As the financial year progressed, there were increasing signs that the measures we have taken are leading to improvements in the trading results of many of the Group's businesses. We expect these improvements to continue in the new financial year and to benefit the Group's strategic position over the medium term.

ADVANCED ENGINEERED PRODUCTS

AEP is organised into three product groups: Advanced Sealing Technologies (which generated 42% of AEP's revenue in 2016); Precision Polymers (37%); and Solesis Medical Technologies (21%).

In 2016, AEP generated revenue of £250.7m (2015: £279.1m at constant currencies) and underlying operating profit of £29.9m (2015: £44.3m at constant currencies). Underlying operating margin was 11.9% (2015: 15.9%).

AEP's lower result for the year was primarily due to the continued slowdown in the oil & gas industry, in particular in the USA. The impact was mitigated by a strong performance by AEP's medical businesses and by continued attention to costs and gains in market shares across the division.

Advanced Sealing Technologies

Advanced Sealing Technologies, the largest product group within AEP, designs and manufactures performance-critical seals for use in oil & gas, fluid power and specialist industrial applications. In 2016, revenue was £105.1m (2015: £137.1m at constant currencies).

CDI (design and manufacture of custom seals for upstream oil & gas) is the Group's largest oil & gas business, with its principal operation in Texas, USA. During the first half of the year, there was a further sharp fall in industry indicators, in particular the US rig count; these stabilised in the second half of the year before showing a slight improvement before the year end.

These indicators have broadly mapped the significant declines which CDI has seen in its US order intake. CDI's on-going commitment to customer service and product innovation within an increasingly stringent regulatory environment, whilst maintaining its continuous close attention to costs, helped to ensure that it remained profitable, albeit at levels much below those seen in previous years. By the end of the year, there were indications that CDI's outlook was improving, assisted by gains in market share.

CDI's operations in the Far East, headquartered in Singapore, generated lower revenue and operating profit as oil companies' capital expenditure on deep-sea projects tailed off. However, a series of internal initiatives led to an improved level of customer enquiries which is expected to result in increased order intake in the new financial year. In Europe, where lower oil prices have led to much reduced levels of activity across the industry, CDI has restructured its operations with some manufacturing having been transferred to other global locations.

EGC (wear components, precision components, connectors and seals) produced a much improved performance in the second half of the year as it developed new products and applications for oil & gas and industrial customers. These have partly offset the effects of further weakness in its mid-stream oil & gas markets.

AIP (high precision machined polymer components) has also successfully built up revenue streams in medical, aerospace and specialised industrial applications which have mitigated lower activity levels in its oil & gas markets.

Hallite (seals for fluid power) pursued initiatives throughout the year to increase overall market share and to target specific market niches. Despite its markets having been generally subdued, Hallite was able to improve its profitability as the year progressed through operating efficiencies and lower costs within its supply chain.

Precision Polymers

Precision Polymers produces high value-added elastomeric solutions, principally belts and hoses, for niche markets across a range of segments. In 2016, revenue was £92.7m (2015: £99.0m at constant currencies). The business generates the majority of its revenue in the USA; it also has well established operations in Europe and is seeking to expand its presence in Asia and South America.

During the year, the US business operations of Fenner Drives and Fenner Precision were combined to form Precision Polymers US, and the UK business operations of Fenner Precision and James Dawson were combined to form Precision Polymers UK. In the USA, Fenner Drives and Fenner Precision have their principal facilities on sites which are adjacent to one another, as do Fenner Precision and James Dawson in the UK. Combining local operations under common management has created larger, more efficient businesses with opportunities for additional revenue and the elimination of duplicated costs. Mandals, based in Norway, continues to be managed separately within Precision Polymers.

In 2016, Precision Polymers US generated revenue in its power transmission and motion control businesses that was in line with distribution industry indicators across the sectors in which it operates. These indicators reflected a slight fall in US industrial output and some destocking amongst distributors and end users. Precision Polymers US increased sales of bespoke belts and related products in various niches, including digital imaging equipment, ATMs and card readers, which mitigated lower revenues elsewhere.

Precision Polymers UK had a strong performance in its UK elastomeric solutions business, building upon the relationships which it has successfully developed with its OEM customers, with revenue and profit both well ahead of the previous year. Revenue from hoses for high-performance diesel engines was only slightly behind the previous year, despite subdued demand for heavy-duty vehicles and some evidence that customers are becoming more price-sensitive; there was an improved performance by James Dawson's operation in China. In both its US and UK operations, Precision Polymers will continue to use its expertise in polymer engineering and its OEM relationships to develop new products and applications into niche markets across a range of industries, with particular opportunities being seen in infrastructure, motion control and transportation.

Mandals (lay-flat hoses) mainly generated revenue from the sale of agricultural hose in its traditional markets in Europe (especially the Nordic region) and the Americas. Sales of hose into the US unconventional oil & gas industry for use in hydraulic fracturing remained at low levels. Opportunities for Mandals' high-performance hoses in new applications are being developed.

Case Study - Secant Group

Secant Group has well established expertise in the weaving, knitting and braiding of polymeric materials; these materials are used by its clients in the manufacture of biomedical structures which are implanted into the human body.

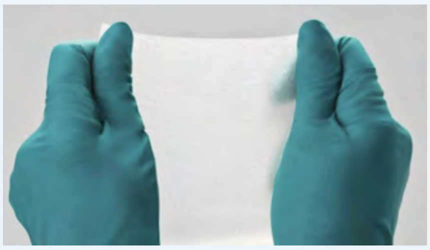
Around five years ago, Secant decided to use its expertise to explore the possibilities of developing new polymers and engineered fibre which would enable biomedical structures to become more sophisticated.

Through the use of advancing resorbable polymer technology and through creating unique fibre architecture, Secant was able to create material with properties closer to those of human tissue than those materials manufactured by Secant's competitors.

The development process required considerable investment by Secant in increased resources, in areas such as research facilities, employee additions and specialist equipment.

As a result of this investment, Secant now offers several platform technologies, one of them being Regenerez®, a fully-synthetic, bioresorbable, surface-eroding polymer. In preclinical trials, Regenerez® exhibits properties similar to that of soft tissue and promotes the repair or regeneration of native tissue. It encourages a natural healing process with minimal inflammation due to its controlled surface erosion characteristics unlike other bulk eroding polymers. In recent tests, Regenerez®-based structures exhibited greater than 99.99% antibacterial activity against a range of bacterial species including MRSA. The combination of Regenerez® with Secant's extensive textile forming capabilities provides a powerful combination to support many new medical device developments.

Secant has considerably expanded its range of activities and expertise, making it a more important part of its clients' supply chains. Its current capabilities cover polymers, extrusions, textile formation, state-of-the-art materials analysis and contract manufacturing and packaging services for finished medical devices. Continued development remains a corporate priority with a new product pipeline of over 150 projects with consideration also being given to opportunities which might exist outside the medical industry.



Chief Executive Officer's Review continued

Solesis Medical Technologies

The medical products group currently comprises Secant Group and Charter Medical (which was acquired in 2015). Each build upon Fenner's expertise in polymers and textiles to design and manufacture medical components and devices. Both businesses are located in the USA. As noted below, Xeridiem Medical Devices was sold in September 2016. In 2016, revenue was £52.9m (2015: £43.0m at constant currencies), an increase of 23%.

Secant Group (biomedical textile components and biomaterials) is in the latter stages of its relocation to new, purpose-built premises. Construction and fitting-out have been completed and the relocated equipment is progressing through testing and certification. Secant's new product pipeline has again expanded and currently stands at over 150 projects.

Against this background of investment, Secant Group produced a good result for the year with revenue ahead of the previous year. As anticipated, operating profit reflected various additional operating costs which arose as a consequence of the move and, in particular, the need to run the old and new facilities alongside one another for a period of time.

Charter Medical (single-use products for blood management, bio-processing and cell therapy) made a much enhanced contribution to the Group's results which was ahead of our earlier expectations. Demand for Charter Medical products has been strong, and its operational performance has been improved by various senior management changes made during the year.

In September 2016, the Group disposed of Xeridiem Medical Devices for a cash consideration, net of disposal costs, of £6.4m. The disposal will allow Solesis Medical Technologies to focus on the significant growth opportunities in Secant Group and Charter Medical whilst Xeridiem Medical Devices is expected to bring more synergies to the purchaser than were available to the Fenner Group.

Further information on AEP is set out in the Divisional Overview on **pages 10 to 11**

ENGINEERED CONVEYOR SOLUTIONS

During the year, ECS implemented a series of specific initiatives and continuous improvement programmes as it stepped up its response to conditions in the worldwide mining industry which have remained exceptionally challenging. As part of this, ECS refocused its North American business on the industrial segment and strengthened its position in the Australian market.

In 2016, ECS generated revenue of £321.8m (2015: £409.5m at constant currencies). Operating cash flow was £34.9m, compared with underlying operating profit of £14.2m, reflecting in particular the continuing strong emphasis on the management of working capital. Despite the unprecedented market conditions, underlying operating margin was 4.4% (2015: 5.8%).

As the year progressed, the benefits of the actions taken were reflected in ECS's results, with profitability in the second half of the year being well ahead of that in the first half.

ECS is managed in two regional business groupings, being Northern Hemisphere (including North America and Europe, where ECS predominantly serves industrial customers) and Southern Hemisphere (comprising principally ECS's businesses in Australia, China and RSA, where the customer base is focused on mining).

Northern Hemisphere

In 2016, revenue was £171.4m (2015: £244.5m at constant currencies), a decrease of 30%; this represented 53% of ECS's revenue.

Americas

During the year, ECS undertook a major refocusing and restructuring of its North American business (as further described in the case study below).

Under the refocusing, ECS is placing increased emphasis on its industrial business, which includes bulk materials and non-coal extractive industries; this business is seen as having more attractive medium and longer-term growth prospects.

In 2016, the industrial business accounted for over 60% of ECS's North American sales, compared with some 40% in 2015. Within the industrial business, sales to the bulk materials sector continued to grow, whilst sales to non-coal extractive industries fell, reflecting

Case Study - ECS North America

In January 2016, ECS announced a significant refocusing and restructuring of its North American business in order to provide increased focus on industrial markets, which include bulk materials and non-coal extractive industries, and to reflect structural changes taking place in the US coal industry.

This refocusing and restructuring has been effected through:

- Added focus on industrial markets with improvements in customer service levels and manufacturing efficiency, coupled with industry-specific new product development.
- A change of focus within the coal sector towards those customers who are able to withstand the challenges presented in their markets.
- The closure of the majority of the belt manufacturing facility at Port Clinton, Ohio (one of the two such facilities operated by ECS in North America), with only the more modern parts of the facility containing recently-installed equipment remaining in use.
- Specific measures to address other underperforming activities including ECS's fabricated products business with the closure of the facility at Allison, Pennsylvania and the downsizing of its South American service business.
- Significant additional savings in support functions, overheads and administration.

The measures to refocus ECS's business on industrial markets are progressively taking effect and the improvements will continue in the new financial year.

Annualised cost savings of £10m, in line with management expectations at the time of the announcement of the restructuring, have been achieved, with £6m having been realised in 2016. The benefit of these cost savings mitigated the impact of the further volume declines in sales to the US coal mining industry seen during the year.

The cash cost of the restructuring was £4.9m; in addition, there were non-cash asset impairment charges of £3.8m.

With the restructuring largely complete, it is expected that the financial performance of ECS Americas will progressively improve towards historic levels, albeit that revenues will remain considerably below those achieved at the peak.

conditions in global mining markets. The business further strengthened its network of distributors and enhanced its product and service offering which is being well received by distributors and end users.

The restructuring has achieved the expected annual cost savings of £10m, with £6m having been realised in 2016. As part of this process, the majority of one of the principal belt manufacturing facilities in North America and a fabricated products facility have both been closed. Further cost savings and efficiency gains are expected from the ongoing continuous improvement programme.

For the majority of the year, US coal miners remained under considerable financial pressure and generally sought to minimise operating expenses and cash outlays. Reflecting these conditions, ECS generated significantly lower revenues from sales of its belting products and services to the coal mining industry. Close management of customer credit has remained a key focus for ECS and has resulted in lower sales.

However, by the end of the year, there were certain early indications that conditions in the US coal industry may be easing, with some recovery in prices and weekly production volumes returning towards levels seen in 2015. ECS has seen early indications of improvements in order intake, although these still remain well below levels seen in previous years.

Weaker conditions in the copper industry in South America resulted in lower revenues being generated in the region.

Europe
ECS's principal European operation, based in the Netherlands, serves a customer base that generally comprises industrial customers spread across Europe, North Africa and the Middle East. It successfully maintained its performance of the previous year, achieving a satisfactory return on sales in market conditions which have yet to show a sustained recovery.

The UK business, which is almost wholly dependent on export markets, saw an improved return on lower revenues, reflecting the benefits of the restructuring undertaken during the previous year.

Southern Hemisphere
In 2016, revenue was £150.4m (2015: £165.0m at constant currencies), a decrease of 9%; this represented 47% of ECS's revenue. Increased business efficiencies and continued close attention to costs across the region resulted in an improved return on sales.

Australia
ECS's business in Australia represents the largest proportion of the Southern Hemisphere operations and is focused on the coal and iron ore mining industries.

During the year, ECS strengthened its leadership of the Australian market through continued commitments to customer service and product innovation, supported by its strong local manufacturing presence. These measures mitigated the effects of mines reducing excess belt stocks and of lower demand for belt for use in new customer capacity. ECS's revenue was also reduced by the strategic decision to withdraw from certain low margin service activities.

ECS has enhanced its programme of continuous improvement to all aspects of its business including customer service, operational efficiency and the maximisation of value from its own supply chain; these measures have helped to offset the effect of continued pricing pressure amongst customers.

BBCS and LECS, in which the Group acquired the outstanding minority interests after the year end, performed well during the year.

As the year ended, strengthening prices of iron ore and thermal/metallurgical coal, combined with some prospect of increased demand for commodities from China, supported an improvement in sentiment within the mining industry, with some benefit being seen in ECS's service business.

China
ECS achieved a profit in the year despite demand for its belt having stagnated as the coal industry in China undergoes extensive restructuring. This restructuring is expected to lead, in due course, to a more favourable operating environment for ECS. However, in the meantime, there is likely to be a period of uncertainty across the industry as a whole which will impact ECS's order intake levels.

RSA
ECS's business in RSA remained profitable during the year, through a strong focus on costs and despite revenues having been adversely impacted by uncertainty over the future of the coal mining industry and the much reduced output of iron ore.

Further information on ECS is set out in the Divisional Overview on **pages 12 to 13**

GROUP FINANCING
The Group remains well invested with a strong asset base.

As at 31 August 2016, the Group's net debt was £150.0m (2015: £138.0m). The debt is mostly US dollar-denominated; through the prudent use of hedging, we were able to mitigate the impact of changing foreign exchange rates after the Brexit vote. Before taking into account the net impact of exchange rate movements, net debt was little changed over the year.

Capital expenditure was £16.1m, compared with depreciation of £24.2m. Capital expenditure in AEP was £11.3m, which was concentrated in the medical businesses and principally related to new specialist premises for Secant Group. In ECS, capital expenditure was £4.8m against depreciation of £13.8m. Given the significant investments made in ECS's facilities in prior years, this general level of capital expenditure will be sufficient for some time to come.

HEALTH & SAFETY
The Group has an overriding commitment to provide a safe and secure working environment for everyone. This extends beyond our employees to include all those who work with us and are affected by our activities such as customers, visitors and our neighbours. The Group continues to show year-on-year improvement in its primary HSE performance measure, Lost Time Incident Frequency Rate ("LTIFR"). The LTIFR reduced by 11% over the year to 0.55, which compares favourably to published industry benchmarks. This means that our employees are safer; it indicates we are more efficient in our operations; and it results in tangible commercial benefits, for example, in terms of lower insurance premiums.

OUTLOOK
Whilst the prices of commodities relevant to our ECS business have recently shown a moderate increase, we believe it is appropriate to view these increases with a degree of caution as they are yet to translate into increased demand for conveyor belt. Nevertheless, the price increases do leave our customers better positioned. This, together with the fact that many customers have significantly reduced stocks, is leading to their requiring belt on much shorter lead times. This is a more positive situation which we believe will eventually lead to increased demand.

The North American rig count that aligns to the demand for our oil & gas businesses has risen steadily for the last three months and recently we have seen increases in demand, albeit from a very low base. The structural changes that have taken place in the industry will, we believe, act as a short-term constraint to growth but, in the longer term, will enable us to accelerate our market share gains and, over the next few years, return the business to the levels of profitability we enjoyed before the decline of the last 18 months.

Our medical businesses have created a technology platform incorporating some important patents which will provide significant new opportunities for growth, albeit the incubation period for such products is likely to be several years.

Our industrial businesses are performing steadily against stable but subdued market conditions.

Taken as a whole, the Group has commenced the new financial year with a substantially reduced cost base and with several of the leading indicators for the Group's businesses showing a more positive trend.

As a consequence, we now anticipate that the outcome for the current year will be modestly ahead of our previous expectations. In addition, the Group is experiencing a tailwind from the translation of overseas earnings into sterling, with the year-on-year impact on underlying operating profit from currency movements estimated to be £4m based on exchange rates prevailing during the early part of the new financial year.

Divisional Overview

AEP Advanced Engineered Products

AEP is a group of nine related businesses that use advanced polymeric materials and technical expertise to provide high value-added solutions to customers' most challenging engineering problems.

Business mandate

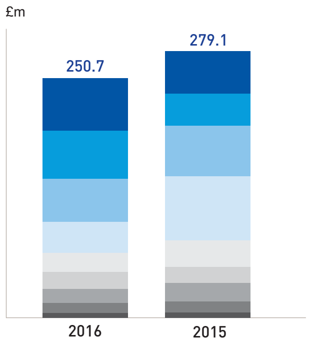
- Performance-critical products with significant design content representing only a small proportion of customers' total costs
- AEP management enjoys delegated responsibility and opportunities to display entrepreneurialism with Fenner providing strategic direction and a framework of controls
- Manufacturing expertise supported by external certifications and strong logistical support
- Leading positions in niche markets with attractive medium and long-term growth prospects
- Strong product development pipeline, either self-funded or working with chosen partners
- High margin businesses with significant operational gearing

Divisional strategy

- AEP will continue to grow as a group of related businesses developing polymer-based products for performance-critical applications
- Businesses work with each other to share research in polymer technology and to combine support functions
- In oil & gas, AEP will benefit from structural change in the industry and more rigorous regulation through continued emphasis on product development, manufacturing expertise and customer service
- AEP's medical businesses will utilise recent investment in new facilities and intellectual property to realise significant growth opportunities, with a focus on applications in endovascular, heart valve, neurovascular and biological medicine
- AEP's industrial businesses offer steady long-term growth with attractive margins, based on market niches, product innovation and efficient operations
- Acquisitions are expected to continue to play an important role in AEP's future growth. AEP will dispose of businesses with insufficient growth or margin potential

AEP revenue analysis

BY MARKETS SERVED

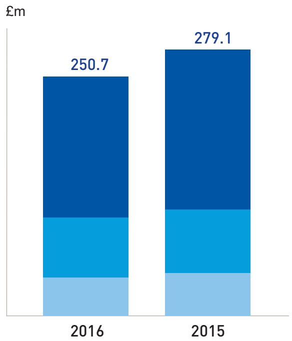


	2016	2015
Medical	**22%**	16%
Construction	**20%**	12%
General Industrial	**18%**	19%
Oil & Gas	**13%**	24%
Transportation	**8%**	10%
Fluid Handling	**7%**	6%
Automation	**6%**	7%
Agriculture	**4%**	4%
Mining	**2%**	2%

At constant currency

Medical became the largest single end market within AEP, accounting for 22% of AEP's revenue, due to the first full year of ownership of Charter Medical. Oil & gas revenues reflected the slowdown in the oil & gas industry that took place during the year and represented 13% of AEP's revenue, compared to 24% in 2015. Industrial segments combined accounted for the remaining 65%, with a strong performance by the construction sector which increased its share of revenue to 20%.

BY GEOGRAPHY



	2016	2015
Americas	**59%**	60%
EMEA	**25%**	24%
Asia Pacific	**16%**	16%

At constant currency; by location of customers

The Americas, principally the USA, remains the largest market for AEP products, reflecting that a number of AEP businesses, including Solesis Medical, CDI, EGC and Precision Polymers US, have their principal operations in the USA. Certain AEP businesses, including Precision Polymers UK, Hallite and Mandals, have well established European operations. Revenue from Asia Pacific is generated by AEP businesses in the region and by exports from AEP's facilities elsewhere, mainly the USA.

Business and organisation

AEP comprises three related product groups: Advanced Sealing Technologies; Precision Polymers; and Solesis Medical Technologies.

AEP uses its expertise in advanced polymeric materials and in application design across a variety of markets, generally classified as "oil & gas", "medical" and "specialist industrial". Markets served do not correspond to product groups or individual businesses within AEP with particular markets often being served by a number of AEP businesses; as examples, within Advanced Sealing Technologies, CDI derives its entire revenue from customers in the upstream oil & gas industry, whilst the fluid power seals designed and manufactured by Hallite have end users spread across a wide variety of industries.

Each AEP business originally became part of the Group through an acquisition. An acquired business operates under the strategic direction and control of Fenner and within a network of financial and managerial controls; a strategy for the business to enter into a phase of rapid growth is implemented utilising financial resources provided by Fenner and which the previous owner had not been willing or able to commit. The business may retain its brands and corporate identities where these are seen as important in maintaining the business' presence in its local markets.

Following a reorganisation which took place during 2016, new business groupings were created within Precision Polymers. Precision Polymers US comprises the US business operations of Fenner Drives and Fenner Precision. Precision Polymers UK comprises the UK business operations of Fenner Precision and James Dawson. Mandals continues to be managed as a separate business.

Advanced Sealing Technologies

CDI Energy Products

Custom seals for upstream oil & gas

Hallite

Seals for fluid power

EGC Critical Components

Seals and other components for mid/downstream oil & gas and petrochemicals

AIP Precision Machining

High precision machined polymer components

Precision Polymers

Precision Polymers US

Elastomeric solutions; belts for power transmission and motion control

Precision Polymers UK

Elastomeric solutions and specialist hoses

mandals since 1775

Hoses for hydraulic fracturing, agriculture and industry

Solesis Medical Technologies*

secant group PARTNERS FROM INSPIRATION TO REALIZATION

Biomedical textile components and biomaterials

CharterMedical

Custom single-use medical devices

* Xeridiem Medical Devices was sold in September 2016

Summarised financial record

	2016	2015	2014	2013	2012
Revenue (£m)	**250.7**	279.1	281.8	271.2	248.0
Underlying operating profit (£m)	**29.9**	44.3	46.4	48.1	46.9
Underlying operating margin	**11.9%**	15.9%	16.5%	17.7%	18.9%

At constant currency

Find out more about AEP and its operations at **www.fenner.com**

ECS Engineered Conveyor Solutions

ECS is an established global leader in the supply of heavyweight conveyor belting and related services to the mining, industrial and bulk handling markets.

Business mandate

- ECS provides its customers with the lowest total cost of ownership for the reliable operation of conveyors
- Full range of heavyweight conveyor belting for mining and industrial applications with complementary service offering
- Industry-leading brands, technology and product quality
- Predominantly a consumables and aftermarket business which is mission-critical for customers' efficiency
- Global presence, including market leadership in Australia
- Strong customer relationships built on local presence, consistently high standards of customer service and speed of response
- Well invested and strategically located manufacturing facilities

Divisional strategy

- Respond to current difficult market conditions through business restructuring/refocusing, continuous efficiency improvements and on-going product development
- Realise opportunities to improve financial performance as commodity markets recover and through increasing shares of industrial markets
- ECS Northern Hemisphere (principally Europe and North America) is increasingly focused on industrial customers, accessed directly or through a network of distributors, with a reducing exposure to coal mining
- ECS Southern Hemisphere is concentrated on mining customers in Australia where ECS intends to maintain and develop its market leadership
- Conveyor services are generally offered where they are seen as being strategic to customers' belt purchasing decisions
- Pursue growth opportunities in hard rock mining (Australia and elsewhere), in industrial markets (Europe and North America) and in emerging mining and industrial regions

Summarised financial record

	2016	2015	2014	2013	2012
Revenue (£m)	**321.8**	409.5	466.8	512.0	561.2
Underlying operating profit (£m)	**14.2**	23.9	45.1	57.9	77.9
Underlying operating margin	**4.4%**	5.8%	9.7%	11.3%	13.9%

At constant currency

Find out more about ECS and its operations at **www.fenner.com**

ECS products

ECS has developed a comprehensive range of heavyweight belt products, including ply, solid woven and steel cord, which it manufactures in its plants around the world and which carry the "Fenner", "Fenner Dunlop" and "Dunlop" brand names.

ECS belts are differentiated from those of many of its competitors as they have a higher technical content in terms of key characteristics such as tensile strength, energy efficiency and fire retardancy; this provides ECS's customers with a safe, compliant, durable and cost-effective solution to their most demanding conveying needs.

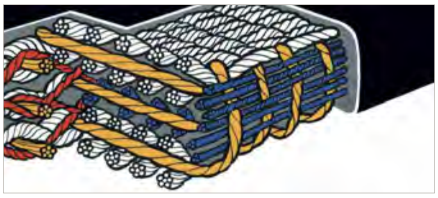
Alongside its range of belting products, ECS provides conveying services including monitoring, maintenance, design and installation and supplier related components such as pulleys, drives and structure. ECS has repositioned its service activities to focus on those customers which see the provision of belt service as part of a strategic relationship with a belt provider.

Examples of ECS products

Ply belt

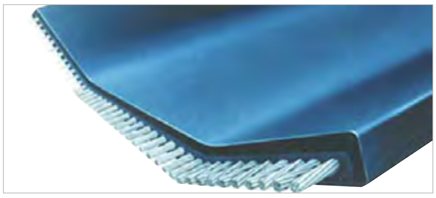
Ply belts comprise several layers of fabric made from woven polymers which are covered with compounded rubber. ECS has its own specialist facilities in which polymers are woven to form fabrics which are crucial in determining the tensile strength and durability of belts. Ply belts are used in a wide variety of industrial and mining applications.

Solid woven



Solid woven belts are generally used in underground mining where there is the need to combine tensile strength with fire resistance capabilities which meet relevant regulatory standards. ECS has established itself as global leader in fire resistant belt, through products such as Fenaplast which comprises a one-piece carcass and integral covers.

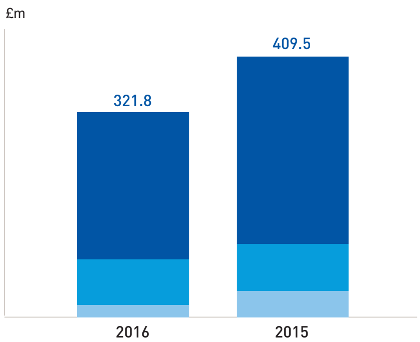
Steel cord



Steel cord belt is used in applications, such as hard rock mining, where the materials being moved are particularly abrasive, and on the longest, fastest and high-capacity conveyor systems. Steel cord belt is manufactured using pre-tensioned steel cords which are encased in premium rubber compounds.

ECS revenue analysis

BY REVENUE TYPE



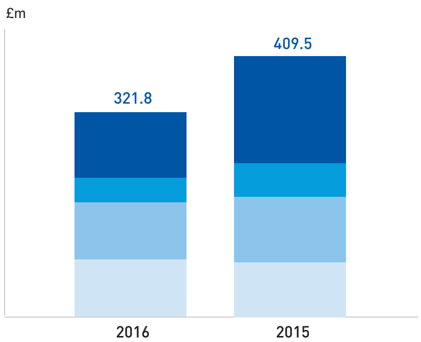
	2016	2015
Replacements	**72%**	72%
Service	**22%**	18%
New customer capacity	**6%**	10%

At constant currency

ECS is predominantly a consumables and service business; in 2016, replacements and services accounted for 94% of ECS revenues. Generally, demand for replacement belt is related to the volume of material extracted. However, over the course of a commodity cycle, the relationship may show considerable variations; around cyclical lows, demand for new belt may be reduced as mines run down belt inventories and extend the period between replacements.

New capacity installed by customers, for example in relation to the development of new mines, accounted for only 6% of ECS revenues. This represented a further fall from the previous year as capital expenditure by mining groups has reflected the downturn in the global commodity cycle.

BY MARKETS SERVED



	2016	2015
Coal - thermal	**32%**	41%
Coal - metallurgical	**12%**	13%
Other extractive	**28%**	25%
Bulk materials	**28%**	21%

At constant currency

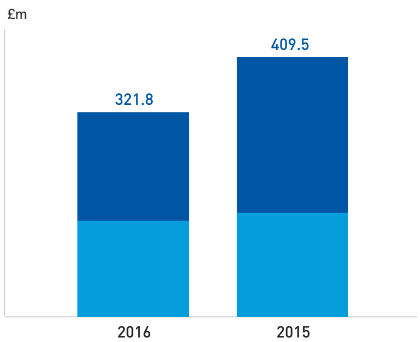
In 2016, ECS generated the majority of its revenues from outside the coal industry as a consequence of its on-going initiatives to expand its hard rock and industrial businesses and the structural changes in the US coal mining industry.

Coal remains ECS's largest market, reflecting its share of total global commodity extraction and its relatively intense use of conveyor belting.

"Other extractive" includes hard rock mining, mainly iron ore and copper ore, as well as other materials such as potash and phosphate.

"Bulk materials" include industrial markets such as construction materials (including aggregates, cement and timber) and other commodities such as grain.

BY REGION



	2016	2015
Northern Hemisphere	**53%**	60%
Southern Hemisphere	**47%**	40%

At constant currency

ECS is managed as two regional business groupings, reflecting their differing end markets. ECS Southern Hemisphere (comprising ECS Australia and smaller operations in RSA and China) mainly serves large mining groups. ECS Northern Hemisphere includes the Americas, Europe and India; ECS Americas is increasingly replicating ECS's European business which is focused on the industrial segment and which has consistently been one of the most profitable parts of ECS.

The relatively lower contribution by ECS Northern Hemisphere to ECS's total revenue was due to falls in revenue in North America as the US coal industry continued to undergo structural changes.

Group Finance Director's Review

The dividend of 3.0 pence per share represents a base from which the Board intends to adopt a progressive policy.

John Pratt
Group Finance Director
16 November 2016

REVENUE AND OPERATING PROFIT

Group revenue decreased by 14% to £572.5m (2015: £666.7m). The favourable translation effect of movements in foreign exchange rates, which includes the partial year effect following the UK's vote to leave the European Union, was £21.9m. Revenue, measured at constant exchange rates, decreased by 17%.

In the AEP division, revenue decreased by 6% to £250.7m (2015: £266.2m) or by 10% at constant exchange rates. A continued slowdown was experienced by our oil & gas businesses whilst softer demand patterns were seen in some industrial markets. Medical performed well, with Charter Medical exceeding expectations in its first full year and Secant Group leveraging growth opportunities as the business transitions to new state-of-the-art premises.

In the ECS division, revenue decreased by 20% to £321.8m (2015: £400.5m) or by 21% at constant exchange rates. Difficult trading conditions prevailed throughout the year in most of its principal markets, particularly coal mining.

Underlying operating profit decreased by 34% to £37.1m (2015: £56.4m) or by 38% at constant exchange rates.

Divisional underlying operating profits were £29.9m (2015: £41.0m) in the AEP division and £14.2m (2015: £23.3m) in the ECS division. On a constant currency basis, AEP profits decreased by 33% and ECS profits decreased by 41%. Corporate costs reduced by 11% to £7.0m (2015: £7.9m).

Amortisation of intangible assets acquired decreased to £11.0m (2015: £12.9m).

An exceptional charge amounting to £40.8m (2015: £34.4m) was incurred, comprising impairment costs relating to goodwill and intangible assets acquired of £25.0m and restructuring costs of £15.8m.

Carrying amounts of goodwill and intangible assets acquired are reviewed at least annually by conducting an impairment review which is based on the net present value of projected cash flows for each cash-generating unit ("CGU"). In the ECS division, the impairment of goodwill and intangible assets acquired was £20.9m and related to ECS Conveyor Services (Americas). The impairment arose from the impact of continuing low energy prices in the US coal mining industry and low coal and copper commodity prices which have reduced customer expenditures. In the AEP division, the impairment of goodwill and intangible assets acquired was £4.1m and related to Mandals. The impairment arose following continuing low oil and gas prices which has had a significant impact on Mandals' end markets, principally in the USA. These economic conditions have decreased the present value of projected cash flows in the respective CGUs. Further details of impairment charges are given in note 15 to the Group financial statements.

The restructuring costs of £15.8m predominantly relate to the implementation of cost reduction initiatives and the rebalancing of operational capacity to foreseeable demand patterns. The charge comprises severance costs, asset impairments, onerous contract obligations and other costs related to restructuring initiatives.

The most significant element of the restructuring charge within the ECS division related to the rationalisation and refocusing of the conveyor belt operations in the Americas given the continuing difficult US coal market conditions. This included the closure of the majority of the belt manufacturing facility at Port Clinton, Ohio, the closure of the conveyor structures business at Allison, Pennsylvania and the rationalisation of support functions.

In the AEP division, the principal restructuring costs related to the closure of our two CDI Energy Products businesses located in the UK, which operated in the European oil & gas sector, with partial relocation of production to other global CDI locations, as well as some restructuring of the Precision Polymers businesses.

Of the £15.8m total restructuring costs, £8.1m was spent during the year, £3.2m is held within provisions and will be paid after the year end and £4.5m related to non-cash costs, principally asset impairments. In addition, £2.3m was paid during the year which related to restructuring in the prior year. Further details of exceptional items are given in note 8 to the Group financial statements.

The resultant Group operating loss was £14.7m (2015: operating profit of £9.1m).

FINANCING

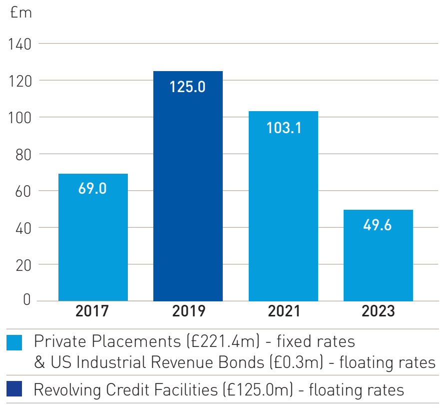
The Group is financed by a mix of equity, retained earnings, US dollar private placement loan notes and committed and uncommitted bank facilities. The principal loan facilities are raised centrally while operating companies supplement this funding with local overdraft and working capital facilities.

The Group's principal committed loan facilities consist of US dollar private placement loan notes and bank facilities. The US dollar private placement loan notes total $290.0m (£221.4m). These mature between 2017 and 2023 and bear fixed interest rates averaging 5.4%.

The committed bank facilities, which total £125.0m, are multi-currency revolving credit agreements. They comprise a £100.0m club facility with four major UK-based banks and a further bilateral facility of £25.0m with one of the club facility banks. Both facilities have been in place for the whole of the financial year and both mature in July 2019.

The Group's total committed loan facilities at 31 August 2016 were £346.7m (2015: £313.6m). At 31 August 2016, £111.5m (2015: £87.7m) of these facilities were not drawn down. In addition, the Group has uncommitted facilities of £36.5m (2015: £40.3m). The private placement loan notes are fully drawn down and used to fund or hedge Group operations.

The maturity profile of the committed loan facilities is shown in the graph below.



The principal financial covenants relating to the committed loan facilities are: the ratio of net debt to EBITDA (net debt must be less than 3.5 times adjusted EBITDA); and interest cover to EBITDA (adjusted EBITDA must be at least 3 times the net interest charge).

Throughout the year under review, the Group complied with all of its loan covenants, with significant headroom available. At 31 August 2016, the reported net debt to EBITDA was 2.4 times (2015: 1.7 times). Reported EBITDA interest cover was 4.4 times (2015: 5.7 times). For the purpose of testing the Group's compliance with its loan covenants, reported EBITDA is adjusted for, inter alia, acquisitions and exceptional and certain non-cash items. In addition, for covenant purposes, net debt may also be translated at average exchange rates for the financial year rather than at year end exchange rates. Translating net debt at average exchange rates reduces the net debt to EBITDA ratio at 31 August 2016 to 2.2 times.

In normal circumstances, the Group aims to maintain significant headroom in its net debt to EBITDA ratio. The Board has indicated that it will allow reduced headroom for short periods when organic or acquisitive growth opportunities arise which are expected to enhance shareholder value.

The Group remains well placed to fund and support its operations, including further investment, with a diversified range of committed loan facilities with a medium-term maturity profile, cash resources and, where necessary, shorter-term facilities.

On 1 June 2017, $90.0m of US dollar private placement loan notes mature. It is expected that these will be repaid from a combination of cash balances and existing committed bank facilities. No new or additional financing will be required although the Group will review its overall funding needs in due course.

CASH FLOW AND NET DEBT

The table below summarises the cash flows giving rise to the movement in net debt.

	2016 £m	2015 £m
Underlying operating profit	**37.1**	56.4
Depreciation and amortisation (excluding intangible assets acquired)	**24.2**	23.4
Capital expenditure	**(16.1)**	(28.1)
Capital disposals	**1.9**	3.6
Working capital	**15.1**	13.9
Operating cash flow	**62.2**	69.2
Taxation	**(6.2)**	(8.5)
Interest	**(13.2)**	(14.2)
Other movements	**(4.0)**	(3.3)
Free cash flow	**38.8**	43.2
Dividends - Fenner shareholders	**(23.3)**	(23.3)
Dividends - non-controlling interests	**(1.3)**	(2.0)
Restructuring	**(10.4)**	(9.6)
Acquisitions	**(5.6)**	(25.6)
Movement in net debt before currency	**(1.8)**	(17.3)
Settlement of derivatives	**10.5**	-
Currency movements	**(20.7)**	(3.4)
Movement in net debt	**(12.0)**	(20.7)
Opening net debt	**(138.0)**	(117.3)
Closing net debt	**(150.0)**	(138.0)

Despite the 34% reduction in underlying operating profit in the year, free cash inflow only reduced by 10% to £38.8m with the continuing focus on working capital management together with a reduction in capital expenditure contributing to this result.

Of the £16.1m capital expenditure, £11.3m was invested in the AEP division, the largest project being the major facilities consolidation at Secant Group.

Acquisition payments were £5.6m and related to deferred consideration in respect of acquisitions from previous years.

Gains on certain derivative instruments amounting to £10.5m were realised in December 2015 following the Group's review of its balance sheet hedging strategy and adjustment of its net investment hedges for Australian dollars, euros and US dollars.

The adverse currency movements reflect the effect on borrowings of the weakening of sterling against all currencies, principally the US dollar, during the year and particularly in the period since the UK voted to leave the European Union.

NET FINANCE COSTS

Finance costs, net of finance income, increased by £1.2m to £15.6m (2015: £14.4m).

	2016 £m	2015 £m
Fixed rate debt [1]	**10.9**	10.3
Floating rate debt [2]	**2.7**	3.4
Loan and commitment fees	**0.8**	0.7
Less: Interest receivable	**(0.5)**	(0.5)
Net interest payable	**13.9**	13.9
Notional interest	**1.7**	0.5
Net finance costs	**15.6**	14.4

1 Including the cost of long-term cross-currency swaps.

2 Including the cost or benefit of short-term cross-currency swaps.

The majority of the Group's net interest payable is at fixed interest rates, principally arising from the US dollar private placement loan notes. The remaining borrowings and cash deposits are at floating interest rates.

Notional interest comprises the net interest cost of defined benefit post-retirement schemes of £0.8m (2015: £1.0m), the unwinding of the discount on deferred payments on acquiring the remaining non-controlling interest in BBCS/LECS of £0.8m (2015: £1.1m) and a finance charge relating to the redemption liability for BBCS/LECS of £0.1m (2015: credit of £1.6m).

TAXATION

The total tax credit for the Group is £5.0m (2015: charge of £4.4m) on a loss before taxation of £30.3m (2015: £5.3m).

The net tax credit is split into:

- a tax credit of £10.9m on exceptional items, amortisation of intangible assets acquired and notional interest totalling £53.5m; and
- an underlying tax charge of £5.9m on underlying profit before taxation of £23.2m.

Group Finance Director's Review continued

The underlying tax rate for the Group was 25% (2015: 27%). The underlying tax rate is a combination of the varying tax rates applicable in the countries in which the Group operates and, in any year, will depend on the mix of profits made between countries. The reduction in the rate arises principally from a more efficient utilisation of tax losses in the period, particularly in the USA.

The net tax credit rate of 16.5% is lower than the underlying tax rate principally as a result of exceptional impairment and restructuring costs on which no tax relief is available or which give rise to tax losses on which deferred tax assets have not been fully recognised based on current forecasts of taxable profit.

DIVIDENDS

The interim dividend of 1.0p per share (2015: 4.0p) was paid on 7 September 2016. The Board is recommending a final dividend of 2.0p per share (2015: 8.0p) to make a total dividend for the year of 3.0p per share (2015: 12.0p). Dividend cover, defined as the ratio of underlying earnings per share to dividend per share, was 2.8 times (2015: 1.3 times). If approved by shareholders, the final dividend will be paid on 9 March 2017 to shareholders on the register on 27 January 2017.

EARNINGS PER SHARE

Underlying basic earnings per share was 8.4p (2015: 15.5p) and basic loss per share was 13.6p (2015: 5.4p). Further details are given in note 13 to the Group financial statements.

POST BALANCE SHEET EVENTS

On 1 September 2016, the Group disposed of Xeridiem Medical Devices for a net cash consideration of £6.4m, subject to working capital adjustments. Xeridiem, located in Arizona, USA, manufactures minimally invasive catheter and other single-use medical devices. The disposal will enable greater focus on the growth opportunities in our Secant and Charter medical businesses. Xeridiem's net assets of £1.2m have been disclosed as held for sale in the Consolidated balance sheet. Further details of this disposal are disclosed in note 37 to the Group financial statements. This disposal does not meet the criteria for disclosure as a discontinued operation.

On 1 November 2016, the Group acquired the remaining non-controlling interests in Belle Banne Conveyor Services and Leading Edge Conveyor Services, both based in Australia.

FINANCIAL RISK MANAGEMENT

In the normal course of business, the Group is exposed to certain financial risks, principally foreign exchange risk, interest rate risk, liquidity risk and credit risk. These risks are managed by the central treasury function in conjunction with the operating units in accordance with risk management policies that are designed to minimise the potential adverse effects of these risks on financial performance. The policies are reviewed and approved by the Board.

The exposures are managed through the use of borrowings, derivatives and credit management procedures. The use of derivatives is undertaken only where the underlying interest or foreign exchange risk arises from the Group's operations or sources of finance. No speculative trading in derivatives is permitted. Further information on foreign exchange risk management is given below and on financial risk management in note 22 to the Group financial statements.

FOREIGN EXCHANGE TRANSLATION RISK

The Group has operations around the world which report in their respective functional currencies.

The Group is exposed to translation risk in respect of its income statement. Principal average exchange rates applied on translation of the income statement for 2016 and 2015 were as follows:

	2016	2015
US dollars	**1.44**	1.55
Australian dollars	**1.97**	1.94
Euros	**1.29**	1.34

The Group is also exposed to translation risk in respect of its net assets in foreign operations. Where cost effective, the Group hedges a proportion of its exposures through a combination of borrowings, cross-currency swaps and forward foreign currency contracts, principally in respect of net assets denominated in US dollars, Australian dollars, euros, Norwegian krone and Chinese renminbi.

The Group previously entered into cross-currency swaps linked to the US dollar private placement cash flows. In 2007, $27.2m was swapped into €20.0m at a fixed rate of 5.05%. In 2011, $44.7m was swapped into AUD$45.0m at a fixed rate of 8.43%. These swaps provided hedges against the Group's net investments in euros and Australian dollars, at fixed interest rates, and mirrored the private placement cash flows. These swaps were accounted for as hedges in accordance with IAS 39 'Financial Instruments: Recognition and Measurement', with the charge or credit recognised directly in other comprehensive income in equity.

During the year, the Group reviewed its balance sheet hedging strategy and adjusted its net investment hedge for Australian dollars, euros and US dollars. As a result, the long-term cross-currency swaps described above were settled. In addition, the Group took out further forward currency contracts which reduced the Group's exposure to the translation of debt denominated in US dollars and more closely aligned our net debt to EBITDA for all currencies, particularly the US dollar, to the Group ratio. The effect is that exchange rate changes, whilst changing the value of net debt, will not materially affect the Group net debt to EBITDA ratio.

FOREIGN EXCHANGE TRANSACTION RISK

Transaction exposures arise where an operation sells or purchases goods and services in a non-functional currency. These transaction exposures are reduced by many of the Group's global operations serving local markets.

Material transaction exposures are hedged, principally with forward foreign currency contracts, once cash flows can be identified with sufficient certainty. Where derivatives are used to hedge transaction exposures, the Group does not hedge account for such transactions under the requirements of IAS 39, recognising that cash flows through to the maturity of the derivative are unaffected. In compliance with IAS 39, all financial instruments have been measured at their fair value as at the balance sheet date. A charge or credit to the income statement has been recognised for the loss or gain on these instruments. In addition, in accordance with IAS 21 'The Effects of Changes in Foreign Exchange Rates', all foreign currency monetary items have been retranslated at the closing rate, with changes in value charged or credited to the income statement.

RETURN ON GROSS CAPITAL EMPLOYED

The return on gross capital employed has decreased to 7.9% (2015: 11.6%) largely due to the reduction in underlying operating profit in the ECS division and the oil & gas businesses within the AEP division.

POST-RETIREMENT BENEFITS

The Group operates a number of defined benefit post-retirement schemes for qualifying employees in operations around the world. The UK scheme, which was closed to new entrants in 1997, and the scheme in the Netherlands, which is a career average plan, together represent 96% of both the Group's total scheme assets and total scheme liabilities.

During the year, the fair value of assets of the schemes increased to £219.7m (2015: £183.1m), principally generated from actuarial gains in the UK scheme's investments and additional Group contributions paid to reduce the deficit. The present value of obligations increased to £268.7m (2015: £209.5m) largely due to a reduction in corporate bond yields used to determine the discount rate.

The total defined benefit post-retirement deficit, as calculated by the schemes' actuaries and recorded on the balance sheet at 31 August 2016, increased to £49.0m (2015: £26.4m).

Further details of post-retirement benefits are disclosed in note 28 to the Group financial statements.

CAPITAL REDUCTION

On 6 July 2016, the High Court confirmed the Company's capital reduction, as previously approved by shareholders at the AGM in January 2016. This created £128.0m of additional distributable reserves from the Company's share premium account and capitalised merger reserve.

GOING CONCERN REVIEW

After making enquiries, the Board has formed a judgement that there is a reasonable expectation the Group has adequate resources to continue in operational existence for the foreseeable future and for a period of at least 12 months from the date of this report. Accordingly, the Board has assessed that the going concern basis of accounting is appropriate in preparing the financial statements. In forming this view, the Board has reviewed the Group's budget and cash flow forecasts against availability of financing, including an assessment of sensitivities to changes in market conditions. In particular, the Group has sufficient existing bank facilities and cash balances to repay the private placement loan notes due in June 2017.

LONG-TERM VIABILITY STATEMENT

The Board has also assessed the viability of the Group over a three year period to 31 August 2019, taking account of the Group's position at 31 August 2016 and the potential impacts of the principal risks over the review period. Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due during the period to 31 August 2019.

In making this statement, the Board has considered the resilience of the Group, taking account of its current position, the principal risks facing the business in severe but reasonable scenarios and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The Board has determined that the three year period to 31 August 2019 is an appropriate period over which to provide its viability statement since this represents the period over which financial forecasts are prepared in the annual budget process. In making its assessment of long-term viability, the Board has taken account of the Group's balance sheet strength, the maturity profile of its current debt funding and its ability to raise new finance in most market conditions.

Key Performance Indicators

The Board has adopted Key Performance Indicators ("KPIs"), which include financial and non-financial measures, in order to enable it to monitor the Group's performance over time and against other companies which may be considered as comparable.

The Board may determine upper or lower limits for individual KPIs or a range; these may be in part determined after consultation with external parties, including retained corporate advisers. The Board uses its judgement to consider movements in the KPIs alongside a variety of factors, including changes in trading conditions in the principal markets in which the Group operates and movements in exchange rates, to assess the performance of the Group.

Safety performance

Fenner believes strongly that safety is at the heart of the way it does business and looks for and promotes safety as a key element in the culture of each of its operations.

Safety is monitored at the unit, business and divisional level using a variety of measures. For the Group as a whole, the Board has determined to monitor Lost Time Incident Frequency Rate ("LTIFR") as the principal indicator of Fenner's underlying safety record.

Following the very strong performance in recent years, both measures showed further significant improvements in 2016. As such, the Board believes that Fenner's performance compares favourably with other companies in similar industries.

LTIs: 26
(2015: 33)

LTIFR: 0.55
(2015: 0.62)

Definition: Lost Time Incidents ("LTIs"): the number of incidents connected with work which result in the injured person being away from work, not including the day of the incident. LTIFR: LTIs per 200,000 hours worked.

Underlying operating profit and underlying operating margin

The Board considers underlying operating profit ("UOP") and underlying operating margin ("UOM") for the Group as a whole and for each division. These are considered to be appropriate measures of the total amount of profit which the Group is generating and of the rate at which it is converting revenue into profit. Operating profit is adjusted to UOP in order to present a more meaningful measure of the underlying performance of the Group and its two divisions.

AEP	AEP's UOP and UOM both fell during the year, reflecting reduced revenue and profits in its oil & gas businesses. This was mitigated by an increased contribution from its medical businesses.	**UOP: £29.9m** (2015: £44.3m)	**UOM: 11.9%** (2015: 15.9%)
ECS	ECS experienced a further fall in both UOP and UOM due primarily to the structural changes taking place in the US coal industry; conditions in other of ECS's markets were more stable.	**UOP: £14.2m** (2015: £23.9m)	**UOM: 4.4%** (2015: 5.8%)
Group	Movements in Fenner's UOP and UOM reflected the lower performances of ECS and AEP, in part mitigated by a further reduction in unallocated corporate costs.	**UOP: £37.1m** (2015: £60.3m)	**UOM: 6.5%** (2015: 8.8%)

Definition: Underlying operating profit is operating profit before amortisation of intangible assets acquired and exceptional items. Underlying operating margin is underlying operating profit as a percentage of attributable revenue. To reflect increased currency volatility, prior year figures have been restated at constant currency.

Underlying earnings per share

The Board believes that underlying earnings per share is the best measure of profit generation for the Company's shareholders. Underlying earnings per share measures profit after net interest, taxation and profit attributable to non-controlling interests and also includes adjustments considered appropriate in order to present a more meaningful measure of the performance of the Group.

The reduced outcome for the year principally reflected lower underlying operating profit. The net interest charge was similar to the previous year whilst the effective tax rate was slightly lower.

8.4 pence
(2015: 15.5 pence)

Definition: Profit for the year attributable to shareholders of Fenner PLC before amortisation of intangible assets acquired, exceptional items and notional interest, divided by the basic weighted average number of shares in issue and ranking for dividend.

Return on gross capital employed

Return on gross capital employed measures the profit earned by the Group in the year on the capital which it has invested.

The Board considers the return on capital employed against the Group's weighted average cost of capital to determine the extent to which the Group is generating value for the Company's shareholders. The Board considers the value generated through the various economic, commodity and financial cycles which impact the Group and accepts that the measure will be lower when there are difficult trading conditions in several of the Group's key markets.

The lower outcome in 2016 primarily reflects the fall in underlying operating profit.

7.9%
(2015: 11.6%)

Definition: Underlying operating profit divided by gross capital employed, being the average of the opening and closing non-current assets (excluding deferred tax and derivative financial instruments), inventories, trade and other receivables, assets held for sale, trade and other payables, and liabilities held for sale.

Capital expenditure/depreciation

The Board considers the relationship between the Group's capital expenditure and depreciation within the context of the Group's strategic development.

The Board expects that AEP will be able to maintain a growth stance whilst undertaking capital expenditure which is broadly in line with its depreciation. ECS's capital expenditure is likely to remain below depreciation for some time reflecting past investment in its facilities.

The Group's capital expenditure was focused on AEP and included the latter stages of the development of new facilities for Secant Group. As anticipated, ECS's capital expenditure was below its depreciation charge.

0.7 times
(2015: 1.2 times)

Definition: Capital expenditure (including finance leases) divided by depreciation and amortisation (excluding amortisation of intangible assets acquired).

Financial leverage

The Board considers the Group's financial leverage to determine whether the Group's balance sheet is efficient in its use of shareholder equity and does not subject the Group to inappropriate levels of financial risk.

The principal measures which the Board uses are net debt/EBITDA and EBITDA interest cover.

The Board also monitors the Group's compliance with the financial covenants contained within the Group's borrowing and other financing facilities. As described in the Group Finance Director's report and also in note 23 to the Group financial statements, the Group complied with all of its loan covenants throughout the year.

Net debt/EBITDA

The increase in net debt/EBITDA during the year primarily reflects lower EBITDA. For covenant purposes, net debt may also be translated at average exchange rates for the financial year rather than at year end exchange rates. Translating net debt at average exchange rates reduces the net debt/EBITDA at 31 August 2016 to 2.2 times.

2.4 times
(2015: 1.7 times)

Definition: Net debt divided by operating profit before depreciation, amortisation, impairment charges and other exceptional items.

EBITDA interest cover

EBITDA interest cover fell during the year, reflecting lower EBITDA. The interest charge for the year was similar to the previous year.

4.4 times
(2015: 5.7 times)

Definition: Operating profit before depreciation, amortisation, impairment charges and other exceptional items divided by net interest payable (excluding notional interest).

Principal Risks and Uncertainties

Fenner operates in a complex global environment where risks offer opportunities as well as challenges.

The 12 principal risks listed below are monitored, updated and regularly reviewed by the Board, using appropriate key external indicators, internal performance indicators and business unit risk updates. The principal risks below are taken from the Fenner Risk Universe and Schedule of Principal Risks. They are deemed "principal" due to their overall risk ranking and their specific relevance to the Group's business, strategy and operations. Additional risks and uncertainties not presently known to Fenner, or that Fenner currently considers immaterial, may also have an adverse effect on its business.

Fenner's operations around the world are exposed to a number of risks which could, either on their own, or in combination with others, have an adverse effect on the Group's results, strategy, business performance and reputation which, in turn, could impact upon shareholder returns.

Details of our risk management processes are set out on **pages 35 to 36**

Key:
Risk trend

- Rising
- Falling
- Variable
- Flat

Risk: Key markets **Owner: Chief Executive Officer and Executive Committee** **2016** (Flat) 2015 (Rising)

Description:
Fenner's business model covers operations in global markets and in a range of market sectors, but with particular emphasis on commodities, energy, industrial and medical products. These markets can be subject to cycles, structural changes and other external factors.

Impact:
A substantial downturn in one or more key markets could have a material adverse impact on the Group's profitability, cash flow and the carrying value of its assets.

Controls and mitigation:
- The Group's sector diversity and international presence provide protection against downturns in particular markets or territories.
- The markets in which the Group operates are continually monitored and assessed. The Group has been pro-active in flexing costs and capacity to match expected demand.
- Fenner has identified and developed opportunities outside its traditional areas of operation where its expertise can be put to use.

Developments in the year:
During the year, ECS and AEP's oil & gas businesses continued to experience difficult trading conditions, with low oil and gas prices, low commodity prices and concerns over the future growth of the Chinese economy. Against this, other sectors, including construction and medical, continued to perform well. We are continuing to monitor the developments and possible impacts of the UK's recent referendum vote to leave the EU, although Fenner's trade flows between the UK and the rest of the EU are not substantial.

Risk: Competitor activity **Owner: Executive Committee and operational management** **2016** (Flat) 2015 (Rising)

Description:
Due to the products and services offered, Fenner faces a complex and dynamic competitor landscape.

Impact:
Commercial activity by competitors, or changes in their products or technology, could impact upon Fenner's market share and profitability.

Controls and mitigation:
- The Group has a diverse product range which provides natural protection and helps to reduce fluctuations in earnings.
- AEP has a business model which emphasises products that are performance-critical and which generally represent only a small proportion of the cost of a customer's finished item.
- ECS has developed a strong brand and industry-leading technology, with a comprehensive range of heavyweight conveyor belting products.
- The Group uses market intelligence and competitor analysis to support its market activities and which informs investment decisions.
- Across the Group, there is an emphasis on research & development and improving the technical content of products. See "Technology and intellectual property" risk.
- Refocusing, restructuring and cost reduction programmes help to maintain our competitive position.

Developments in the year:
Weak market conditions continued our customers' focus on short-term costs and cash flow rather than quality and life time value, which could favour the Group's low cost competitors. New product initiatives are helping to offset these effects and market share gains have been noted in some areas of our business.

Risk: Climate change **Owner: Chief Executive Officer and Executive Committee** **2016** 2015

Description:
Fenner has operations in most energy markets, in particular coal, oil and gas, all of which can be subject to increased regulation in response to environmental concerns.

Impact:
The market for the Group's products and services can be reduced by regulatory actions in response to climate change concerns, as can Fenner's ability to source some of its raw materials.

Controls and mitigation:
- ECS continues to diversify its business away from its traditional exposure to coal mining towards hard rock mining and industrial markets.
- The Group monitors government initiatives and public opinion.
- The Group is active in alternative energy markets, including wind power.
- The Group is seeking to diversify further into non-carbon markets when appropriate opportunities arise, including medical.

Developments in the year:
The Paris Agreement was signed in December 2015 and came into force in October 2016. This is the first universal, legally binding global climate deal, adopted by 195 countries, and indicates the continuing policy shift and increased speed of change in this area. There have been substantial shifts in China and the USA, including growth in renewable energy, the closure of coal mines in China to manage oversupply and natural gas generation in the USA overtaking coal. ECS, particularly in the Americas, has been successful in increasing share in industrial markets.

Notwithstanding the above, there will still be a need for coal in the long term.

Risk: Raw materials **Owner: operational management** **2016** 2015

Description:
Fenner purchases a variety of raw materials which can be subject to price fluctuations. Many of Fenner's raw material requirements are freely available on world markets and are manufactured by a variety of producers; however, for some raw materials, the number of suppliers is much more restricted. In periods of high demand, availability may become constrained which would have implications for cost and the overall profitability of Fenner's business.

Impact:
Restricted availability of raw materials increases susceptibility to uncontrollable and rapid movements in price, leading to margin erosion.

In certain circumstances, the loss of a supplier, or supplier quality failing, could lead to an inability to produce goods in a timely or efficient manner.

Controls and mitigation:
- The wide geographical spread of Fenner's businesses, devolved purchasing and supply chain functions allow Fenner to utilise a wide range of techniques including long-term purchase contracts and dual sourcing.
- ECS has generally been able to pass on increases in raw material prices to customers, either through price escalation clauses or through negotiation.
- Conversion know-how is retained in-house and in specific situations base materials are purchased.
- Fenner is continually revising its production techniques, formulations and equipment to build in raw material resilience and to allow own manufacture of certain materials and components.

Developments in the year:
The Group has continued to develop its contingency plans to use alternative materials and/or suppliers. The Group's medical business now has the capability to manufacture some of its own medical yarns. Overall global supply still exceeds demand for the Group's raw materials and we continue to seek opportunities for internal supply where it is beneficial to do so.

Risk: Liquidity and foreign exchange **Owner: Group Finance Director** **2016** 2015

Description:
Operating across a number of territories adds complexity to managing liquidity and exposes the Group's income statement and balance sheet to currency variations. Liquidity can be adversely affected by significant market down-turns and the consequent impacts on profitability and debt levels.

Impact:
Longer-term issues arise from a cost base in one currency and markets supplied in another. High foreign exchange volatility increases hedging costs. Liquidity constraints could lead to reduced funds for further investment or working capital requirements.

Controls and mitigation:
- Fenner has secured medium-term debt finance which is supported by medium-term banking relationships.
- Group treasury policy covers, inter alia, the use of currency contracts, investment hedging policy and regular reporting of trading exposures.
- The Group's liquidity has been improved by making working capital management a key priority and through the tight control of costs.

Developments in the year:
The recent weakening of sterling, especially since the "Brexit" vote, is being monitored. It will generally have a positive impact on our reported earnings in sterling, but an adverse effect on the Group's net debt.

The Group reviewed and refined its hedging strategy ahead of the Brexit vote and, as a result, we do not expect the recent currency movements to adversely impact the degree to which the Group complies with its financial covenant or its borrowing facilities.

Tight control of cash and working capital continues, as does tight credit management of our customers.

See page 16 and note 22 to the Group financial statements on pages 82 to 84.

Principal Risks and Uncertainties continued

Risk: Major projects and acquisitions **Owner: Chief Executive Officer, Group Finance Director and Executive Committee** **2016** 2015

Description:
The Group's strategy, investment programmes and reorganisations require selection of the optimum opportunities for organic investment and acquisition.

Impact:
Issues can exist around designing and building new facilities, identifying, executing and integrating acquired businesses and implementing closure, relocation and consolidation plans.

Controls and mitigation:

- Group control, authority levels and approval processes are supplemented by the use of experienced project managers.
- Group acquisition procedures include due diligence, the use of professional advisors, appropriate and enforceable representations and warranties and detailed integration planning.

Developments in the year:
The relocation of Secant Group into new, purpose-built premises remains on schedule and on budget, with operations commencing in the new facilities in June 2016; the old facilities will all be handed back by January 2017. We have made various reorganisations to other AEP businesses, including the closure and partial relocation of our two CDI Energy Products facilities in the UK. The restructuring of ECS Americas announced in January 2016 has, as anticipated, resulted in annualised cost savings of £10m.

Risk: Technology and intellectual property **Owner: operational management** **2016** 2015

Description:
Fenner's products, materials and processes have high levels of technical content and know-how necessary for our performance-critical applications and which help to underpin our strong brands and recognised trademarks.

Impact:
These technologies and intellectual property rights need to be kept current through continuous improvement and research & development and are susceptible to theft, infringement, loss and replication by competitors. This could lead to loss of competitive advantage, loss of brand premium and loss of business. Our pipeline of new products and opportunities also requires successful commercialisation.

Controls and mitigation:

- The Group's products, materials and processes are continually developed and enhanced through research & development and technical activities across all our businesses.
- Fenner actively registers, manages and enforces intellectual property rights.
- Competitor activity is monitored both directly and by use of specialist services.
- Appropriate steps are taken to recruit, retain and incentivise key people in technical roles.
- Designs, formulae, specifications and techniques are physically safeguarded and the Group uses non-disclosure and non-compete agreements.
- Stage gate processes are used to help in the commercialisation of new products and opportunities.

Developments in the year:
The Group continues to invest in employee capabilities, research & development and the commercialisation of new product initiatives. This is all the more important to the Group during challenging market conditions to remain competitive in all its markets.

Competitor actions continue to require proactive protection of the Group's intellectual property.

Risk: Key personnel **Owner: Chief Executive Officer and Executive Committee** **2016** 2015

Description:
The future success of Fenner is dependent on the continued services of key personnel. Certain of Fenner's processes require specialist skills which are not routinely available.

Impact:
A loss of key personnel, with associated intellectual property and know-how, could disrupt production or even strategy. A lack of new talent or inability to retain and develop existing talent could hinder the growth strategy.

Controls and mitigation:

- The corporate culture and management style of Fenner is augmented by bespoke terms and conditions of employment for key personnel where appropriate.
- The Group has attractive incentive schemes including bonuses, pensions and long-term incentive plans.
- Established recruitment and development programmes operate globally.

Developments in the year:
Restructuring during the year has focussed on retaining key employees' skills and capabilities. Opportunities to delayer and empower local management have been taken. The first generation of graduates from the Group's development programmes of Gateway and Pathway have returned to the business and are making an impact.

See pages 25 to 26. See page 30 for further notes on Board changes in the period.

Risk: Employee benefit schemes **Owner: Chief Executive Officer and Group Finance Director** **2016** 2015

Description:
Fenner has a number of employee benefit schemes including defined benefit post-retirement and US healthcare schemes.

Impact:
Risks can arise from exposure to changes in legislation, interest rates, investment returns, dividends and life expectancy which can increase year-on-year costs to Fenner.

Controls and mitigation:

- Scheme structures are under continual review using professional advisors.
- All options including insurance are considered.

Developments in the year:
As for most UK defined benefit schemes, the recent significant reductions in gilts yields has increased the Group's pension deficit. Investments continue to be managed, successfully, to reduce deficit volatility. The Group continues to contribute significant funds to match liabilities and to ensure that the full value of the Employer's Covenant is recognised.

See note 28 to the Group financial statements on pages 87 to 91.

Risk: Health & safety **Owner: Chief Executive Officer and operational management** **2016** 2015

Description:
With over 4000 employees across 20 territories, working in a variety of roles and dealing with complex equipment, frequently on third party sites, the Group is exposed to risks from accidents and incidents.

Impact:
Injuries, perhaps serious, result in lost time, reduced employee morale and possibly changes in working practices. Serious incidents can also affect Fenner's reputation with some large customers requiring a minimum health & safety ("H&S") performance standard.

Controls and mitigation:
- Fenner has a deeply embedded culture of H&S, codified in our Health, Safety and Environmental Management System Framework document.
- The Group operates global training and seminars and has operational management with responsibility for H&S.
- H&S performance indicators are monitored regularly by the Group.

Developments in the year:
Reorganisation and consolidation may have an adverse effect on H&S performance so the Group is delighted to report a reduction in LTIs and LTIFR for the eighth year running.

See pages 24 to 25.

Risk: Adequacy of operations **Owner: Chief Executive Officer and operational management** **2016** 2015

Description:
Fenner's business model of supply of products and services to performance-critical applications requires total assurance in quality and reliability across all our operating locations and their products.

Impact:
A loss of production capability at a facility, or quality failings in products or procedures, could affect reputation and accreditations, lead to an inability to supply customers, reduce volumes and/or increase claims made against the businesses under guarantees and warranties.

Controls and mitigation:
- Fenner's global network of facilities provides backup capacity in several of our key products.
- The Group has invested significantly in the development of its businesses which have established strong quality standards and methodologies.
- There are robust procedures and policies for reviewing, negotiating and accepting terms and conditions of trade. The Group uses third party advisors where appropriate.

Developments in the year:
The Group has a network of facilities which continue to benefit from the significant investments of recent years. These investments combined with capital expenditure of £16.1m in the year helps ensure that the Group's facilities and equipment continue to produce market leading products and services. Our new $32m state-of-the-art facility in Pennsylvania, USA for Secant Group demonstrates our commitment to investment in developing operations.

Following the major changes over the past two years, our Business Continuity Plans are being comprehensively reviewed and enhanced.

Risk: Regulatory requirements, litigation and ethics **Owner: Chief Executive Officer and Executive Committee** **2016** 2015

Description:
Operating across very different markets and territories requires compliance with a wide variety of regulations, which continue to grow. Maintaining ethical standards across cultures can also present challenges.

Impact:
Failure to comply with all relevant regulatory and ethical requirements could affect the Group's reputation and/or its ability to operate in certain markets or territories. As well as the cost of compliance, changing regulations could affect the Group's ability to manufacture certain products or the demand for those products.

Controls and mitigation:
- Fenner has strict procedures and processes for inappropriate behaviours, including written policies, a "blame free" culture, internal audit and training.
- Group and operational management continually monitor and assess relevant regulatory requirements.
- Fenner monitors the tax regulatory changes closely to ensure compliance with the terms of all relevant tax regulations. Professional advice is always taken where appropriate. Fenner's operational and legal structure is transparent, which reduces potential risks from tax compliance exposures.

Developments in the year:
The US Biomaterials Access Assurance Act was tested in Court during the year which confirms the protection this legislation gives to our medical businesses.

We continue to monitor and increase communication and guidance on the ever growing risk of cyber security.

We continue to monitor the rapidly changing legislative framework and the increased scrutiny of the tax behaviours and structures of multinational corporations. This includes transfer pricing, interest deductibility, profit allocation to permanent establishments and tax treaty abuse, as well as increased reporting requirements.

As a UK quoted company, "Brexit" has created an element of uncertainty over the regulatory environment in which we will operate.

Strategic Report sign off

The Strategic Report comprising pages 1 to 23 has been approved by the Board of Directors in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Vanda Murray OBE
Chairman
16 November 2016

Corporate Responsibility

Acting in a responsible and sustainable manner allows us to operate more effectively and enhance and protect our reputation, thereby promoting the Company's long-term success.

Mark Abrahams
Chief Executive Officer
16 November 2016

WHY CORPORATE RESPONSIBILITY IS IMPORTANT TO FENNER

Fenner understands that acting in a corporately responsible manner helps to deliver long-term, sustainable business success; it allows us to minimise our environmental impact, provide a supportive and safe working environment and support the communities in which we work. Responsible behaviour enhances our reputation, profitability and shareholder return, whilst simultaneously allowing us to mitigate a number of risks.

HOW WE MANAGE CORPORATE RESPONSIBILITY

The Board sets the strategy and has overall responsibility for the development and monitoring of the Group's policies relating to corporate responsibility. All policies and associated management systems are reviewed at least annually and at any time when significant changes in the business, legislation or industry standards demand. The Chief Executive Officer is required to ensure that policies are communicated to, and applied at, a divisional and operational level. Each operating unit is responsible for ensuring that, as a minimum, it meets local statutory requirements and is encouraged to operate in accordance with identified best practice within the Group.

Fenner has identified five key areas which form the foundation of our approach to corporate responsibility:

- Health and safety ("H&S");
- People;
- Environment;
- Community; and
- Business behaviours.

The risks associated with these five areas are managed within the Group's risk management framework and are continuously monitored and assessed, with appropriate controls put in place as necessary to reduce any potential impact. These areas are important to Fenner, as they provide us with an opportunity to effectively manage our impacts and contribute to positive outcomes. The following sections outline the policies and practices currently in place for those areas and provide an update of our performance in each of the areas over the financial year.

HEALTH AND SAFETY

Why it matters to Fenner

H&S is a core value to Fenner. We clearly state in our safety management system that anyone working for Fenner should expect to return home in the same fit and healthy state in which they came to work. Through our Group policies, we require everyone who works for Fenner, regardless of their geographical location, to ensure at all times the safety of themselves and their colleagues.

What policies and practices are in place?

Since 2009, the Group Health, Safety and Environmental Management System Framework (the "Framework") has provided a common structure to guide our activities and decisions. The process of continuous improvement generates a restless culture of unceasing challenge leading to a desire to always do better than we have in the past.

The foundation of our approach to H&S is risk management. The Framework provides guidance to individual operating units as to the expectations of the Board and the Group, whilst allowing them the freedom to develop appropriate systems to satisfy local legislation, practices and cultural mores.

To fully understand how effectively the Framework is being applied across the Group, a thorough programme of assurance activities has been developed. Key aspects of this programme are:

- an annual review process for each operating unit delivering an annual safety management plan;
- a global programme of assurance visits delivered through external, independent H&S consultants; and
- a network of senior H&S professionals across the Group whose remit includes providing technical guidance, support and challenge to the local operating units.

Over the past 12 months there has been a more active use of collaborative tools to provide more effective support and consistency of approach across the diverse geographical locations of the Group.

The Group Health and Safety Policy can be viewed at **www.fenner.com**

What are we doing?

The Framework requires each operating unit to conduct an annual assessment of its current levels of compliance with the Framework's "Expectations", taking into account the current operational risk profile, commercial environment and applicable regulatory requirements. The unit produces a Safety Management Plan ("SMP") describing its medium to long-term continuous improvement activities. Essential in the delivery of the SMP is the periodic review of stated objectives by local and divisional managers.

In order to deliver effective and appropriate management of H&S across the Group, it is essential that an effective assurance process is in place. This is achieved through a programme of visits by independent, third-party H&S consultants, who review documentation, engage with staff at all levels in the operating unit and assess the local H&S culture and behaviours. We also recognise that the programme delivers additional benefits, bearing in mind the Group's diversified culture; it provides independent verification to the Executive Committee and the Board as to the state of local safety management systems and safety culture across the Group; it provides each operating unit with recommendations for improvements based upon a broad cross-Group perspective; and it acts as another conduit sharing best practice across the Group. The programme culminates in the annual Health Safety & Environment ("HSE") assurance presentation to the Board, where a senior associate of the H&S consultants is present to provide an independent view of the state of the Group's safety management system and is available for cross-examination by the Board members.

Over the past year, we have been enhancing the reach and quality of our reporting requirements. The Group-wide collection of metrics such as reportable incidents, near misses and first aid incidents has focused peoples' minds on leading indicators as a potential predictor of future performance. As we have a significant percentage of our reporting entities who have not recorded a Lost Time Incident ("LTI") for many months, we need to enhance our measurement towards other indicators to provide a meaningful tool to monitor progress.

We passionately believe that H&S is at the core of the way we do business. We recognise that it is a differentiator and source of value in our markets. Every manager and supervisor is accountable for delivering high levels of H&S performance in their areas of influence. Support is provided to local managers via a network of local H&S specialists embedded within the operations who are available to advise, support and drive improvements in the local safety management systems. All operations have H&S committees which meet regularly to discuss relevant issues, topics and concerns, whilst making recommendations for enhancements to local H&S processes. The active participation of employees is crucial to the committees' success. H&S issues and key metrics are also routinely reviewed and discussed at management meetings, with serious incidents and near misses reported and escalated to the Executive Committee and Board where appropriate. Appropriate lessons from serious incidents are communicated across the Group to reduce the likelihood of repetition.

Scrutiny by H&S regulators is increasing around the globe as society's expectations grow for ever-improving standards of H&S performance. Fenner's approach, embodied in the Framework and associated Group-wide processes, not only underpins our performance but also helps to manage these increased expectations.

Highlights from the year

The annual Lost Time Incident Frequency Rate ("LTIFR") has continued the downward trend despite the many challenges faced by the Group. Industry experience suggests that periods of major upheaval and restructuring often result in diminished H&S performance as morale and the attention of the workforce falls. It is a reflection of the progress we continue to make that, again, we are able to announce a record low rate of 0.55, a reduction of 11% over the previous year. This reduction is also reflected in a record minimum number of LTIs, at 26, for the Group. The LTIFR of 0.55 compares favourably with industry benchmarks; the corresponding OSHA rate for comparable industrial sectors is 1.3. This continued success in driving down incident rates is primarily due to individuals taking personal ownership of their own safety and of those around them and a proactive management culture setting high expectations.

This is the eighth consecutive year we have been able to report a drop in LTIFR and delivering continuous improvement remains our objective, despite the increased difficulty of success.

Since the launch of the Framework in 2009, we have seen a steady improvement in the H&S culture across the Group; in some cases performance that was acceptable seven years ago would be cause for extreme concern and senior management intervention now. A demonstrable indication of this is the number of our businesses that have achieved the milestone of operating for 1,000,000 hours without experiencing an LTI. When this target was launched in 2011 it was deemed an extremely difficult challenge. By the end of August 2016, three businesses have achieved this: CDI Houston; Hallite Wixom; and Hallite Hampton, with a number of other businesses poised to achieve this milestone over the next few months. Achieving this target is important as it signifies the fundamental change in mind-set and attitude required by each and every employee in the business as they demonstrate a real commitment to a safe working environment.

We are very pleased to report that the Advanced Sealing Technologies businesses were able to repeat their achievement of last year and operated across their 13 global locations for a further 12 months without recording an LTI. Over this period, more than 4.8 million hours were worked. Advanced Sealing Technologies is made up of four business entities: AIP Precision Machining; CDI Energy Products; EGC Critical Components; and Hallite. One of the biggest challenges for any organisation that operates across so many different parts of the world is to create a standardised approach to safety. The Framework was an instrumental tool for Advanced Sealing Technologies as it helped to deliver a common language and set "Expectations" for all employees.

The 2016 Fenner Group H&S Improvement Award has been awarded to the AEP operation at Fenner Precision in Lincoln, UK. A number of years ago, this business was in the bottom quartile of HSE performance across the Group which necessitated intervention by both local and divisional management. They have now operated for three and a half years without recording an LTI, equating to almost 750,000 hours worked. This change has been attributed to strong personal commitment by the management team to safety, clear engagement and communication to the workforce regarding expectations and improved identification of individuals' needs and delivery of HSE training.

PEOPLE

Why it matters to Fenner

Passionate, motivated and skilled employees are critical to the success of the Group. Our innovative and committed workforce forms the basis of Fenner's ability to consistently deliver superior, reliable solutions to customers. Notwithstanding the challenging conditions over the year, Fenner is committed to attracting, retaining and developing the best people to ensure the continued success of the Fenner Group.

What policies and practices are in place?

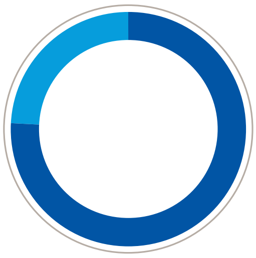
Fenner aims to provide an inclusive and diverse workplace environment in which all employees are treated with dignity and respect. We are committed to providing equal opportunities in recruitment, employment and development and do not discriminate against any person based on gender, race, age, caste, origin, religion, disability, sexual orientation or any other status protected by law. Harassment, discrimination and bullying in any form are not tolerated. Fenner supports the principles of the Universal Declaration of Human Rights.

Recruitment practices are determined at a local level as we believe each operating unit is best placed to determine the appropriate policies for their organisation. All employees are actively encouraged to apply for roles, including cross-divisional opportunities where applicable. Employment policies are designed to meet local conditions and requirements, on the basis of best practices in each country, with polices made widely available to employees through a variety of media. An internal website provides operating units with the opportunity to share job vacancies across the Group, helping to provide employees with more varied career opportunities and improve the retention of skilled staff across professional and managerial roles.

Unfortunately, due to continued challenging markets, there has been a significant reduction in headcount in certain areas of the business over the year. As part of the headcount reduction process, wherever possible, mitigation and support programmes were put in place to minimise the impact on affected employees. As at 31 August 2016, Fenner employed approximately 4,300 employees, in 20 territories across the world. Employee data is collected and analysed on a monthly basis and includes information relating to headcount, turnover, gender and job vacancies.

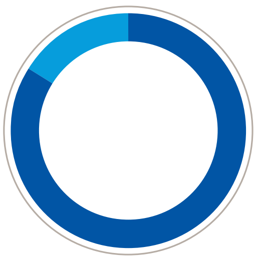
Total employee and senior leader gender split at 31 August 2016

All employees



Male	76%
Female	24%

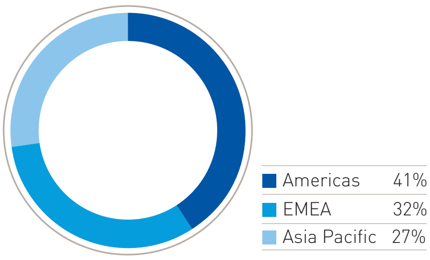
Senior leaders



Male	84%
Female	16%

Corporate Responsibility continued

Fenner Group headcount by region at 31 August 2016



What are we doing?

Fenner is committed to ensuring our employees remain engaged with their organisation's goals and values and motivated to contribute to the success of the business. Employee communication is an important business function and a variety of local and divisional publications are disseminated to employees. The Fenner Focus magazine is produced and distributed to all employees, allowing us to keep employees up-to-date with matters of Group and operational significance (this year, there has been a particular emphasis on cyber-security), whilst providing operating units with the opportunity to highlight work undertaken in community, H&S and environmental initiatives and long service achievements. Employees are encouraged to communicate with management and various channels including management briefings, consultative committees, tool box talks, social events and one-on-one meetings help facilitate employee feedback.

Many businesses conduct annual appraisals for both staff and shop floor employees. A 360 degree feedback tool continues to be utilised in parts of the business. This tool is based on the Fenner Leadership Behaviours and offers feedback surveys at three levels: Early Career; Established Leader; and Senior Leader. A variety of succession-planning processes are in place at Board, divisional and local level and have proved useful in the reorganisations that have taken place over the year.

Induction training is provided to all employees on a range of issues including H&S and Group policies and procedures. Further training, as appropriate, helps to ensure continued workforce development and encourages employees to increase their ability to contribute to the Group and to reach their full potential. Many of our locations utilise training matrices and have established training needs analyses.

Fenner attaches a great deal of importance to the health and welfare of our employees, both in the workplace and in their private lives. A large number of operating units offer employee assistance programmes and health-oriented programmes. Examples of various employee wellbeing initiatives include:

- ECS in Hull, UK offers employees a 50% subsidy to a sports centre membership to encourage an active and healthy lifestyle. It has also continued its participation in a cycle to work scheme.
- EGC in Houston, USA has been developing and implementing a tobacco policy to further support employee health and wellness.
- BBCS in Victoria, Australia instigated a healthy eating program with voluntary health checks and dietary advice.

Highlights from the year

The Group has undergone relatively significant reorganisation over the year whilst retaining its material capabilities and functions; this is in part due to succession planning and both local and Group-wide development programmes.

The inaugural Pathway Leadership Development Programme concluded during the year. The programme provided a mixture of leadership training, personal development and in-depth tuition in business skills to some of the more experienced leaders across the Group. Participants spent two weeks at Ashridge Business School and completed business projects set by members of the Executive Committee before presenting the results to senior management.

ENVIRONMENT

Why it matters to Fenner

Concern for the Group's impact on the environment is a fundamental part of the Group's corporate business strategy as a key contribution towards a sustainable future. The Group is committed to identifying and assessing all forms of potential environmental impairment arising out of its activities and actively seeks ways to reduce its impact on the environment to the lowest practical level. Many of our products enable our customers to replace traditional components, or modes of operation, with more energy efficient ones, producing a more environmentally friendly end product, or reducing energy input during production.

What policies and practices are in place?

At Board level, the Chief Executive Officer has specific responsibility for the development of Group policy and management systems. This responsibility is delegated through the management structure to the local level where every site, supported by in-house or third party professionals, develop appropriate implementation procedures. Each senior managing director reports to the Board on a regular basis and advises the Board immediately of any environmental risks or other incident likely to be material to the business. No new significant environmental risks or incidents were reported to the Board in the last year.

The Group Environmental Policy can be viewed at **www.fenner.com**

What are we doing?

Whilst the day-to-day management of environmental matters resides at the local level, initiatives and policies set by the Group guide activity. These can range from the use of technology to reduce business travel to the application of modern analytics to better understand our operations and how we can optimise them.

Highlights from the year

The Group greenhouse gas ("GHG") emissions are reported below in compliance with the carbon reporting requirements under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The table below shows the Group's GHG data in tonnes for the last financial year from over 60 locations in 12 countries.

Total annual GHG emissions and emissions intensity by scope

Total annual GHG emissions [3] (tCO2e)

	2016	2015
Scope 1 [1]	**27,775**	32,078
Scope 2 [2]	**60,400**	67,579
Total	**88,175**	99,657

Emissions intensity [4] (tCO2e per £m revenue)

	2016	2015
Scope 1 [1]	**48.52**	46.58
Scope 2 [2]	**105.50**	98.14
Total	**154.02**	144.72

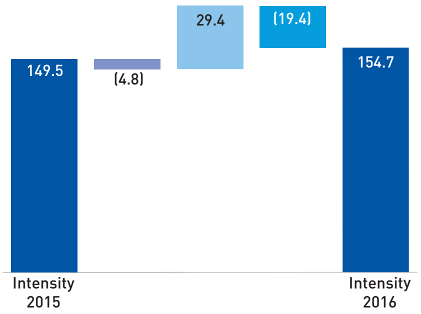
Notes:

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).
3. 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.
4. Due to the diverse range of products and services offered by the Group, it is extremely difficult to identify any universal production-based intensity measure that is meaningful across the Group; consequently, a fiscal intensity measure has been used in line with UK government guidance. The previous financial year's figures have been restated on a constant currency basis.

We are able to report an 11.5% drop in absolute carbon emissions; this is primarily due to two factors. Firstly, the general downturn in activity and asset utilisation across the Group has resulted in a lower energy demand, especially where operating lines have been decommissioned. Secondly, our response to the difficult commercial environment includes redoubling our "self-help" efforts to reduce production costs wherever possible and energy is an important part of this.

The chart on page 27 indicates the various elements impacting the emissions intensity over the financial year. It can be clearly seen that the significant reductions in absolute carbon emissions resulting from our energy efficiency "self-help" gains have been adversely offset by the impact of reduced Group revenue. As we operate at reduced manufacturing rates, and despite restructuring, matching the production reduction with a similar energy reduction is not possible. At each location there is a base load that is largely independent of the production rate related to heating, lighting and the minimum achievable turndown of major process equipment such as boilers, calenders and presses. This is demonstrated by the chart below.

Emissions intensity (tCO2e per £m revenue)



- Currency effect
- Revenue effect
- CO2 reduction effect

The Group uses a variety of energy sources. The main contributors to GHG emissions are electricity consumption, which accounts for 67% of our emissions, and fuels, such as natural gas, coal and fuel oil burnt on our premises which, combined, account for the remainder of the Group's emissions.

At the Group level, our activities over the year continued to focus on improving the systems for GHG data capture and reporting the Scope 1 & 2 emissions for our global operations.

COMMUNITY

Why it matters to Fenner

Fenner operates in a significant number of countries around the world. We seek to play a positive role in the local communities in which we operate by providing employment opportunities and building goodwill to facilitate Fenner's ability to operate in its many, diverse locations.

What policies and practices are in place?

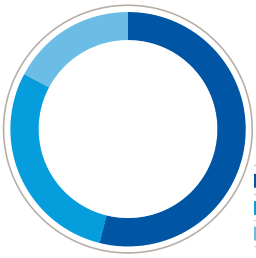
Fenner understands that its business activities could potentially have social and environmental consequences for the communities in which we work and we always consider the impact of such activities as an integral part of our decision making processes.

We firmly believe that the people who live and work within local communities are best placed to understand and look after the interests of those communities. This has led to the adoption of a devolved approach to community relations driven at a local, rather than Group level. In accordance with our Code of Business Conduct, the Group does not make political donations.

What are we doing?

Operating units have typically focused on community and education needs within their local communities. During the year, total charitable donations of £76,000 (2015: £82,000) were made.

Donations by type



Education	54%
Community	29%
Health	17%

Highlights from the year

Employees and operating units have given their time and helped raise funds for a variety of charities and projects over the past year. Some examples include:

- ECS in South Africa has provided bursaries to the top student in each grade of Elite Secondary College, a college that helps students who are often from disadvantaged backgrounds gain qualifications by providing affordable secondary education.
- AIP Precision Machining in Daytona, USA commissioned the local high school video department to film and produce its visitor/contractor safety video.
- ECS in Bracebridge, Canada houses an information radio station transmitter on their property for the local community. They also provide the power needed to run the transmitter.
- Fenner Drives in Manheim, USA partnered with York District Office of Vocational Rehabilitation to offer Manheim Central School District students a five month work experience programme. Fenner Drives staff worked closely with the students in several areas of the manufacturing facility, helping those students develop a range of valuable skills in the run up to their graduation.
- ECS in Hull, UK allowed building contractors to use part of its site for four months, facilitating the construction of an additional classroom at the adjacent primary school. The construction project would have proved difficult to achieve without the provision of such access.

BUSINESS BEHAVIOURS

Why it matters to Fenner

A well run organisation is one in which officers and employees operate with high standards of integrity, behave ethically and demonstrate responsible corporate behaviour. By embracing a culture of honesty and integrity, we enhance our reputation and help ensure that our customers, shareholders, employees and the communities in which we operate have the confidence to trust us as a business, thereby driving long-term business success.

What policies and practices are in place?

Fenner is committed to doing business in an ethical and transparent manner at all times. The principles of integrity and accountability are reflected in the Group Code of Business Conduct which sets out the behavioural standards that are expected from all employees. The Code governs the way we interact with customers, business partners, investors, employees, suppliers and with the wider communities in which we operate.

The Code is a general, overarching policy, which is in turn supported by ancillary policies, procedures and governance requirements, both at Group and operating unit level. These policies provide greater granularity on a number of issues, including: anti-bribery; competition (anti-trust); gifts and hospitality; whistleblowing; and email and internet use. Any employee found to be in breach of the Code or its supporting policies will be subject to disciplinary action, up to and including termination of employment.

The Board has ultimate responsibility for the development and monitoring of the Group's policies relating to corporate behaviour and for ensuring that those policies are understood and communicated to employees. Responsibility for ethical and behavioural standards in each division is cascaded via divisional management to the senior manager at each operating unit. Notwithstanding this, all employees are personally responsible for adhering to and applying these policies. Policies are reviewed at least annually, or more often, as necessary, bearing in mind any changes to the regulatory or business landscape.

Fenner encourages its employees to discuss any concerns that they may have regarding potentially unethical workplace behaviour with local management, or alternatively with divisional or Group personnel. In addition to internal reporting processes, Fenner has a confidential and independent third party whistleblowing helpline in place, which is available to all employees. Helpline details are widely publicised at all operating units; calls to the helpline are free and the helpline operates 24 hours a day, 7 days a week. Reports can be made in a wide range of languages. All reports are thoroughly investigated in accordance with the Group Whistleblowing Policy and remedial action is taken as appropriate.

What are we doing?

Relationships with our customers and suppliers are fundamental to our continuing success. Accordingly, the vast majority of operating units have, or are working towards, ISO 9001 or equivalent status and each undertakes rigorous customer satisfaction assessments, including senior face-to-face meetings and regular customer surveys (conducted both internally and by third parties). Performance and the timing and handling of any complaints are routinely discussed at management meetings and are used as a key measurement in determining the success of the operating unit. Complaints are recorded and used to help operating units improve the service that they provide.

Fenner's standard terms and conditions of business require both suppliers and customers to comply with all laws relating to anti-corruption as well as our related policies,

Corporate Responsibility continued

reflecting our expectation that business partners should hold themselves to the high level of corporate behaviour we require of ourselves. Similarly, we expect strategic partners and service customers to have H&S management systems that are aligned with those of the Group.

Fenner recognises that gifts and hospitality can potentially create improper influence and conflicts of interest, or the perception of a conflict of interest. The existence of the Fenner UK Corporate Gifts & Hospitality Policy is communicated to all operating units and a number of overseas operations have their own locally-developed gifts and hospitality policies. Additionally, an online gifts and hospitality register is in place for all UK operations (including Head Office) and is also used by some operations in other jurisdictions. The register is subject to regular review.

Highlights from the year

The Company has launched a second e-training programme with the new course addressing competition (anti-trust) regulations. The training module was rolled out to appropriate employees across the Group, including senior management teams and sales and procurement staff. The training is available in a number of languages to reflect the global nature of the Company's workforce.

In addition to the Group programmes, employees continue to receive training, as appropriate, at an operational level on a variety of business behaviours through seminars, meetings and poster campaigns. Training is provided both internally and by third parties. Training on business behaviour is also provided to new hires as part of the induction process, which includes the provision of the Group's Code of Business Conduct and supporting policies.

During the year, the Company has taken a number of steps in response to the introduction of the Modern Slavery Act and will publish a slavery and human trafficking statement on its website, providing details of such steps, as required by legislation.

The independent whistleblowing helpline received 13 calls (2015: 12) over the year from employees who wished to raise concerns alleging unethical workplace behaviour. Following thorough investigation, no action was required in five of the cases, with the remaining cases being appropriately addressed through further training, policy improvements or disciplinary action at a local level. All whistleblowing incidents are reported to the Audit Committee.

The Board

Vanda Murray OBE (55)
Acting Non-Executive Chairman since 8 June 2016

Appointment to the Board
Vanda joined the Board in January 2012. Vanda became acting Non-Executive Chairman on 8 June 2016.

Committee membership
Audit Committee, Remuneration Committee (Chairman), Nomination Committee (Chairman).

External appointments
She is also a non-executive director of Bunzl Public Limited Company, Exova Group plc and Manchester Airports Holdings Ltd.

Previous experience
Vanda was formerly Chief Executive Officer of Blick plc.

Mark Abrahams (61)
Chief Executive Officer since 8 June 2016

Appointment to the Board
Mark became Group Finance Director in October 1990, Chief Executive Officer in May 1994 and Non-Executive Chairman in March 2011. Mark stepped back into the role of Chief Executive Officer on 8 June 2016.

Committee membership
Nomination Committee, Executive Committee.

External appointments
He is also non-executive Chairman of Inspiration Healthcare Group PLC.

Previous experience
Mark was formerly non-executive Chairman of the Darby Group plc and Vice Chairman of The Leeds Teaching Hospitals NHS Trust. He is also a member of the Economics Advisory Committee of the CBI.

John Pratt (53)
Group Finance Director

Appointment to the Board
John became Group Finance Director in January 2015 after being with the Group for over 23 years.

Committee membership
Executive Committee.

Previous experience
John has held a number of senior positions within the Group including Group Financial Controller and, prior to being appointed Group Finance Director, was a Divisional Managing Director of ECS with responsibility for activities in the United Kingdom, South Africa and Asia. He is a Chartered Accountant.

Geraint Anderson (57)
Non-executive director

Appointment to the Board
Geraint joined the Board in January 2016.

Committee membership
Audit Committee, Remuneration Committee, Nomination Committee.

External appointments
He is a non-executive director of Premier Farnell plc.

Previous experience
Geraint was Group Chief Executive of TT Electronics plc from August 2008 until July 2014. Prior to that he was the Vice President and General Manager of the Worldwide Service Provider Organisation for Linksys, a division of Cisco Systems, Inc. He was a non-executive director of Volex plc from November 2013 until November 2015 and also acted as interim Chief Executive Officer from September 2015 until November 2015.

Chris Surch (55)
Non-executive director

Appointment to the Board
Chris joined the Board in May 2016.

Committee membership
Audit Committee (Chairman), Remuneration Committee, Nomination Committee.

Previous experience
Chris was the Group Finance Director of FirstGroup Plc from 2012 to his retirement in January 2016. Prior to that he had been Group Finance Director and acting Chief Executive Officer at Shanks Group plc and has held senior finance roles at Smiths Group plc and TI Group plc.

Debra Bradbury (51)
Group Company Secretary

Debra joined the Company in April 2001 as Assistant Company Secretary and was appointed Group Company Secretary in July 2002.

Nicholas Hobson (57)
Chief Executive Officer until 8 June 2016

Nick became Chief Executive Officer in March 2011. He stepped down from the Board on 8 June 2016.

John Sheldrick (67)
Non-executive director

John joined the Board as non-executive director in September 2010. He retired from the Board on 30 April 2016.

Alan Wood (69)
Non-executive director

Alan joined the Board as non-executive director in April 2010. He retired from the Board on 13 January 2016.

Corporate Governance

Signed on behalf of the Board of Directors

Vanda Murray OBE
Chairman
16 November 2016

Dear Shareholder

The Board recognises the value that appropriate and well-managed corporate governance processes bring to the Group. The application of high governance standards alongside the core values and behaviours required by the Group Code of Business Conduct help ensure that the Company is managed in a manner that represents the best interests of shareholders, employees and wider stakeholders, thereby contributing to the long-term success of the Company. The Board is committed to maintaining high standards of corporate governance, which are key to discharging its responsibilities and driving Group performance.

CHANGES TO THE BOARD

There have been a number of changes to the Board over the year. Earlier in the year, Mark Abrahams agreed to step in at short notice and assume the role of Executive Chairman on an interim basis following Nicholas Hobson's leave of absence from early January 2016 due to ill health. Nicholas Hobson subsequently stepped down from the Board on 8 June 2016 and Mark Abrahams resumed the role of Chief Executive Officer. The Board believed this was a suitable step, bearing in mind Mark's extensive experience with the Group and his significant knowledge of its operations, markets, strategy and culture. It was agreed that it would be appropriate for Mark to relinquish chairmanship of the Company on resuming the Chief Executive Officer role and I therefore agreed to step in as acting Non-Executive Chairman in the interim period. The Board has continuing processes to identify candidates for the positions of both Chief Executive Officer and Non-Executive Chairman, although it is anticipated that the identification process for a new Chief Executive Officer may be relatively protracted, bearing in mind the complexity of the Group and the need to ensure the right candidate is appointed. However, the Chief Executive Officer appointment is regarded by the Board as the priority. As noted in my Chairman's Statement, Mark has agreed to assist during the transitioning to a new Chief Executive Officer.

Alan Wood retired as non-executive director, effective 13 January 2016, at which point he ceased to be Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. John Sheldrick also stepped down as non-executive director on 30 April 2016 and therefore ceased to be Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees at that point.

Two new non-executive directors have joined the Board, with Geraint Anderson being appointed with effect from 13 January 2016 and Chris Surch appointed 1 May 2016. Both Geraint and Chris are members of the Audit, Remuneration and Nomination Committees, with Chris chairing the Audit Committee.

On behalf of the Board, I would like to thank Nicholas, Alan and John for their significant contributions to the Company over the years and wish them well for the future.

BOARD VISITS

As a matter of course, the Board conducts at least one site visit to a business unit annually. These visits are an important part of helping to ensure that the Board continues to remain in touch with the businesses, products and the management teams of the Fenner operations, consequently helping to further develop the Board's knowledge and understanding of the Group. With the changes taking place in the Board's composition, the Board was unable to have a site visit in the year under review, but ensured that it met with the Executive Committee and with various members of senior management during the course of the year. The Board will however visit a number of sites over the forthcoming year, with its March 2017 meeting to be held at one of the Group's UK business units and visits to a number of US locations scheduled for June 2017. These visits are especially important given the recent appointments of Geraint Anderson and Chris Surch and will help increase their knowledge and understanding of the Group and its operations.

COMPLIANCE WITH PROVISIONS OF THE CODE

The Financial Reporting Council ("FRC") publishes the UK Corporate Governance Code ("the Code"), which sets out standards of good corporate governance practice. Paper and downloadable versions of the 2014 Code can be obtained from the FRC via its website, frc.org.uk. As a listed company, we are required to report on our compliance with the Code and provide an explanation of any instances of non-compliance. I can confirm that the Company has complied with the provisions and spirit of the Code, with the following exceptions.

Provision D.2.1 of the Code stipulates that the Remuneration Committee should not be chaired by the Company Chairman. As noted above, due to changes to the Board, I am currently the acting Non-Executive Chairman of the Company and, in addition, chair the Remuneration Committee. As the other members of the Remuneration Committee have only recently joined the Board, the Board believed that it would be appropriate for me to continue as Chairman of the Remuneration Committee, notwithstanding the fact that I am acting Non-Executive Chairman on an interim basis.

Provision C.3.1 provides that the chairman of larger companies (such companies having been in the FTSE 350 at some point in the year immediately prior to the reporting year) should not be a member of board audit committees. I would note that the Company is not currently in the FTSE 350. Additionally, notwithstanding Provision C.3.1, the Board felt there was value in retaining a third director on the Audit Committee and believed it was appropriate for me to remain on the Committee given the interim nature of my appointment as acting Non-Executive Chairman of the Company.

Provision A.2.1 of the Code provides that the roles of Chairman and Chief Executive Officer should not be exercised by the same individual. While the Chairman and Chief Executive Officer were separate persons at all times during the year, Mark Abrahams effectively covered both roles from 4 January 2016 to 8 June 2016 during Nicholas Hobson's leave of absence due to ill health. Mark had previously been the Chief Executive Officer of the Group from 1994 to 2011 and was, in the opinion of both the Board and Nomination Committee, best placed to step in to the role at short notice to take over the effective decisive running of the Group during its prolonged difficult trading period. Until Nicholas' position could be determined, it was not possible to create an alternative executive structure. With Nicholas' resignation, Mark's resumption of the role of Chief Executive Officer and my appointment as acting Non-Executive Chairman in June 2016, the roles of Chief Executive Officer and Chairman were once more separate and distinct, in line with best practice.

Finally, it is implicit within the Code that the Chairman of the Company and Senior Independent Director are separate individuals. I am the Senior Independent Director for the Company; while this has been my primary function for the majority of the year, I have recently assumed the role of acting Non-Executive Chairman. The separation of these roles will be resolved once the recruitment process for a new Chairman is complete.

The Board would emphasise that all four derogations from the Code are due to the unusual circumstances which have arisen over the past few months and, as such, are not envisaged to be long-term arrangements. In addition, the Board has recognised the importance of continuity, bearing in mind the appointment of two new non-executive directors during the year.

This Corporate Governance report should be read in conjunction with the Strategic Report on pages 1 to 23, the Board Remuneration Report on pages 47 to 57, the Nomination Committee Report on pages 37 to 38, the Audit Committee Report on pages 39 to 42 and Other Statutory Information on pages 43 to 45, each of which provides more detail about the Company and its governance arrangements. Further information required under Rule 7 of the Disclosure and Transparency Rules of the Financial Conduct Authority is included on pages 43 to 45. Disclosures regarding the long-term viability of the Company are detailed on page 17 and the directors' assessment of the business as a going concern is addressed on page 17. Details of the Board's robust assessment of the principal risks facing the Company (including those that would threaten its business model, future performance, solvency or liquidity) are covered on pages 20 to 23 and pages 35 to 36.

The Board believes that this Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; an explanation of the process we have used to make this determination is set out on page 46.

INITIATIVES AND ACTIVITIES

In light of the changes to the Board in June 2016 as noted above, the Board has commenced work on the process to identify candidates for the positions of both Chief Executive Officer and Non-Executive Chairman and has appointed an executive search firm to identify suitable candidates.

In response to a number of challenging markets, the Board has continued to support the Chief Executive Officer and the executive team in their efforts to reduce costs and manage cash and working capital across the Group, whilst ensuring the Group remains well placed to resume growth as market conditions improve. This cost and cash management included the refocusing and restructuring of ECS' American operations, to better reflect prevailing market conditions in the US coal mining industry and opportunities within the industrial segment.

The Board has approved and overseen the relocation of Secant Group to new premises. The Board believes that Secant Group now has the infrastructure in place to facilitate its expanding capabilities.

Through the Audit Committee, the Board has overseen an IT security assurance programme. As a result, a formal in-house IT network community has been formed to help counter cyber fraud, share best practice, issue warnings and raise awareness of the issues across the Group.

The Board approved and oversaw the disposal of Xeridiem Medical Devices, Inc. shortly after the year end. The Board believed Xeridiem offered more synergies to the acquirer and will allow the Group to focus on the significant growth opportunities in its other medical operations.

The Board oversaw a review of the appropriateness of the Group's hedging strategy against the background of increasingly volatile foreign exchange rates in advance of the June 2016 "Brexit" referendum and consequently approved certain changes.

In addition to the above, the Board also:

- received the annual HSE review from the Group HSE Coordinator as well as an assurance review of the HSE systems and practices and oversaw the creation and implementation of a formal health & safety peer review system;
- reviewed and approved, where appropriate, major capital expenditure items and considered how they helped towards achieving the strategic goals of the Group. This also included post-project reviews of major investment projects;
- monitored external indicators to gauge customer opinions and market dynamics;
- reviewed and approved changes to senior management, including recruitment and succession planning considerations;
- reviewed divisional strategic and operational performance;
- considered Group financial performance against budget, forecast and market expectations;
- reviewed a number of potential acquisitions;
- reviewed the Market Abuse Regulations, which came into effect in July 2016 and approved steps to ensure its proper implementation;
- oversaw a capital reduction exercise, converting the Company's merger and share premium reserves into distributable reserves;
- approved interim and proposed final dividends;
- reviewed cyber security; and
- reviewed and approved Board policies and terms of reference.

Matters considered by the Board as a matter of course during the year include:

- Strategy;
- Financial reports;
- Chief Executive Officer reports;
- Updates from Group operations;
- Risk management;
- Dividend policy;
- Investor relations;
- Governance and compliance;
- Board evaluation; and
- HSE reports.

LEADERSHIP

Our approach to corporate governance

The Chief Executive Officer and other senior management provide strategic direction to divisional management and the management of individual businesses within Fenner whilst ensuring that each business operates within Fenner's framework of controls.

Fenner strongly believes that the empowerment of local management teams is a key driver in promoting strong performance from individual businesses within Fenner, which in turn helps to ensure the long-term success of the Group. While it values the promotion of individual business autonomy, the Board recognises that autonomy must be tempered with robust and appropriate governance standards, with an emphasis on accountability. This culture of entrepreneurial leadership through autonomy and accountability originates at Board level and is cascaded to all Group operations. Group policies, developed and sanctioned by the Board, provide guidance on the behaviours, values and standards of governance that all Fenner operations should demonstrate, regardless of the type of business or geographical location in which they operate. Alongside ensuring that highly competent and dedicated management teams with requisite and appropriate financial and commercial expertise are in place, robust controls help ensure that expectations regarding corporate governance are met.

The Board regularly reviews the performance of the operations and meets both divisional and operational management teams across the year. Shareholder requirements are also managed by the Board and it acts as a conduit between shareholders and operations, to ensure that their interests are aligned.

Board composition

The Board currently comprises the acting Non-Executive Chairman, two independent non-executive directors, the Chief Executive Officer and Group Finance Director and is supported by the Group Company Secretary. The Board comprises four male directors and one female director. The Group Company

Corporate Governance continued

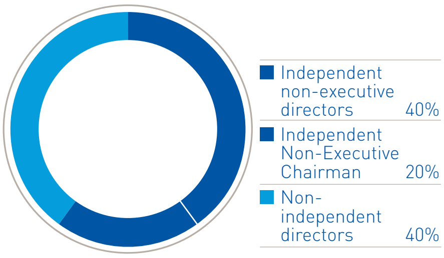
Secretary is also female. The biographies of the directors are set out on page 29.

The balance of the Board is kept under review by the Nomination Committee to ensure that it has the appropriate skills, experience, knowledge and levels of independence necessary to discharge its duties and responsibilities effectively. The Committee used these criteria in the identification of new non-executive directors and both Geraint Anderson and Chris Surch were appointed on the basis of their experience and skill sets, which complement the Board's capabilities.

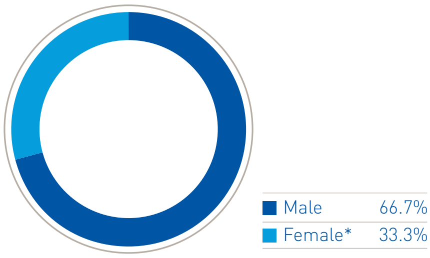
As previously noted, the Nomination Committee is currently overseeing the process to identify candidates for the positions of both Chief Executive Officer and Non-Executive Chairman.

The Nomination Committee and wider Board are comfortable that the Board's current size and composition continues to allow it to be effective and take decisions in the long-term interests of the Group, its shareholders, employees and wider stakeholders.

Board independence

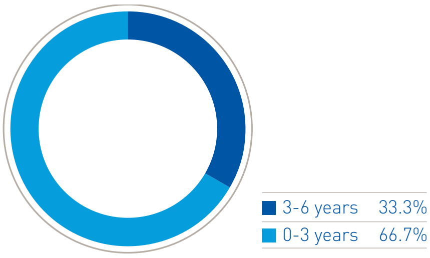


Board gender



*Including the Group Company Secretary

Length of tenure of independent non-executive directors



Biographies of the Board, detailing their current appointments and experience, are set out in The Board on **page 29**

Role and responsibilities of the Board

The Board is committed to the creation of long-term value for Fenner shareholders and regularly reviews the Group's strategy and structure to ensure that this commitment is delivered.

The Board has a collective duty to promote the long-term success of the Group, providing leadership within a framework of prudent and effective controls. The Board sets the strategic aims of the Company and ensures that appropriate resources are in place to achieve those objectives. The Board also focuses on internal controls and risk management alongside the development and promotion of the Company's culture, values and standards.

The Board has formal meetings throughout the year to deal with prescribed matters and to receive the reports of the executive directors. Between formal meetings, the Chairman and non-executive directors have access to the executive directors and the Group Company Secretary and meet with the members of the Executive Committee throughout the year.

Responsibility for the day-to-day management and oversight of the Group is delegated to the executive directors who, with support from the Executive Committee, promote the long-term objectives and strategy of the Group. Notwithstanding appropriate delegation, the Board retains sufficient oversight of all key aspects of the Group via regular meetings, reports, periodic site visits and contact with the wider management team.

The Board recognises that it is appropriate to reserve certain matters for the Board; these matters are reviewed on an annual basis and include:

- trading performance and business strategy;
- significant capital expenditure including acquisitions, disposals and financing agreements;
- Group financial reporting and controls;

Board responsibilities

The roles of Chairman and Chief Executive Officer are separate and a clear division of specific responsibilities has been approved by the Board in writing. This is subject to periodic review as appropriate.

Each director brings different skills, experience and knowledge to the Company. The non-executive directors are from varied backgrounds, have extensive skills and experience of senior management and bring additional independent thought and judgement to the Board.

The key responsibilities of the Board members and Group Company Secretary are detailed below:

Chairman of the Board	Chief Executive Officer	Senior Independent Director	Non-executive directors	Group Company Secretary
Leads the Board and ensures the effectiveness of the Board as a whole and also that of its individual directors. Promotes effective Board relationships, encouraging an atmosphere of openness and ensuring robust and constructive debate around the Board table. Fosters the vision, values, governance standards and ethical behaviour of the Company. Sets the Board's agenda and ensures that sufficient time is available for discussion of agenda items, including strategic issues. Oversees Board composition, including succession planning. Facilitates the contribution of non-executive directors and holds meetings solely with the non-executive directors, as appropriate, but at least annually. Oversees Board evaluations. Ensures effective communication with shareholders and wider stakeholders.	Oversees the day-to-day management of the Company. Implements the decisions of the Board and its Committees. Provides leadership to the Group and communicates the expectations of the Board in relation to the Company's culture, values and behaviours. Plans and executes effective delivery of Board strategy and objectives. Promotes a strong health and safety ethos.	Collaborates closely with the Chairman and serves as an intermediary for the other directors if necessary. Available to meet shareholders if discussions through normal channels have failed to resolve their concerns or it would be inappropriate to liaise with their usual contacts. Attends meetings with the corporate governance heads of major shareholders alongside the Chairman. Leads the annual review of the performance of the Chairman.	Provide challenge to executive management and contribute to the development of the Company's strategy. Scrutinise the performance of the Company and monitor both the integrity of financial information and the effectiveness of financial controls and risk management processes. Mitigate the risk that an individual, or group of individuals, can dominate decision making or Board direction. Help develop strategy. Provide advice to senior management. Determine the appropriate levels of remuneration for executive directors and take part in succession planning and the recruitment of new directors.	Secretary to the Board and Committees. Facilitates the flow of information between the Board and its Committees and between non-executive directors and senior management. Updates the Board on governance, regulatory and statutory requirements as appropriate. Facilitates the Board evaluation process. Ensures compliance with Board procedures. Facilitates Board induction programmes.

- ensuring a sound system of internal control and risk management;
- managing relations and communication with shareholders;
- Board and senior management appointments;
- corporate governance matters; and
- Group policies.

Other specific Board level matters are delegated to sub-committees of the Board. Details of the composition and purpose of these delegated Committees are set out on this page and pages 34, 37 and 39.

EFFECTIVENESS

The effectiveness of the Board depends on maintaining the right balance of skills, experience, knowledge and independence. The Board believes that the current Board structure and membership continues to achieve this aim. The Board is collegiate in nature, whilst providing sufficient challenge to executive management. Ready access to information and management across the Group helps to ensure that all Board members are able to make meaningful, insightful and positive contributions to Board discussions and decisions. All non-executive directors, including the acting Non-Executive Chairman, are considered independent.

Appointments to the Board

Information relating to appointments to the Board can be found in the Nomination Committee Report on **pages 37 to 38**

Commitment

All Board members are expected to be able to devote sufficient time to the Company to discharge their responsibilities effectively and letters of appointment for the acting Non-Executive Chairman and non-executive directors set out the expected time commitment required of them. Board members are expected to attend all main Board meetings and Committee meetings as appropriate and have sufficient time available to prepare for such meetings. Executive directors cannot hold more than one non-executive directorship in a FTSE 100 company although currently, neither of the executive directors holds such a FTSE 100 role.

Development, information and support

All new directors are subject to a tailored induction programme, covering a variety of topics including business strategy, Group overview, corporate governance, health and safety, investor relations, business risk and finance. Inductees are provided with one-to-one meetings with the Chief Executive Officer, Group Finance Director, Group Company Secretary and various members of senior management. Business familiarisation is a key component of induction and new directors also undertake site visits to further enhance their knowledge and understanding of the Group and meet local management teams. After conclusion of the induction process, non-executive directors continue their business familiarisation through regular contact with management during site visits, formal meetings and other events.

The Chairman, via the Group Company Secretary, ensures that accurate and clear information is submitted to the Board and its Committees in a timely manner, thereby enabling the Board to discharge its duties proficiently. The Board and its Committees have been provided with sufficient resources to undertake their duties. All directors have access to the advice and services of the Group Company Secretary, who is responsible to the Board for advising on governance matters, regulations, developments and best practice. Directors are entitled to seek independent professional advice where necessary in the course of their duties, at the Company's expense.

Meetings of the Board

The attendance of each director at Board, Audit Committee, Remuneration Committee and Nomination Committee meetings is set out below.

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Non-executive director meetings
Number of meetings during the year	9	3	3	3	1
Chairman					
M S Abrahams 1	9/9	3*	3*	3/3	1/1
Executive directors					
N M Hobson 2	3/3	1*	1*	1/1	n/a
W J Pratt	9/9	3*	1*	3*	n/a
Non-executive directors					
V Murray 3	9/9	3/3	3/3	3/3	1/1
A J Wood 4	3/3	1/1	1/1	1/1	1/1
J N Sheldrick 5	7/7	2/2	1/1	2/2	1/1
G Anderson 6	6/5**	2/2	2/2	2/2	0***
C Surch 7	3/3	1/1	2/2	1/1	0***

1 Mark Abrahams attended seven Board meetings as Chairman (three as Non-Executive Chairman and four as Executive Chairman) and the final two Board meetings as Chief Executive Officer
2 Nicholas Hobson stepped down from the Board on 8 June 2016, having taken a leave of absence from the Company at the beginning of January 2016
3 Vanda Murray attended the final two Board meetings as acting Non-Executive Chairman
4 Alan Wood retired from the Board on 13 January 2016
5 John Sheldrick retired from the Board on 30 April 2016
6 Geraint Anderson was appointed to the Board on 13 January 2016
7 Chris Surch was appointed to the Board on 1 May 2016
*By invitation
**Geraint Anderson attended one Board meeting by invitation prior to his appointment to the Board
*** The acting Non-Executive Chairman held one-to-one meetings with both newly appointed non-executive directors in Summer 2016

Conflicts

The statutory duties for directors relating to conflicts of interest are set out in the Companies Act 2006. No conflicts arose during the year and the Board continues to monitor events with a view to ensuring any conflicts are handled appropriately. None of the non-executive directors (including the acting Non-Executive Chairman) has any material business or other relationship with the Company or its management and there are no known circumstances which are likely to affect, or could appear to affect, their independence or judgement.

Board evaluation

Each year an evaluation of the performance of the Board is carried out. An external evaluation is conducted every three years with internal evaluations conducted by the Chairman in the intervening two years.

In November 2015, an external evaluation of the Board and its Committees was conducted by Equity Communications Ltd, which has no other relationship with the Company. The evaluation focused on areas deemed to be critical to the Board's effectiveness, including:

- Board and Committee efficacy;
- Board administration;
- Roles and responsibilities;
- Board structure and diversity;
- Decision making;
- Board challenge;
- Corporate strategy;
- Risk and internal controls; and
- Succession planning.

No significant issues were identified in relation to the effectiveness of the Board or its Committees and there was recognition that the Board relationships were working well. All directors contribute positively to Board discussions, with there being an appropriate mix of skills, experience and diversity in the Board's composition. The evaluation identified two areas that the directors indicated they were keen to devote more time to over the forthcoming year: business strategy and increasing visits to Group business sites. Accordingly, the Board has organised a strategy event and site visits to a number of US operations in 2017.

THE ROLE OF THE COMMITTEES

Remuneration Committee

The Remuneration Policy and Annual Remuneration Report are set out in the Board Remuneration Report on **pages 47 to 57**

Responsibilities

The Committee determines and agrees with the Board the broad framework and policies for Board and executive level remuneration and reviews the ongoing appropriateness of these policies. In addition, the Committee reviews legislation and guidance and considers shareholders' opinions relating to remuneration practices and reporting requirements on behalf of the Board, with

Corporate Governance continued

input from external advisors, where necessary, and the Group Company Secretary. It is also consulted on the granting to certain employees of an executive cash long-term incentive plan with performance measures aligned with growth in the underlying earnings per share of the Company over a three year measurement period, alongside administering the Performance Share Plan ("PSP").

Governance

Terms of reference set out the Committee's role and duties. The Remuneration Committee exclusively comprises independent non-executive directors. The Committee has the power to request the attendance at meetings of any director or Group employee as considered appropriate. The Chief Executive Officer, if invited to attend, does not participate in any decision in relation to his own remuneration.

Activities

Details of the Committee's work is set out in the Board Remuneration Report on pages 47 to 57.

Audit Committee

The work, responsibilities and governance of the Audit Committee are set out on **pages 39 to 42**

Nomination Committee

The work, responsibilities and governance of the Nomination Committee are set out on **pages 37 to 38**

Terms of reference of the Committees of the Board

The terms of reference of the Audit, Remuneration and Nomination Committees set out the role and duties for each Committee and are reviewed at least annually. The terms of reference are available to view on the Group's website at www.fenner.com and upon request to the Group Company Secretary.

Role of the Executive Committee

The Executive Committee is chaired by the Chief Executive Officer and comprises the two executive directors, the Group Company Secretary and five members of the Group's senior management from operations. Other senior management may be called on to attend meetings, as appropriate. The Executive Committee monitors and manages business performance, reviews progress against strategic objectives and oversees daily management of the Group through powers delegated to it by the Board. The Executive Committee meets at least six times a year.

The Committee is responsible for:

- helping to develop and execute strategy;
- overseeing and managing the operational, financial and safety performance of the Group;
- identifying and managing risk;
- assuming a key role in identifying and managing acquisitions in conjunction with local management teams; and
- supporting the Group's leadership development programmes by identifying future leaders of the business and assuming a mentoring and support role in employee development.

INTERNAL CONTROL

In accordance with the requirements of the Code and the recommendations of the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the directors can confirm, based on: our monitoring of the Company's risk management and internal control systems; our review of the effectiveness of those systems; and a robust assessment of the principal risks facing the Company, that no significant changes to the principal risks, control failings or weaknesses have been identified that resulted in unforeseen material losses. While the directors are responsible for

	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee
Role	Responsible for: • the oversight of the Company's financial reporting, internal controls and risk management; • managing the relationship with fraud detection and reporting and whistleblowing reporting; and • monitoring the effectiveness of the external auditors.	Responsible for: • determining the remuneration packages of the executive directors and other senior executives and approving the Chief Executive Officer's proposals for senior executives; • reviewing the appropriateness of the Remuneration Policy; and • administering the PSP.	Responsibilities include: • reviewing the structure, size and composition of the Board; • identifying and nominating candidates to fill Board vacancies; and • considering succession planning for all Board positions and senior executives.	Responsibilities include the day-to-day management of the Group and operational matters.
Membership				
Committee Chairman	John Sheldrick (to 30 April 2016) Chris Surch (from 1 May 2016)	Alan Wood (to 13 January 2016) Vanda Murray (from 14 January 2016)	Mark Abrahams (to 8 June 2016) Vanda Murray (from 8 June 2016)	Nicholas Hobson (to 4 January 2016) Mark Abrahams (from 4 January 2016)
Other members	**Non-executive directors** Alan Wood (to 13 January 2016) Vanda Murray Geraint Anderson (from 13 January 2016)	**Non-executive directors** Vanda Murray John Sheldrick (to 30 April 2016) Geraint Anderson (from 13 January 2016) Chris Surch (from 1 May 2016)	**Non-executive directors** Vanda Murray Alan Wood (to 13 January 2016) John Sheldrick (to 30 April 2016) Geraint Anderson (from 13 January 2016) Chris Surch (from 1 May 2016) **Executive director** Nicholas Hobson (to 4 January 2016) Mark Abrahams (from 5 January 2016)	**Executive director** John Pratt **Other members** Group Company Secretary: Debra Bradbury Managing Directors of operations: Leonard Casey Jack Krecek Edwin Have David Landgren Karen West
Others who are invited to attend from time to time	External auditors Chairman Chief Executive Officer Group Finance Director Group Company Secretary Group Financial Controller Group Treasurer and Head of Tax Group Business Risk Manager Senior Internal Auditor	Chairman Chief Executive Officer Group Finance Director Group Company Secretary Independent external advisors	Group Finance Director Group Company Secretary External advisors as required	Director of Strategic Planning & Investor Relations Group Business Risk Manager Group HSE Coordinator External advisors as required

the Group's systems of internal control and risk management and for reviewing their effectiveness, like any such systems, they can only provide reasonable and not absolute assurance against material misstatement or loss.

Key procedures within the internal control structure, which have been in operation for the full financial year and up to the date of approval of this Annual Report, are:

- the continuing identification of major business and insurance risks faced by the Group's operations, by both the Board and senior management, and the determination of the most appropriate course of action to deal with those risks;
- central review and approval procedures in respect of major areas of risk such as acquisitions and disposals, reorganisations, litigation, treasury management, taxation and environmental issues;
- a clear management structure, with well-defined lines of responsibility and the appropriate levels of delegation;
- regular review of the Group's operating units by operational and executive management and monthly reports from the senior managing directors;
- a structured process for appraising and authorising capital projects, which includes clearly defined authorisation levels. Projects are subject to post-investment appraisals;
- well established consolidation and reporting systems for both the statutory and monthly management accounts. Monthly, half yearly and annual financial results are prepared by the consolidation team and reviewed by management, with financial reports distributed to all Board members;
- comprehensive budgeting systems with an annual budget approved by the Board. Monthly results are reported against budget and revised forecasts for the year are prepared regularly;
- use of non-financial KPIs across the Group;
- monitoring of key external indictors;
- an internal programme of monitoring visits by the internal audit team, as agreed with the Audit Committee, reviews the compliance of each operating unit with the Group's standard internal financial control procedures;
- competition compliance programmes in several jurisdictions;
- compliance policies are applied including a Code of Business Conduct, an Anti-bribery & Corruption Policy and a Whistleblowing Policy;
- Group polices are supported by Group-wide online training on issues including business behaviours, anti-bribery and competition; and
- a programme of business risk reviews with operational management focusing on non-financial controls and risk management.

The key processes used in reviewing the effectiveness of the Group's system of internal control and risk management, include:

- three meetings a year of the Audit Committee, with risk and internal control on the agenda of all meetings and one of those meetings being dedicated to the reporting and consideration of risk management and internal control;
- detailed and regular reporting to the Board of the principal risks of the business and their mitigating factors, including the discussion of a topical risk at each meeting;
- risk and internal audit reports are submitted to the Board;
- the use of external advisors to carry out assurance reviews; and
- the Board and Audit Committee have full access to senior managers within the risk and internal audit teams and to external advisors, who regularly attend Board meetings to present and discuss the findings of their work.

RISK MANAGEMENT

Culture and policy

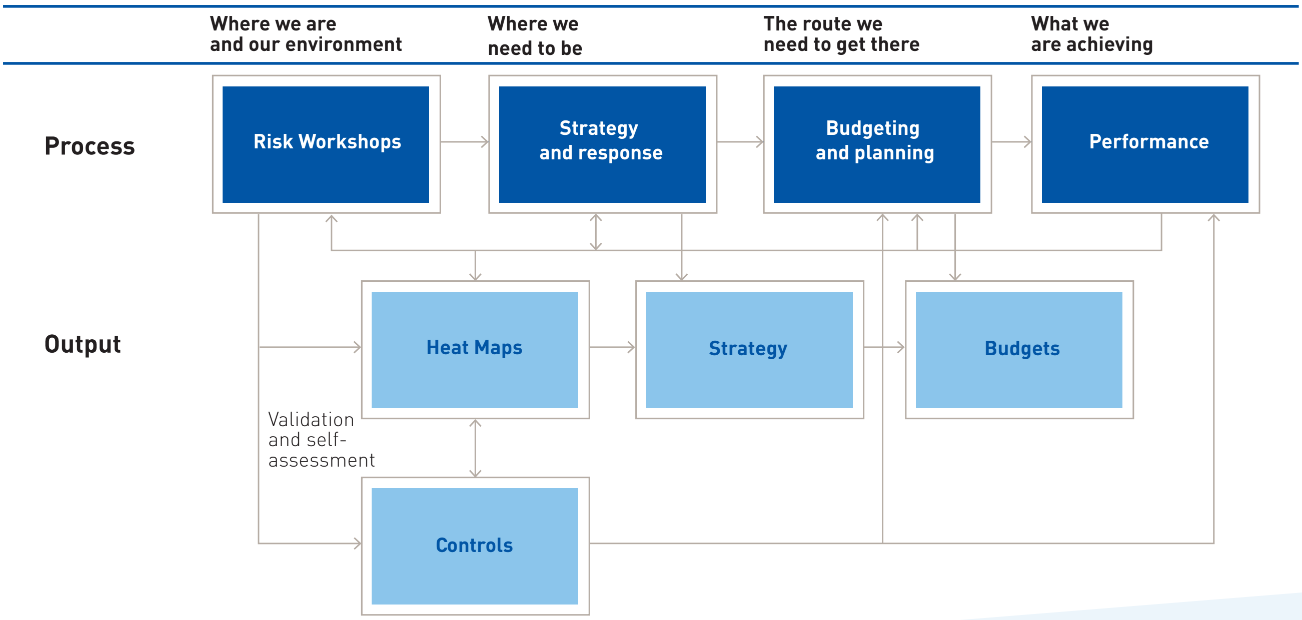
Fenner has a well-established risk management culture together with documented risk management policies and methodologies. The Board defines Business Risk as "an event or situation which is potentially damaging to the achievement of Fenner's strategic objectives".

Fenner's business model and strategy requires it to operate globally in what can be challenging conditions and territories. Fenner is prepared to accept those risks which it believes will ultimately increase shareholder value, but only to the extent that it can identify the relevant risks, gain a thorough understanding and evaluation of those risks and be able to manage the risks adequately and appropriately by using a range of risk mitigation strategies.

Our risk management process is embedded across all levels of our organisation, with the Board and Audit Committee having responsibility for setting the overall approach to risk management and the Executive Committee and divisional management having responsibility for day-to-day risk management and monitoring. The Group's dedicated risk management team develops and implements the risk policies and methodologies and is responsible for the continual monitoring of risks and the programme of Business Unit Risk Workshops.

Risk appetite, risk tolerance and risk capacity, together with assurance and controls, are regularly discussed and considered. The position of the Board is to maintain a healthy level of flexibility with regard to its risk appetite, which allows the Group to maximise opportunities, whilst also restricting inappropriate activities and minimising exposures.

Strategic focus - Integrated risk and strategy



Corporate Governance continued

Risk approach, identification and management

Our approach to risk is founded on the joint themes of assurance and strategy. Our assurance focus is based around protecting the business, having adequate lines of defence and ensuring the effectiveness of the controls to mitigate risks. Our strategic focus is based around improving business performance by linking risk to strategy, ensuring adequate horizon scanning at the business units for emerging risks and ensuring that we seek a strategic response to the risks facing our business. This approach is demonstrated in the chart on page 35.

Our risk approach is continually enhanced and refined. Developments this year have included:

- the introduction of risk interactions charts to better understand how various risks might be inter-related;
- the roll out of our Level 2 Business Unit Risk Workshops, which focus on risk controls, future risks and pillars of risk;
- the continued development and use of Assurance Maps to understand and coordinate the risk activities of the Group;
- the introduction of regular "risk discussion topics" to help the Board consider topical risk issues;
- the update and enhancement of our Business Continuity procedures and plans; and
- the use of KPIs and Key External Indicators to monitor risks and their trends.

Other risk projects in progress are:

- migrating the Risk Universe onto an on-line system, which facilitates greater access of the risks to all the business units and provide more timely risk updates;
- a system of annual risk and control sign off by the business units; and
- the development of risk appetite considerations and the embedding of risk into our culture.

Risks are identified from a structured process of externally facilitated Business Unit Risk Workshops, regular risk reporting by the business units and divisional management to the Group risk team and regular reporting to, and consideration by, the Executive Committee and Audit Committee.

The Group records all its risks in a central repository known as the Risk Universe. This assesses the Inherent and Residual level risks across 11 categories which best reflect the nature of the Group and its operations. Risk themes and emerging issues are reported to the Board and the Audit Committee by way of a "Schedule of Principal Risks and Mitigating Actions".

The Group's Principal Risks and Uncertainties are set out on **pages 20 to 23**

COMMUNICATION WITH SHAREHOLDERS

The Board understands the importance of establishing and maintaining good relationships with all of the Company's shareholders. The Company continues to engage in regular dialogue with its major shareholders and private client brokers through its investor relations programme and also meets with private investors at the AGM.

While most meetings are conducted by the Chief Executive Officer and Group Finance Director, there are also meetings between shareholders and the Chairman and Senior Independent Director, which are separate to the analyst and shareholder meetings that the executive directors attend. These meetings are typically more governance-focused and help to foster the relationship between the Company and its shareholders, providing the Company with an enhanced understanding of the thoughts of its major shareholders and allowing shareholders access to the Company to discuss the way in which it is being governed. This year, meetings attended by either the Chairman or Senior Independent Director took place during early 2016, with the focus of discussion largely being on the changes to the Board, covered on page 30 of this report.

Shareholder views and comments are regularly communicated back to the Board and the Board also receives copies of broking analyst reports. All Board members understand that they have responsibility for engendering and maintaining good relations and communications with shareholders. Non-executive directors can request to be present at meetings with major shareholders and are available to attend meetings as requested by major shareholders.

The Board recognises the importance of the internet as a means of quick, cost-effective and easily accessible communication with shareholders. The Group's website facilitates communication with shareholders and, alongside Annual and Half Year Reports, it also contains information on corporate governance, analyst presentations, the current share price, regulatory announcements, financial performance information, shareholder information and publicises an investor relations contact address. The site also includes information on Group operations worldwide and its markets and divisions.

Constructive use of the AGM

The Board is committed to the constructive use of the AGM, as a forum to meet with shareholders, answer their questions and to listen to their opinions on the Group. Before commencement of the formal AGM, the Chief Executive Officer and the Group Finance Director provide a presentation to the attending shareholders and shareholders are encouraged to ask questions following the presentation. This has historically been well received by the shareholders and accordingly, the practice will continue. At the conclusion of the formal business of the AGM, all members of the Board, including the Chairmen of the Audit, Remuneration and Nominations Committees, make themselves available to answer questions.

In relation to the AGM:

- separate resolutions are proposed for each substantially separate issue including the receipt of the Annual Report;
- proxy forms allow shareholders to direct their proxy vote either for or against the resolution or to withhold their vote;
- the proxy count is reported at the AGM in respect of each resolution after it has been dealt with on a show of hands;
- were any resolution to be opposed by a significant proportion of shareholders, the Company would endeavour to explain as soon as reasonably practicable following the meeting the actions it intended to take to understand and address shareholder concern. While there is no guidance on what is meant by "significant" in relation to votes being cast against a resolution at general meetings of the Company, the Board have been influenced by guidance issued by the GC100, an Investor Group, regarding directors' remuneration reporting, which it believes is relatively analogous. The guidance provides that a 20% vote against resolutions should be considered significant. The Board recognises that there could be instances where it may be appropriate to have a higher or lower threshold, but believes 20% is a sensible base level. As the votes against any of the resolutions in the year fell well below this threshold, the Board confirms that no action has been necessary; notwithstanding this, the views of dissenting shareholders are given due consideration by the Board; and
- the Notice of Meeting, the Annual Report and any other related papers are made available to shareholders more than one month before the meeting.

Nomination Committee Report

Signed on behalf of the Board of Directors

Vanda Murray OBE
Chairman
16 November 2016

Foreword by the Chairman of the Nomination Committee

It has been a busy year for the Committee with several changes being made to the Board. When seeking new candidates, the Committee's priority is to ensure that it maintains a range of different skills, backgrounds and experience on the Board to enable it to be best placed to deal with the variety of challenges it encounters.

Succession planning remains critical for the long-term success of the Company and the Committee leads the process for the evaluation and selection of candidates for Board appointments. The necessary balance of skills, knowledge, experience and leadership required by the Board and the wider Group are kept under review. They are also taken into consideration when making appointments, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace.

ACTIVITIES DURING THE YEAR

Chief Executive Officer and Chairman succession

During the year, Mark Abrahams stepped in as Executive Chairman due to the ill health of Nicholas Hobson and he was subsequently re-appointed as Chief Executive Officer on 8 June 2016 when Nicholas Hobson stepped down from the Board; Mark Abrahams covered both the Chairman and Chief Executive Officer roles from 4 January 2016 to 8 June 2016. Mark Abrahams had previously been Chief Executive Officer of the Group from 1994 to 2011 and was, in the opinion of the Committee and Board, best placed to be able to step into the role at short notice and take over the effective and decisive running of the Group during its prolonged difficult trading period. I agreed to step in as acting Non-Executive Chairman on 8 June 2016, being the most senior non-executive director on the Board in terms of tenure, knowledge and experience of the Group. This also ensured that the roles of Chairman and Chief Executive Officer were once more separate and distinct in line with best practice.

Upon becoming acting Non-Executive Chairman, I also took over as Chairman of the Nomination Committee. Mark Abrahams remains a member of the Committee in his role as Chief Executive Officer.

The Committee has started the process to identify and recommend a permanent successor to Mark Abrahams as Chief Executive Officer. An international firm of head hunters has been appointed to lead the external candidate search after being given a candidate profile by the Committee to ensure that the eventual short list of candidates has the right experience, knowledge, skills and international exposure for the role.

Parallel to that, the head hunter is also conducting an external search for a new Chairman, also based on a candidate profile provided by the Committee to ensure the best candidates are selected for the short list.

Both of these executive searches are underway.

Non-executive director succession

Geraint Anderson was appointed to the Board as a successor to Alan Wood who retired from the Board at the conclusion of the AGM on 13 January 2016. Geraint Anderson had been put forward by the headhunters currently conducting the search for the new Chief Executive Officer and Chairman. They led the non-executive director candidate search and had agreed the final short list with Mark Abrahams and myself as Senior Independent Director. Geraint was interviewed by Mark Abrahams and I before also being interviewed by the rest of the Board as part of the recruitment process. Geraint was selected because he had extensive executive experience in various international roles having been Group Chief Executive of TT Electronics plc from August 2008 to July 2014 and, prior to that, he had been Vice President and General Manager of the Worldwide Service Provider Organisation for Linksys, a division of Cisco Systems, Inc. Geraint Anderson therefore possessed the right experience, knowledge, skills and international exposure to be a complementary fit for the Board in the non-executive role and has been a very welcome addition to the Board. Geraint also holds some other non-executive director roles including with Premier Farnell plc.

It was announced on 4 April 2016 that John Sheldrick would retire from the Board on 30 April 2016 and that Chris Surch would join the Board in his place with effect from 1 May 2016. The search for John Sheldrick's successor was handled by the headhunter firm mentioned above and followed the same process used to recruit Geraint Anderson. Chris Surch was selected because he had extensive operational, commercial, strategic and international experience and a strong track record in financial leadership and planning. Chris was the Group Finance Director of FirstGroup Plc from 2012 to his retirement in January 2016. Prior to that, Chris had been Group Finance Director at Shanks Group plc and had also held senior finance roles at Smiths Group plc and TI Group plc. Chris, a Chartered Accountant, met the necessary criteria to replace John Sheldrick as Chairman of the Audit Committee, having the necessary finance qualifications and background. He has been a very welcome addition to the Board.

RESPONSIBILITIES

Terms of reference set out the Nomination Committee's role and duties. The overall aim of the Committee is to maintain a Board with the right balance of skills and experience to help govern and lead the Company. The key responsibilities are to regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board, give full consideration to succession planning for directors and other senior executives with reference to the challenges and opportunities facing the Group and make recommendations for succession plans for key Board roles, in particular for the roles of Chairman and Chief Executive Officer.

Nomination Committee Report continued

GOVERNANCE

The members of the Committee are set out on page 34. The Committee generally meets at least twice a year and has the power to request the attendance at meetings of any director or Group employee as considered appropriate.

APPOINTMENTS TO THE BOARD

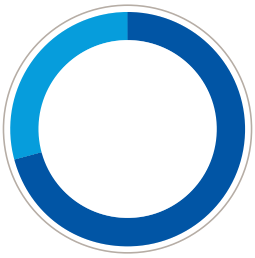
The Nomination Committee manages Board appointments and agrees the candidate specification, which sets out the type of skills, experience, qualifications and knowledge a preferred candidate should ideally have; this is agreed and discussed with external independent recruitment consultants.

DIVERSITY

The Board considers diversity, including gender, when recruiting new candidates and adheres to the Board Diversity Statement. All candidates are chosen on merit, against the objective criteria set in the candidate specification, regardless of race, gender or religious beliefs and therefore in line with the Board Diversity Statement. The principal concern of the Nomination Committee is to ensure all candidates are of appropriate experience and ability and fit for the role. The Board does not intend to set specific diversity targets because it could fetter the ability to appoint the best candidate based on merit alone which would be against Board and Group philosophy. Board succession is borne in mind and discussed as part of the process.

Diversity statistics are gathered and monitored around the Group. The graphic below sets out the current gender diversity split for the Board appointments; similar data for senior managers and the Group as a whole is set out on page 25.

Board gender diversity split



Male	66.7%
Female*	33.3%

*Including the Group Company Secretary

PERFORMANCE EVALUATION

The performance of the Committee was considered when the external evaluation of the Board and its Committees was carried out. No changes were considered necessary to the Committee's composition and no changes were made to the Committee's terms of reference as they continued to reflect best practice.

Audit Committee Report

Signed on behalf of the Board of Directors

Chris Surch
Chairman of the Audit Committee
16 November 2016

Foreword by the Chairman of the Audit Committee

I am pleased to present my first Report as Chairman of the Audit Committee; I took over as Chairman on 1 May 2016 upon my appointment to the Board and the retirement of my predecessor, John Sheldrick. I would like to thank John for his excellent work as Chairman of the Committee over the last six years.

I am pleased to present our Report for the year ended 31 August 2016. This Report gives an insight into the work the Committee undertakes to ensure that it has performed its responsibilities in reviewing financial reporting, internal controls and risk management and, in relation to the external auditors, the work it has carried out in putting the audit out to tender. The report also covers the composition of the Audit Committee.

The Committee receives reports from the Company's external and internal auditors, the Group Business Risk Manager and management. The Committee meets separately with both external and internal auditors and carries out reviews of auditor independence and effectiveness. The Committee devotes one of its meetings each year to primarily discuss risk management and assurance and review the principal risks with the Group Business Risk Manager and third party consultants.

The work carried out by the Audit Committee in the year under review is set out in the following Report.

COMPOSITION AND GOVERNANCE

The Audit Committee is made up of the independent non-executive directors. The three current members are Chris Surch, Vanda Murray and Geraint Anderson, with Alan Wood having retired from the Board and the Committee after the conclusion of the AGM on 13 January 2016 and the former Chairman of the Committee, John Sheldrick having retired on 30 April 2016. The members of the Committee bring a wide range and depth of financial and commercial experience from across a range of industries.

As Chairman of the Committee, I meet the requirement of having had recent and relevant financial experience, being a Chartered Accountant by profession and having been Group Finance Director of First Group Plc from 2012 until I retired on 8 January 2016 and, prior to that, being the Group Finance Director of Shanks Group Plc from May 2009 to August 2012. Vanda Murray, as acting Non-Executive Chairman, continues to be a member of the Committee; an explanation of why the Board feel this is and continues to be appropriate is in the Corporate Governance report on page 30. The executive directors are not members of the Committee although they can and do attend by invitation. The Group Company Secretary acts as secretary to the Committee, which also has access to the services of the Group Finance Director, Senior Internal Auditor, Group Business Risk Manager and external professional advisors. The Committee can request the attendance at meetings of any director, external auditor or Group employee as considered appropriate. The Committee meets with the external auditors without the presence of management at two of its three meetings during the year.

The Audit Committee operates under formal written terms of reference which govern its role and responsibilities. The terms of reference are available to view on the Group's website at www.fenner.com and upon request to the Group Company Secretary.

COMMITTEE ACTIVITIES & HOW WE DISCHARGED OUR RESPONSIBILITIES DURING THE YEAR

The Audit Committee met three times in the year under review and its work covered the following:

Financial reporting

- monitor the integrity of the Annual Report, Full Year Results and Half Yearly Financial Report and report to the Board on any significant financial reporting issues;
- review the long-term viability and going concern status of the Company, including a stress test of the going concern assumption;
- review management's half year and full year results presentations for analysts and shareholders;
- review of the valuation of goodwill and intangible assets acquired;
- review the tax arrangements for the Group;

Internal control, risk management and internal audit

- review internal financial controls and the internal control management systems, including cyber security risk, testing of IT systems to see if they would withstand a cyber threat and potential preventative measures;
- monitor and review the effectiveness and performance of the internal audit function, including the approval of the internal control programme and review visits, and meet with the Senior Internal Auditor generally twice a year;
- review the risk management systems and reports which are outlined in more detail in the Corporate Governance report on pages 35 to 36;
- review the summary of Group insurance policies and levels of deductibles;

External audit

- make recommendations to the Board in relation to the appointment or reappointment and remuneration of the external auditors and their terms of engagement, letter of representation and approval of the audit plan;
- make recommendations to the Board about putting the external audit out to tender;
- ensure that the external auditors are independent, objective and effective;
- annually review the effectiveness and performance of the external auditors;
- review the policy on non-audit work carried out by the external auditors; this policy takes into account external guidance relating to the provision of non-audit services and is subject to change following the issue by the Financial Reporting Council ("FRC") of the Ethical Standard for Auditors on 17 June 2016;

Audit Committee Report continued

- review the schedule of non-audit work carried out by the external auditors in the year;
- review non-audit fees of the external auditors;

Other matters for review

- complex supplier arrangements with the management team;
- procedures for detecting fraud;
- anti-bribery policies and reports;
- the Whistleblowing Policy and reports;
- the financial statements of the UK Fenner Pension Scheme; and
- the terms of reference for the Audit Committee.

RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

Risks are reported to the Audit Committee twice a year and the Committee has received updated presentations from an independent consultant, Sentio Insight LLP, who supports the Group Risk Workshop programme in conjunction with the Group Business Risk Manager. There is a continuous and well established process for identifying, evaluating and managing risk, with the process itself being subject to regular review and refinement. The process enhances both the Committee's and management's understanding of risk in a broad as well as specific sense in relation to the Group and its operations.

The Audit Committee reviews the effectiveness of the Group's systems of internal control and assures itself on the rigour of the internal control process. The internal control review covers operational, financial and compliance controls. The Committee receives a financial internal control report at least twice a year from the Senior Internal Auditor. Based upon the internal control and risk reports, the Board determines the nature and extent of the significant risks it is willing to take in achieving strategic objectives and the Board believes it does maintain sound risk management and internal control systems.

A detailed review of Internal Control and Risk Management is set out on **pages 34 to 36**

WHISTLEBLOWING

There is a well established independent, international, third party operated, multi-lingual Group-wide hotline to support the Group Whistleblowing Policy. The hotline facilitates arrangements whereby employees can make confidential disclosures (on an anonymous basis if preferred) about suspected impropriety and wrongdoing. Any matters so reported are investigated and escalated to the Audit Committee as appropriate. A report summarising all disclosures made during the period is submitted to the Audit Committee twice a year.

FINANCIAL REPORTING AND SIGNIFICANT AREAS OF JUDGEMENT

The Audit Committee reviewed a wide range of financial reporting and related matters in respect of the Group's half year and full year results statements and its Annual Report prior to their consideration by the Board.

Reports highlighting key accounting matters and significant judgements were received from our external auditors, PricewaterhouseCoopers LLP ("PwC"), in respect of the full year statements and discussed by the Committee.

In particular, this included the following areas of focus:

Significant issues and judgements	How the Audit Committee addressed those issues
Valuation of goodwill and intangible assets acquired	Carrying amounts are reviewed at least annually by conducting an impairment review which is based on the net present value of projected cash flows for each cash-generating unit ("CGU"). Details of assumptions used are provided in note 15 to the Group financial statements on pages 77 to 79. The most significant judgements are in setting the assumptions for the calculation of the value in use of the CGUs, in particular the achievability of long-term financial forecasts and macro-economic projections. Following the reviews during the year, an impairment charge of £25.0m, comprising a write-off of goodwill of £16.6m and intangible assets acquired of £8.4m, has been charged to exceptional items in the income statement. In the ECS division, the impairment charge was £20.9m and related to ECS Conveyor Services (Americas). In the AEP division, the impairment charge was £4.1m and related to Mandals in Norway. Those CGUs impaired during the year have no remaining carrying amount of goodwill or intangible assets acquired at the balance sheet date. The Committee discussed the assumptions underlying the cash flow projections with both management and PwC and also considered the appropriateness of the discount rates used. Following discussion on headroom and sensitivity, the Committee was satisfied that the carrying amount of goodwill and intangible assets acquired, after the impairment charge recognised in the year, was appropriate.
Valuation of defined benefit pension scheme liabilities	The valuation of the Group's post-retirement benefit obligations requires demographic and financial assumptions to be made which are set out in note 28 to the Group financial statements on pages 87 to 91. These assumptions have been chosen based on advice from the Group's external actuaries. The principal assumptions relate to the discount rate, inflation and mortality. The Committee discussed the appropriateness of these assumptions with PwC and whether the assumptions were consistent with externally derived data.
Taxation	There is significant judgement required in calculating the Group's tax charge, in assessing the risk of successful challenge by local tax authorities and in the recoverability of deferred tax assets. The Committee considered the assumptions used, the appropriateness of the calculation of the tax charge and recognition of deferred tax assets and received reports from management and PwC.
Exceptional items	Certain items can be classified as exceptional due to their nature or size. These can be presented separately on the face of the income statement in order to provide a better understanding of the Group's financial performance. The Group has recorded exceptional charges amounting to £40.8m in the year. Of this amount, £25.0m relates to impairments of goodwill and intangible assets acquired, as outlined above. The remaining £15.8m relates to restructuring costs. The Committee reviewed these charges and discussed with PwC whether it was appropriate to exclude them from the underlying performance of the Group as proposed by management.
Revenue recognition	As part of their normal auditing procedures, PwC considered the risk that revenue may have been recognised incorrectly. The Committee discussed with PwC the testing they had undertaken to identify unusual or irregular items.
Going concern and long-term viability	The Committee assessed the reports provided by management and PwC, together with the analysis and assumptions made to support the statements of going concern and long-term viability given on page 17.
Internal controls	PwC also reported to the Committee the work they had undertaken in accordance with international auditing standards to review the risk of management override of internal controls.

The Committee was satisfied that the significant judgements made were justified and that the financial reporting disclosures were appropriate. This conclusion was reached following consideration of the matters presented to it and discussion with both management and PwC.

EXTERNAL AUDITORS & AUDIT TENDER EXERCISE

We highlighted in last year's Report that PwC had been the Company's external auditors since PwC's formation in 1998 and that predecessor organisations of PwC had held office for some time prior to that date. In April 2014, the European Union published its revised Audit Directive making periodic rotation of external audit firms mandatory for premium listed companies such as Fenner. In the UK, premium listed companies are also required to put the audit out to tender at least every 10 years and rotate the auditors at least every 20 years. Fenner undertook to put the audit out to tender in 2016 but, because of the transitional arrangements, if PwC had been allowed to tender for the audit again and been reappointed, Fenner would have needed to replace PwC as its external auditors by 2020 and therefore carry out another full audit tender exercise. In light of this, the Committee recommended to the Board that the audit should be put out to tender in 2016, that PwC would not be invited to tender and that a new appointment would be made for the conduct of the audit for the subsequent financial year.

Against this background, the Committee conducted a full audit tender during the year. A rigorous exercise was entered into with audit tender firms being given access to a data room containing key information about the Group covering accounting policies, controls, risk and internal control functions, tax and an overview of the reporting timetable and key meeting dates. The firms tendering were also given the opportunity to visit some of the Group's operations and meet the Group Finance Director, the senior finance team and the Chairman of the Audit Committee. This enabled the audit firms to ask questions and form a view of the Group and its requirements, thereby enabling them to devise a best fit proposal in their audit tender document. The audit firms were asked to demonstrate how they believed they would be able to add value, why they considered themselves to be different from the other audit firms, their approach and ability to understand the Group and their ability to balance the lengthy regulatory reporting requirements with the need to identify key issues quickly.

Three audit firms presented their senior audit teams and audit tender proposals to the Committee in person. The Committee were able to ask questions to explore the various proposed audit approaches, including how the audit firms intended to scope the Group audit, the transition planning for moving the audit over and their ability to handle the audit internationally. This enabled the Committee to evaluate which firm they felt would be the best fit in terms of approach, geographic spread, culture and which would offer the best value for money.

The Committee recommended to the Board that Deloitte LLP be selected to be the new auditors; the recommendation was approved by the Board. Deloitte subsequently shadowed PwC during their audit for the year ended 31 August 2016.

It will be proposed at the AGM on 11 January 2017 that PwC step down as auditors and that Deloitte be appointed as the new auditors for the financial year ending 31 August 2017.

I would like to thank PwC for their work over many years with the Group.

Independence

The independence and objectivity of the external auditors is reviewed annually as part of the Committee's duties; it also monitors the external auditors' compliance with applicable ethical guidance and guidelines. The Committee received and reviewed written confirmation from the external auditors on all relationships that, in their judgement, may bear on their independence. The external auditors also confirmed that they considered themselves to be independent within the meaning of UK regulatory and professional requirements. As a general principle, the external auditors are excluded from consultancy work and cannot be engaged by Fenner for other non-audit work unless there are compelling reasons to do so. The Committee periodically reviews the Group's policy on non-audit services and those services which can be provided by the external auditors under the policy are set out in the table below. During the year, non-audit services amounting to £127,000 were incurred. This amount comprised tax compliance of £9,000, tax advisory of £1,000 and other assurance services of £117,000, principally relating to half year review procedures.

Policy on non-audit services by the external auditors

The policy remained unchanged in the year and covered the items set out below:

Prohibited non-audit services	Permitted non-audit services, subject to approval by the Committee
• auditing their own work; • making management decisions for the Company; • acting as advocate for the Company; • authorising, executing or consummating a transaction on behalf of the Company; • determining which recommendation of the audit firm should be implemented by the Company; • internal audit services, other than specific projects determined by the Committee; • provision of IT consultancy; • legal services; • HR and recruitment consultancy; and • underwriting services.	• taxation services; • specific projects on internal audit where the scope and management is determined by the Committee; • staff secondments where management is clearly directing and controlling the secondee and on the basis that the secondee cannot make management decisions; • litigation support services, providing it does not include significant advocacy from the audit partner; and • corporate financial services involving advisory, acquisitions and disposals and due diligence.

On 17 June 2016, the FRC issued the final version of the Ethical Standard for Auditors. This standard replaces the existing Ethical Standard for Auditors and is the means by which the FRC is implementing the restrictions on supplying non-audit services to UK public interest entity audit clients. The new standard is applicable to Fenner for the year ending 31 August 2017. As a consequence, the policy above on non-audit services by the external auditors has been revised. Prohibited non-audit services will include all services on the "blacklist" within the new standard. Permitted non-audit services, subject to approval by the Committee, will comprise:

- those services required by law or regulation;
- half year review procedures; and
- in certain circumstances, financial due diligence on acquisitions and assurance services through a reporting accountant engagement.

In compliance with the new rules, non-audit service fees, excluding those required by law or regulation, will be capped at 70% of the average of the audit fees for the preceding three year period, commencing from the fourth year in order to establish three years of history.

Audit Committee Report continued

Effectiveness and reappointment
The Committee evaluated the performance of the external auditors during the year and received a report from management on the effectiveness of the external audit function which it then discussed with the auditors; the evaluation confirmed that the senior finance staff around the Group continued to feel that the external auditors performed well overall. As in previous years, the evaluation was based on a questionnaire that had been issued to the senior finance staff assessing the external auditors on robustness of audit, quality of delivery of the audit service and quality of the audit team and service provided. The Committee also made its own assessment of the external auditors' performance. The Committee concluded that the performance of the external auditors remained satisfactory following the reviews. The performance of the external auditors will continue to be reviewed annually.

PwC will not be recommended for reappointment because they will be replaced following the audit tender process outlined on page 41.

INTERNAL AUDIT

The Committee meets with, and receives a report from, the Senior Internal Auditor at least twice a year. The results of audits undertaken by the internal audit team are reviewed, as are the adequacy of management's response to any matters raised, including the implementation of any recommendations made. The Committee considered and approved the 2016/17 internal audit programme.

The effectiveness of internal audit was also formally reviewed; the review took into account the views of directors and senior management on such matters as objectivity, proficiency, resourcing and audit strategy and planning. The operations are asked to give feedback on the internal audit function and effectiveness and the results of that review are considered by the Committee. It was concluded that internal audit continues to be viewed positively by the operations and that there was a high regard for the rigorous work carried out by the internal audit team.

Other Statutory Information

Signed on behalf of the Board of Directors

Debra Bradbury
Group Company Secretary
16 November 2016

The directors submit their Annual Report and the audited Group financial statements for the financial year ended 31 August 2016.

RESULTS AND DIVIDENDS

	2016 £m	2015 £m
Loss for the year	**(25.3)**	(9.7)
Dividends:		
Interim 1.0p per share		
(2015: 4.0p) – payable	**1.9**	7.8
Final 2.0p per share		
(2015: 8.0p) – proposed	**3.9**	15.5
Total dividend	**5.8**	23.3

POLITICAL DONATIONS

It is the Group's policy that no donations are made to political parties.

DIRECTORS AND THEIR INTERESTS

The names of the directors in office during the year and up to the date of signing the financial statements and their brief biographies and other details, including their other significant commitments, are as shown on page 29.

Details of the directors' beneficial interests in the ordinary shares of the Company and in the Performance Share Plan are given in the Board Remuneration Report on pages 47 to 57.

Save as disclosed in the Board Remuneration report:

- no director has any interest (beneficial or non-beneficial) in any share or loan capital of the Company or any of its subsidiaries;
- no change in the interests of directors has occurred between the end of the financial year and 16 November 2016; and
- there were no contracts of significance subsisting during or at the end of the financial year in which a director of the Company was materially interested.

Geraint Anderson and Chris Surch will be offering themselves up for election for the first time and all other directors will offer themselves for re-election at the 2017 AGM in accordance with the UK Corporate Governance Code. The performance of each of the directors continues to be effective and they continue to demonstrate commitment to the role and the Company.

SUBSTANTIAL SHAREHOLDINGS

As at 31 August 2016, the Company had been notified of the following holdings of voting rights in its shares under Rule 5 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority:

Interested Party	Nature of Interest	% Voting Rights
Aberdeen Asset Managers Limited	Indirect	8.38
Heronbridge Investment Management Limited	Indirect	6.27
Setanta Asset Management Limited	Indirect	5.57
RWC Asset Management LLP	Indirect	5.54
Delta Lloyd N.V.	Indirect	4.12
Teleios Capital Partners LLC	Indirect	3.95
Sterling Strategic Value Limited	Direct	3.21

As at 16 November 2016, the Company had been advised of the following changes to the interests notified above:

Interested Party	Nature of Interest	% Voting Rights
Delta Lloyd N.V.	Indirect	5.46
Teleios Capital Partners LLC	Indirect	3.90

DIRECTORS' INDEMNITIES AND INSURANCE COVER

A qualifying third party indemnity ("QTPI"), as permitted by the Company's Articles of Association and the Companies Act 2006, has been granted by the Company to each of the directors. Under the provisions of the QTPI, the Company undertakes to indemnify each director against claims from third parties in respect of certain liabilities (excluding criminal and regulatory penalties) arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the Company or any of its subsidiaries. The Group also holds appropriate Directors and Officers Liability Insurance. These policies were in force during the financial year ended 31 August 2016 and remain in place at 16 November 2016.

EMPLOYMENT POLICY

The Group operates worldwide and its employment policies and practices are designed to be appropriate to their market sector and country of operation to meet local conditions and regulations and are established on the basis of the best practices in each country as well as supporting the principles of the Universal Declaration of Human Rights. Wherever the Group operates, it ensures it recruits and retains a competent and diverse workforce. For Fenner, equal opportunities means employing the best people for the business from the widest pool of candidates regardless of gender, race, age, caste, origin, religion, disability, sexual orientation or any other status protected by law. These principles and practices are also applied when undertaking rationalisations and reorganisations.

Fenner strives to provide an inclusive and diverse workplace environment in which all employees are treated with dignity and respect at all times. The Group does not discriminate on the grounds of disability and continues to recognise its social and statutory duties to disabled persons and does all that is practicable to meet this responsibility. Full and fair consideration is given to the recruitment, training, career development and promotion of disabled persons. If an employee becomes disabled whilst employed by the Group,

Other Statutory Information continued

wherever possible, he or she will continue to be employed in the same job. If this action is not practicable or possible then every effort will be made to find suitable alternative employment. In these circumstances, retraining would be made available using Group resources as well as by contact with local disabilities employment advisors.

The Group's employment policy is to secure good relations between management and all employees, to promote a better understanding of all the issues, both internal and external, that influence the Group's business performance and to improve performance and productivity. We align employee remuneration with performance objectives through appropriate incentive plans aligned with Group strategy.

Formal and informal meetings are used to consult employees and to keep them informed about the performance of the Group. The practices of consultation and involvement vary from country to country according to local customs, legal considerations and the size of the operation. The regular issue of the Group-wide magazine, Fenner Focus, assists internal communication, including extensive coverage of the Group's half year and full year results, as do briefing meetings, information bulletins and meetings with employee representatives.

A detailed review of the Group's employment policies is set out in Corporate Responsibility on **pages 25 to 26**

FINANCIAL RISK MANAGEMENT

Details of the Group's financial risk management policies are given in the Strategic Report on page 16 and note 22 to the Group financial statements on pages 82 to 84.

STATUTORY INFORMATION

Set out below is a summary of certain provisions of the Company's current Articles of Association (the "Articles") and the Companies Act 2006 ("Companies Act"). If further information is required, the relevant provisions of the Articles and the Companies Act should be consulted.

Share capital

Details of the Company's issued share capital as at 31 August 2016, together with details of shares issued during the year, are set out in note 10 to the Company financial statements on page 102. Each ordinary share of the Company carries one vote. The Company has a single class of share capital which is divided into ordinary shares of 25p each.

Dividends and distributions

Subject to the provisions of the Companies Act, the Company may, by ordinary resolution, from time to time declare dividends not exceeding the amount recommended by the Board. The Board may pay interim dividends, including fixed rate dividends, whenever the financial position of the Company, in the opinion of the Board, justifies such payment. Dividends will be paid pro-rata to the amounts paid up on the shares. In specie and scrip dividends can be authorised at a General Meeting at the Board's recommendation.

Voting rights

Subject to any rights or restrictions attaching to any shares by or in accordance with the Articles, at a General Meeting, every member who is present in person or by proxy shall have one vote and, on a poll, every member present in person or by proxy shall have one vote for each share. In the case of joint holders of a share, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

For this purpose, seniority shall be determined by the order in which the names of the holders stand in the register.

Restrictions on voting

Unless the Board determines otherwise, no member shall be entitled to vote at a General Meeting, either in person or by proxy, in respect of any share held unless all moneys are fully paid up on that share. In addition, no member shall be entitled to vote if he has been served with a notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

Deadline for exercising voting rights

Voting rights may be exercised in person, by proxy or by a Corporate Representative. The deadline for submission of proxy forms is not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.

Variation of rights

Subject to the provisions of legislation, the Articles specify that rights attaching to any class of shares may be varied or abrogated, either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class being varied or with the sanction of a special resolution passed at a separate General Meeting of the holders of the shares of that class.

Transfer of shares

All transfers of certificated shares may be in any usual form or in any other form which the Board may approve. The instrument of transfer shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. An instrument of transfer need not be under seal. Transfers of shares which are in uncertificated form are effected by means of the CREST system.

The Board may refuse to register the transfer of a share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. In the case of uncertificated shares, the Board may exercise its discretion to refuse to register a transfer of a share to the extent permitted by the regulations and the facilities and requirements of the relevant system.

The Board may also refuse to register the transfer of a certificated share unless the instrument of transfer is: lodged, duly stamped (if stampable) at the office or at another place appointed by the Board, accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his or her behalf, the authority of that person to do so); is in respect of only one class of shares; and is in favour of not more than four transferees.

If the Board refuses to register a transfer of a share, it shall send the transferee notice of its refusal together with reasons for the refusal within two months after the date on which the instrument of transfer was lodged with the Company.

Appointment and replacement of directors

Unless varied by ordinary resolution, the number of directors (other than alternate directors) shall be not less than two nor more than 15 in number.

At each AGM, all directors shall retire from office and be eligible for re-election, in line with best corporate practice.

The Board may appoint a director either to fill a casual vacancy or as an additional director provided that the appointment does not cause the number of directors to exceed the maximum prescribed by the Articles. A director so appointed shall hold office only until the next following AGM. If not re-elected at such AGM, the director shall vacate office at its conclusion.

Powers of directors

Subject to the provisions of the Companies Act and Articles and to any directions given by special resolution, the business of the Company shall be managed by the Board which may exercise all the powers of the Company.

The Board may exercise all the powers of the Company to borrow money, to mortgage or charge all or any part of its undertaking, property, assets (present or future) and uncalled capital and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Subject to the provisions of the Companies Act and Articles, at a General Meeting, the Board may request authority to allot shares and the power to disapply the statutory pre-emption rights and the authority to buy the Company's own ordinary shares in the market. Currently the Board requests such consent at each AGM. At the 2016 AGM, the directors were authorised to exercise the powers of the Company to purchase a maximum of 19,400,274 of its ordinary shares. No shares were purchased under this authority in 2016. This authority will last until the end of the 2017 AGM, or 28 February 2017 if earlier. The details of requested authorities and powers in connection with the AGM to be held on 11 January 2017 are set out in the Notice of Annual General Meeting.

Share plans: change of control

All of the Company's current share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Amendment to Articles of Association

Any amendments to the Articles may be made in accordance with the provisions of the Companies Act by way of special resolution.

BRANCHES

Fenner, through various subsidiaries, has branches in a number of different countries in which the business operates.

STRATEGIC REPORT

Pursuant to Section 414C of the Companies Act 2006, the Strategic Report contains details in relation to the likely future developments of the business of the Group.

INDEPENDENT AUDITORS

In light of new regulations, a formal tender process to appoint a new external audit firm was carried out in 2016. Resolutions to confirm the appointment of Deloitte LLP as independent auditors to the Company and to authorise the directors to determine their remuneration will be proposed at the 2017 AGM.

As far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

ANNUAL GENERAL MEETING

As special business at the forthcoming AGM, resolutions will be proposed to renew the directors' authority to allot shares, to disapply the statutory pre-emption rights to a limited extent and to make market purchases of ordinary shares in the Company subject to defined limits. A resolution will also be proposed to hold General Meetings on 14 days' notice. The proposed resolutions and further details regarding these proposals are set out in the Chairman's letter and explanatory notes accompanying the Notice of Annual General Meeting.

Statement of Directors' Responsibilities

Signed on behalf of the Board of Directors

Vanda Murray OBE
Chairman
16 November 2016

The directors are responsible for preparing the Annual Report, the Board Remuneration 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 have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these 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 IFRS as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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.

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 the Group and enable them to ensure that the financial statements and the Board Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a Company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in The Board on page 29, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Strategic Report contained on pages 1 to 23 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Board Remuneration Report

Signed on behalf of the Board of Directors

Vanda Murray OBE
Chairman of the Remuneration Committee
16 November 2016

Chairman of the Remuneration Committee's Statement

Dear Shareholder

I am pleased to present my first Board Remuneration Report as Chairman of the Remuneration Committee. I took over from Alan Wood as Chairman of the Committee after the conclusion of the AGM on 13 January 2016, but I have been a member of the Remuneration Committee since 2012. I will continue to chair the Committee whilst also being the acting Non-Executive Chairman of the Company; whilst this is unusual, it is temporary and is prudent given my experience of the Fenner Group and my experience elsewhere of chairing remuneration committees.

The membership and governance of the Committee is set out on pages 33 to 34.

At the 2017 AGM, shareholders will only be asked to vote on the Annual Remuneration Report as the remuneration practice and policy remains in line with the current approved Remuneration Policy.

BUSINESS CONTEXT TO REMUNERATION & GUIDING PRINCIPLES

The Group's principal markets did not show any significant signs of recovery during the year under review and therefore the focus for the Group has been on the management of costs and cash, along with nurturing the strengths that have made those businesses market leaders. There has been an emphasis on: repositioning some businesses which had been impacted by market conditions; actively seeking gains in market share where possible; and pursuit of opportunities as the end markets stabilise and start to recover.

Irrespective of the trading difficulties, the Remuneration Policy aims to reward executive directors and senior managers appropriately for experience, commitment, hard work, leadership skills, drive and performance. A principle the Committee has stood by for many years is that management should be appropriately rewarded across the whole of the economic cycle and that policies should be consistent across those cycles. This does mean there is an expectation that those same principles and targets will reward appropriately when results show growth against the stated objectives and strategy of the Group. This approach is felt to be fair and equitable and balances the interests of all stakeholders and aligns the interests of shareholders with those responsible for the operational performance of the Group. This is well understood by our executives, whose expectations are aligned with our policies.

The stretching and challenging performance measures for the annual bonus scheme and Performance Share Plan ("PSP") have not been met and no final awards will be made at the end of the respective award periods. This is the fourth consecutive year the incentive plans have not resulted in a payout, which is reflective of the remuneration philosophy of aligning the interests of shareholders with those responsible for the operational performance of the Group, although it is not reflective of the exemplary efforts, work or dedication of employees including those in the incentive plans. It is hoped and expected that when the underlying performance of the Group and economic conditions improve, management will have the opportunity to earn commensurate bonuses in line with the improvement in trade and performance. This also accords with the philosophy of the Remuneration Policy to ensure that people are rewarded in line with and across the cycle.

The Remuneration Policy tries to ensure that there is a reward structure that is fair, recognises achievement and maintains the ability of the Group to recruit and retain the best talent in the interests of all shareholders. Any elements of discretion that the Committee may want to reserve under the Remuneration Policy have been set out in the Remuneration Policy Report.

This Statement and the following Reports aim to demonstrate how the various elements of compensation align the executive directors with the long-term interests of our shareholders.

KEY CHANGES AND COMMITTEE ACTIVITIES DURING THE YEAR

The Committee had several changes to its membership during the year, starting with the retirements from the Board and its Committees of Alan Wood and John Sheldrick on 13 January 2016 and 30 April 2016 respectively. Geraint Anderson joined the Board and the Committee after the conclusion of the AGM on 13 January 2016 and Chris Surch joined the Board and Committee on 1 May 2016.

The Board and Committee also handled the appointment of Mark Abrahams who had to step in at short notice as Executive Chairman from 4 January 2016 due to the ill health of the Chief Executive Officer, Nicholas Hobson, who subsequently stepped down from the Board on 8 June 2016. Nicholas Hobson is currently serving out his notice period while on garden leave and no longer has any executive responsibilities. Nicholas Hobson will continue to receive his contractual salary and benefits until the end of the notice period in April 2017; no other payments have been made for loss of office in respect of his stepping down from the Board and Nicholas Hobson is not expected or able to mitigate his loss in light of his ongoing medical issues.

Other than personnel changes, there has not been any significant change to the remuneration policies or structure. The Board and Committee are cognisant of the remuneration arrangements for the wider employee population to ensure pay is fair and competitive. The Committee will give a full proposal in the Annual Report in 2017 on how it intends to apply the revised provisions of the UK Corporate Governance Code 2014, specifically in relation to the introduction of a clawback and malus provision to its annual bonus incentive schemes from September 2017 together with its thoughts on requiring directors to hold shares for a period after leaving the Company. The Remuneration Policy will be amended accordingly at the AGM in 2018. Any new executive appointments before that date will have clawback and malus applied to their incentive awards.

2016 OUTCOMES

The outcomes of the various plans that make up the 2016 total remuneration for executive directors are summarised in the table on page 54.

Board Remuneration Report continued

Basic annual salary and other benefits

There were no salary increases awarded to the executive directors or senior management team at the start of the year under review. Pension contributions and pension allowances remained unchanged in the year as a constant percentage of salary. It is still the intention that John Pratt will be provided with an accelerated remuneration package, designed to increase his salary in line with experience, but this had been postponed in light of the Group's results in 2015 when the salary review was being agreed.

Nicholas Hobson received reimbursement for ongoing relocation expenses, as per the terms of his Service Agreement.

Annual bonus

The performance target based on growth in underlying earnings per share ("EPS") of the Company was not met in 2016 and therefore no bonuses will be paid to the executive directors for the financial year ended 31 August 2016; this reflects the continuing tough trading conditions in certain of the Group's markets. The executive directors and senior management team continue to respond to the challenging market conditions and therefore the Committee would again like to stress that the lack of a bonus payout for the fourth consecutive year does not reflect the good work done by the executive directors or management teams. Mark Abrahams took up executive responsibility from 4 January 2016, but chose not to accept a bonus on any basis in respect of the year ended 31 August 2016.

Performance Share Plan

The long-term incentive plan in the form of the PSP had two performance targets for the three year Performance Period ended 31 August 2016: Total Shareholder Return ("TSR") against an appropriate peer group of companies; and growth in underlying EPS of the Company. The TSR performance over the three year Performance Period, as with last year's result, ended below the median and therefore no award will be made under that performance metric. The EPS performance target likewise failed to exceed the 25% or more growth target for that measure. No shares will therefore vest under the PSP for the Plan Cycle ending in 2016.

2017 POLICY

A salary increase of 2% has been awarded to John Pratt and the majority of the Executive Committee. Further details are given on page 53. This is the first salary increase awarded to the executive directors and members of the Executive Committee since September 2014 and, given the work undertaken over the last few years to contain costs and re-energise the businesses, the Committee felt it was appropriate and right to award salary increases for the forthcoming year. Mark Abrahams elected not to accept an increase to his salary as Chief Executive Officer.

As acting Non-Executive Chairman, I also decided to forego any annual RPI uplift in my fees, but a pro-rated annual RPI uplift will be applied to the other non-executive directors; no uplift was applied for the year ended 31 August 2016.

The executive directors continue to have an annual incentive programme based on year-on-year growth in underlying EPS, with target bonus based on 8% growth and a bonus cap for achieving 16% growth above prior year underlying EPS. Bonus opportunity is capped at 100% of basic salary and target bonus is 50% of basic salary for achieving 8% growth. Bonus payments are linear between 5% and 8% growth and linear between 8% and 16% growth. No payment will be made for underlying EPS growth of less than 5%. In view of the significant devaluation of sterling since the Brexit vote, the Committee has set these targets at constant exchange rates so that there is no windfall element arising from currency changes. In 2016, the annual incentive programme was adjusted for that year only, to lower the target in light of the difficult trading conditions; those targets remained extremely challenging and were not subsequently met. The higher performance target for the 2016/17 year underlines the Committee's commitment to ensuring that incentive programmes are sufficiently stretching and in line with shareholder interests.

Mark Abrahams will be given a conditional award under the forthcoming PSP at 150% of his salary; this is within the Remuneration Policy limits although the usual level for executive directors is 100% of salary. The enhanced award is to recognise the sacrifice Mark Abrahams has made in stepping back into the full time executive role at extremely short notice and is not intended to be normal practice for future years. It is also designed to reflect the importance of enhancing shareholder value, given the challenges the Group has faced.

For the financial year ending 31 August 2017, and other than as stated above, the overall policy for the executive directors remains largely unchanged, with remuneration broadly consisting of basic annual salary, an annual performance-related bonus, a long-term share-based incentive plan, retirement benefits, benefits in kind and, subject to the first Plan Cycle being launched, the opportunity to participate in the Sharesave Plan, albeit in a limited way.

REPORT FORMAT

This Report is in two sections: a Remuneration Policy Report, which sets out the Remuneration Policy of the executive and non-executive directors; and an Annual Remuneration Report, which discloses how the current Remuneration Policy has been implemented in the year ended 31 August 2016 and how the Remuneration Policy will be implemented in the forthcoming year.

The Remuneration Policy Report remains unchanged since it was adopted at the AGM on 13 January 2016 and therefore shareholders will not be asked to vote on it at the next AGM. The Annual Remuneration Report will be put to an advisory vote at that AGM on 11 January 2017.

Remuneration Policy Report

For ease of reference, the Remuneration Policy table as adopted at the AGM on 13 January 2016 has been reproduced in full and was adhered to during the year. It remains unchanged from the Policy adopted in January 2016 and as reported last year.

REMUNERATION POLICY AND PHILOSOPHY

When setting the Remuneration Policy, the following principles and objectives are borne in mind:

- maintain the ability of the Group to attract, recruit and retain the best people with the qualities, experience and skills necessary to operate and develop its businesses;
- reward hard work, commitment, drive, experience and leadership skills;
- have a fair structure that recognises and rewards achievement and is aligned with the strategic goals of the Group;
- in recognition of the Group's global nature, have a package of rewards with both short and long-term incentives, thereby helping to promote its long-term growth and stability;
- align the interests of the executives with those of the shareholders by rewarding them for enhancing shareholder value and performing at the highest level;
- have a Remuneration Policy that appropriately incentivises without detracting from the goals of good corporate governance;
- when setting remuneration and developing the Remuneration Policy, take into consideration the views of shareholders and best practice guidelines;
- the Remuneration Committee does not consult with employees but they are aware of and do take into consideration the pay and conditions of employees across the Group, particularly when considering any increases in base salary. Increases to salary do in the main reflect the average increases given to the workforce as a whole in the Group's Western economies; and
- the Committee may have to make minor amendments to the arrangements described in the Remuneration Policy for regulatory, tax or administrative purposes or to take account of a change in legislation.

Remuneration Policy table for executive directors effective from 13 January 2016

Component	Objective	Opportunity	Operation	Performance measure
Base salary	Core element of fixed remuneration reflecting the individual's role, skills and experience. Market competitive packages are provided to attract, retain and motivate high-calibre people to the roles.	Whilst there is no maximum opportunity, increases to base salaries will normally be in line with the wider Group. Higher increases may be awarded in certain circumstances, such as: • where a new executive director has been appointed to the role at a lower than typical level to allow for growth in the role. • where an executive has been promoted or has a significant increase in responsibilities. • where it is considered necessary to reflect a significant change in market practice. Base salary levels for the forthcoming year are set out in the Annual Remuneration Report. Nicholas Hobson's salary is partly denominated in US dollars and the reported amounts in sterling will vary with changes in the exchange rate.	The Committee sets base salary levels taking into account the following: • the individual's skills and experience. • salary levels at companies of a similar size and complexity. • pay and conditions elsewhere in the Group. Base salary levels are normally reviewed on an annual basis with changes generally effective from September, although increases may be made at any other time if the Committee considers this is appropriate. The level of base salary may initially be positioned below the median of a chosen comparator group with the intention of ratcheting up the salary over time to reflect market norms after an initial period of satisfactory service.	Not applicable.
Retirement benefits	To provide sufficient pension provision. Part of the package to attract, retain and motivate employees.	The Chief Executive Officer is entitled to a pension allowance of 26% of base salary; part is paid into a defined contribution plan and part is delivered in cash.* The Group Finance Director receives a retirement benefit contribution of 25% of his basic salary which is utilised partially by his continued membership of the Fenner Pension Scheme which is a defined benefit plan providing a pension based on up to 2/3rds of pensionable salary (which is limited to the former HMRC earnings cap). The balance of his retirement benefit contribution is paid as a cash pension allowance. The total cost of providing this retirement benefit is actuarially assessed to ensure the total value of the benefit equates to 25% of salary.	Retirement benefits may be delivered in the form of a cash pension allowance or as a contribution to a pension plan (or a combination of both). *Mark Abrahams chose not to receive a pension allowance when stepping back into the role of Chief Executive Officer.	Not applicable.
Benefits in kind	To provide market comparable benefits in line with normal corporate practice.	Variable but typically include car allowance, phone allowance, private medical insurance, business travel and subsistence, reimbursement of relocation expenses (where appropriate) and other ancillary benefits including repatriation expenses (where appropriate).	The car allowance is generally set periodically and increased annually by RPI. Other expenses are paid as they arise or are reviewed periodically. The Committee may remove or introduce other benefits if it is considered appropriate to do so.	Not applicable.
Annual bonus scheme	The annual bonus incentivises delivery of annual financial and strategic objectives to support the business strategy and the enhancement of shareholder value.	Maximum award is currently 100% of base salary for the Chief Executive Officer* and Group Finance Director. In exceptional circumstances such as recruitment, the Committee would consider extending the bonus of an incoming executive director beyond 100% of base pay if necessary to attract a key person into a role. If a bonus is awarded in excess of 100% of salary, it would be capped at 200% of salary, with consideration being given to a lower starting base salary. This should be read in conjunction with the Recruitment section on page 51.	The Committee retains the discretion to change the annual bonus performance measures if considered appropriate. Financial performance will account for at least 80% of the total bonus. The Committee takes account of material corporate events and their impact when making final bonus awards, so that they are not artificially impacted by major acquisitions, disposals or significant changes to the issued share capital of the Company. The annual bonus is not subject to any clawback provisions. Bonus pay-outs are dependent on growth in underlying EPS compared to the previous year. *Mark Abrahams chose not to receive a bonus award for 2015/16 when taking up an executive role.	Performance targets for the forthcoming year will normally be disclosed in the Annual Remuneration Report for that year. Performance is normally measured over a one year period. No bonus will be paid unless there is growth in audited underlying EPS compared to the previous year. Bonuses start to be earned once underlying EPS growth is achieved, up to a target of 50% of salary for 8% growth and 100% of salary for 16% growth, with payments linear between 0% and 16%. These parameters will be adjusted to suit changes in economic and inflation circumstances and for 2016 were set at 1% growth and 8% growth respectively, with payments linear between 0% and 8%. For individual directors, where appropriate, the target percentages may be changed but within the overall limits disclosed herein.

Board Remuneration Report continued

Remuneration Policy table for executive directors effective from 13 January 2016 continued

Component	Objective	Opportunity	Operation	Performance measure
Long-term incentive - PSP	Provides a clear link between the remuneration of executive directors and members of the Executive Committee and the long-term value creation for shareholders and the Company.	The PSP can issue conditional awards up to 150% of base salary in normal circumstances. Awards of up to 300% of base salary may be made in exceptional circumstances under the current PSP. This exceptional limit will be reduced to 200% of base salary for awards made under the 2015 PSP. Historically, awards have not been issued in excess of 100% of base salary.	Awards under both PSP plans normally vest based on performance over a period of three years. Awards are normally held for a further three year period following the end of the Performance Period. A clawback provision may be applied to unvested and vested awards made under the 2015 PSP in the event of a material misstatement of results and/or an error in the calculation of the vesting outcome to any awards made under the plan. Awards that vest under both plans will accrue dividends up to the point of vesting and during the three year holding period post-vesting.	The 2015 PSP will have 50% Relative TSR against the FTSE 250 Peer Group and 50% growth in underlying EPS for all Plan Cycles issued with effect from 2015. No awards will vest unless the Committee is satisfied that the performance achieved reflects the Company's underlying financial performance. The Remuneration Committee will determine the performance targets at the start of a Plan Cycle taking into consideration changes in the business or prevailing economic circumstances such as inflationary pressure. Targets for awards being granted in the forthcoming year are set out in the Annual Remuneration Report for that year. Under both plans, awards vest as follows: • Threshold performance: 25% of award • Maximum performance: 100% of award • with straight-line vesting in between these points
2016 Sharesave Plan	To reward the wider employee population for their contribution to the growth and success of the Group and to align directors' interests with those of the wider employee population. To create staff alignment with the Group and promote a sense of employee ownership.	Maximum participation limits are set by HM Revenue & Customs ("HMRC"). Currently, the maximum monthly contribution limit is £500 (or the local currency equivalent) but the Company may decide to set lower maximum monthly contributions for each Plan Cycle.	All UK employees including executive directors (subject to any minimum service requirement) are entitled to participate in the HMRC tax-advantaged 2016 Sharesave Plan under which monthly savings contributions are made over a period of three or five years. The savings made are linked to the grant of an option over the Company's shares with an exercise price that can be set at a discount of up to 20% of the market value of a share at the time invitations are issued (or at a later date up to the date of grant). The Company is able to scale back applications if the level of take up exceeds a maximum, as set by the Board. Non-UK employees can also participate in the 2016 Sharesave Plan on a similar basis to UK employees.	Not subject to performance measures, in line with HMRC practice.

Clawback and malus may apply where stated in the above table. Other elements of remuneration will not be subject to clawback and malus.

Remuneration Policy table for non-executive directors & Chairman from 13 January 2016

Component	Objective	Basis of fees	
Fees	To attract, motivate and retain the best non-executive talent for the role.	There is no defined maximum opportunity. Fees are set at a level which: • is appropriately positioned compared to companies of a similar size and complexity. • reflects the time invested and contribution expected from the Chairman and non-executive directors. Fees are set at an appropriate level to recruit the right calibre of individual, without paying more than is necessary. Fees paid to the Chairman and non-executive directors may not exceed the aggregate limit of £500,000 set out in the Company's Articles of Association.	Fees are reviewed by the Board at appropriate intervals (normally once every three years), but the fees are adjusted annually by RPI. The non-executive directors are not entitled to participate in bonus or long-term incentive arrangements. The remuneration of the non-executive directors is determined by the Board as a whole (with individuals absenting themselves from discussions relating directly to their own remuneration).
Benefits in kind	In line with market practice.	A car allowance might be paid to the Chairman subject to Committee approval. Travel and subsistence expenses are paid by the Company.	The Board may introduce additional benefits if it considered it appropriate to do so.

ADDITIONAL DETAIL ON REMUNERATION POLICY

Recruitment

When recruiting a new executive director, the Committee will generally seek to align the remuneration package offered with the Policy as described in the Policy table.

The Committee will give consideration to a change of structure outside of the stated Policy in exceptional circumstances, such as recruiting to a temporary position on a contractual fee rather than a base salary. In such circumstances, the aim would be to structure a package that is broadly equivalent to the cost of remuneration levels under the normal Policy. The rationale for any departures from the usual Policy will be explained in full in the Annual Remuneration Report for that year.

When determining the remuneration package for new executive directors, consideration will be given to a number of factors including the calibre and experience of the individual, local market practice, the individual's current remuneration arrangements, the remuneration arrangements for other executives of the Group and the Company's circumstances at the time. The Group will seek to pay no more than is necessary for the role.

In exceptional circumstances, the maximum level of variable pay which may be awarded to an executive in the year of their recruitment is 400% of base salary, which is in line with the Policy as set out in the table above. This would be used if it is necessary to offer a buy-out of awards forfeited by an incoming executive director on leaving their previous employment. The Committee will take into consideration a number of factors when determining buy-out awards including the performance conditions attached to awards, the form in which they were granted (i.e. shares, cash) and the timeframe of awards. We will generally aim to structure buy-out awards on a comparable basis to awards forfeited. To facilitate buy-out awards, the Committee may grant awards to a new executive director under the Listing Rule 9.4.2.

In the event that an internal candidate was promoted to executive director, legacy terms and conditions will generally be honoured.

In the event of the appointment of a new Chairman or non-executive director, remuneration arrangements will normally follow the Policy outlined in the table above.

Performance measures

Annual bonus scheme

The Committee considers both financial and strategic measures when deciding on an appropriate performance measure, thus aligning incentives with delivery of the Group's strategic objectives.

Appropriate targets are set each year, aligned to business objectives.

The performance measures set for the executive directors are currently different to those set for the senior management team because the Committee felt it would not be appropriate to introduce new measures for the executive directors part way through the three year period of the current Remuneration Policy. Both approaches are aligned to the interests of shareholders and seek to reward prudent financial management and growth.

The Committee retains discretion to alter targets to reflect material changes in circumstances, such as the impact of a change in accounting standards or a change to the Group's structure.

This discretion includes the ability to reduce payments, depending on the underlying performance of the Group.

Long-term incentive plan

TSR and EPS are considered to be fair measures of performance and EPS contains an inherent inflationary element which is important to the Committee and shareholders alike.

Difference in Remuneration Policy for other employees

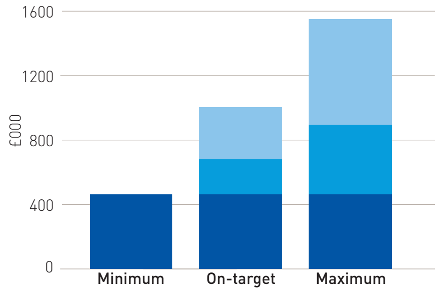
Fenner is a global organisation operating in many territories and sectors with employees at different levels of seniority. Reward policies for employees other than directors vary by division and geography and take into account statutory requirements, local market practice and performance, although a new annual incentive plan format has been put in place for direct reports below the level of the Executive Committee, with further encouragement that a similar structure be adopted by the operations further down their organisations.

The remuneration framework for members of the Executive Committee is broadly consistent with that for executive directors and Managing Directors of operations who sit on the Executive Committee have been encouraged to roll out similar formats in terms of the annual incentive framework for their management teams.

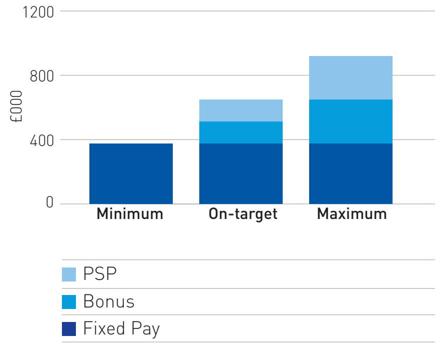
REWARD SCENARIOS

The following table shows how the composition of each of the executive directors' remuneration packages varies at different levels of performance achievement. This is an estimate of future reward opportunity split between the various elements of remuneration, showing opportunity for on-target, maximum and below-target performance.

Mark Abrahams
Chief Executive Officer



John Pratt
Group Finance Director



Note: On-target assumes 50% of potential maximum award under short and long-term incentive plans.

Fixed pay for Mark Abrahams comprises base salary from 1 September 2016 and estimated benefits in kind. He is not in receipt of a pension entitlement.

Fixed pay for John Pratt comprises base salary from 1 September 2016, estimated benefits in kind and pension entitlement.

Long-term incentive/PSP is 150% of base salary for Mark Abrahams and 100% of base salary for John Pratt.

Board Remuneration Report continued

DIRECTORS' SERVICE CONTRACTS AND TERMINATION PAYMENTS

The details of the service contracts in relation to the executive directors and letters of appointment in relation to the Chairman and non-executive directors who served as directors during the year are as follows:

	Effective date of service contract/letter of appointment	Unexpired term at 31 August 2016	Notice period
Executive directors			
Mark Abrahams*	8 June 2016	-	3 months
Nicholas Hobson**	1 March 2011	8 months	-
John Pratt	21 January 2015	-	1 year
Non-executive directors			
Vanda Murray	14 January 2015	16 months	1 year
Geraint Anderson	13 January 2016	28 months	1 year
Chris Surch	1 May 2016	32 months	1 year
Alan Wood***	1 April 2013	-	-
John Sheldrick****	1 September 2013	-	-

* Mark Abrahams became Chief Executive Officer on 8 June 2016 having been Executive Chairman since 4 January 2016 and Non-Executive Chairman prior to that. His notice period is to 28 February 2017 and thereafter on giving three months notice.
** Nicholas Hobson stepped down from the Board with effect from 8 June 2016.
*** Alan Wood retired from the Board on 13 January 2016.
**** John Sheldrick retired from the Board on 30 April 2016.

Policy on payment for loss of office

Notice period

Executive and non-executive directors have 12 months' notice.

Termination

Contracts include provision to terminate with or without notice or by paying in lieu of notice depending upon what is considered to be in the best interests of the Company and in the circumstances.

Termination payment

Executive directors are entitled to be paid during their notice period or receive a termination payment amounting to no more than 12 months' salary, pension and other benefits. The Committee may make additional termination payments to discharge an existing legal obligation, or by way of settlement or compromise of any claim arising in connection with the termination of a director's office or employment.

Directors would normally be expected to mitigate their loss, but the Committee retains discretion over this if it is considered to be in the Company's best interests not to mitigate.

Change of control

There is a prescribed sum equivalent to 12 months' gross salary including relocation costs, contractual benefits and any accrued bonus plus a pro-rata bonus in respect of the financial year in which the change of control occurs.

Benefits

Benefits normally cease on the date employment ends. There is discretion on continuation of some minor benefits such as health insurance and repatriation costs for a period following cessation where it is considered reasonable and appropriate.

Out of placement assistance may also be offered to an executive director.

Annual bonus

Bonuses are discretionary and not contractual. The Committee retains discretion to make a bonus payment dependent upon the particular circumstances of the executive director's departure and performance. Such payment can normally be made on a pro-rata basis to take account of time served during the financial year and can, at the discretion of the Committee, be paid wholly in cash.

PSP

There are good leaver provisions in the PSP Rules giving the Committee discretion on whether to make pro-rata awards to good leavers. Such awards can be settled in shares or cash and generally are only released at the end of a Plan Cycle.

Sharesave Plan

If a participant leaves the Group, options granted under the 2016 Sharesave Plan will normally lapse, but may be exercised within six months (or 12 months in the case of death) from the cessation of employment due to death, injury, disability, redundancy, retirement or the sale of the individual's employing business or company out of the Group. There will be no discretionary treatment for leavers under the 2016 Sharesave Plan.

Discretion

Where the Committee retains discretion, it will be used to provide flexibility in certain situations, taking into account the particular circumstances of a director's departure and performance.

The following sections of the Board Remuneration Report are audited.

Annual Remuneration Report

OUTTURN FOR 2016

A summary can be found in the table on page 54 of the full remuneration earned in the year and on page 56 in respect of the PSP.

Annual bonus

The executive directors will not be in receipt of a bonus under the annual bonus scheme for the year ended 31 August 2016 because the performance target of growth in underlying EPS of the Group was not achieved. Mark Abrahams explicitly turned down any opportunity to participate in a bonus scheme for 2015/16 when he became Executive Chairman in January 2016 and likewise will not be receiving any bonus payment.

Performance Share Plan

There will not be any vesting of shares under the 8th Plan Cycle of the PSP, as the performance targets were not met during the Performance Period.

IMPLEMENTATION FOR 2017

Base salary

A 2% salary increase has been awarded for the 2016/17 financial year to John Pratt, who was provided with a lower than typical base salary on appointment with a view to larger stepped increases once he had established himself in his role. The 2% increase is not considered to be a stepped increase but more of a cost of living increase due to the continuing difficult market conditions that the Group experienced in the year ended 31 August 2016. The Committee determined that it would not be appropriate to make a stepped increase at this time but, as flagged in previous years, does intend to continue to make stepped increases once trading conditions improve.

Mark Abrahams asked not to be included in the 2% cost of living increase and elected instead to leave his base salary as Chief Executive Officer at the same level it was when he took up the position as Executive Chairman (a salary equivalent to the base salary of Nicholas Hobson) and more latterly as Chief Executive Officer.

The base salaries from 1 September 2016 are £435,000 (Mark Abrahams) and £272,350 (John Pratt).

Salary benchmarks are referred to from time to time to ensure the Company does not come adrift of market norms, although one has not been conducted in the year under review.

Retirement benefits

Mark Abrahams elected not to receive a pension entitlement when resuming the role of Chief Executive Officer. He is in receipt of a defined benefit pension under the Fenner Pension Scheme but no contributions are paid into that scheme on his behalf and have not been since 2011.

John Pratt receives a retirement benefit contribution of 25% of his basic salary, which is utilised partially by his continued membership of the Fenner Pension Scheme which is a defined benefit plan. The balance of his retirement benefit contribution is paid as a cash pension allowance to invest at his discretion.

Nicholas Hobson was in receipt of a pension entitlement equivalent to 26% of his annual salary, part of which was paid into an occupational defined contribution plan; the balance was paid in cash. He will continue to be paid his normal pension entitlement for the balance of the contractual notice period.

Annual bonus

For the year ending 31 August 2017, the annual bonus is based on year-on-year growth in underlying EPS, with target bonus based on 8% growth and a bonus cap for achieving 16% growth above the prior year underlying EPS, with payments linear between 5% and 8% growth and linear between 8% growth and 16% growth. No payments will be made for underlying EPS growth of less than 5%. In view of the significant devaluation of sterling since the Brexit vote, the Committee has set these targets at constant exchange rates so that there is no windfall element arising from currency changes. No bonus is payable unless there is growth in underlying EPS compared to the prior year. The Remuneration Committee strongly feels that Mark Abrahams should be included in the annual bonus plan to align his interests to that of his management team, the business and shareholders; he has accordingly been awarded a bonus cap of 100% of annual basic salary. John Pratt has also been awarded a bonus cap of 100% of annual basic salary.

Long-term incentive - PSP

Mark Abrahams will be granted a conditional award based on 150% of his annual salary. The Remuneration Committee has granted this enhanced award (which is still in line with the Remuneration Policy but is a change from stated routine practice) as an acknowledgment of the personal sacrifice Mark Abrahams has made in stepping back into a full time executive role at very short notice upon the ill health of Nicholas Hobson, and to reflect the importance of enhancing shareholder value at a time the Group faces many challenging markets. The Performance Period for this PSP award will be deemed to run from January 2016 to August 2019 (but any final award would be pro-rated to the date Mark Abrahams subsequently steps down from the role of Chief Executive Officer). John Pratt will be granted a conditional award based on 100% of his annual basic salary and members of the Executive Committee will be granted conditional awards based on 70% of their respective annual basic salaries for the 2016/17 award.

The two equally weighted performance conditions used in the new PSP are relative TSR performance, which accounts for 50% of the potential award and growth in underlying EPS, which accounts for the remaining 50% of the potential award.

The Committee considers that TSR, which comprises, inter alia, dividend yield and share price movement in comparison with the PSP Peer Group, remains a fair measure of long-term performance as it aligns the interests of executives with shareholders and reflects market conditions. The TSR Peer Group will be the FTSE 250, excluding investment trusts. Awards under the TSR measure only start to vest once the Company achieves a ranking 1% above the median.

The EPS element is aligned to the Company's strategy of developing its global position and underlying earnings and, being measured over a three year period, it encourages focus on longer-term profitable growth. Structural changes to the Group are taken into account by the Committee to ensure that the outcome of an annual bonus plan or PSP Plan Cycle is not artificially impacted by material corporate events such as major acquisitions, disposals or significant change to the issued share capital of the Company.

The EPS target over the three year Performance Period for the PSP requires underlying EPS to increase by at least 25%, with growth of 40% providing a maximum payout.

The revised PSP incorporates new limits and clawback provisions compared to the old PSP and brings it more into line with shareholder expectations.

The PSP remains the sole long-term incentive vehicle for executives and is designed to encourage its participants to deliver sustained long-term performance and above market returns to shareholders. The revised PSP mandates that any shares allotted under the PSP at the end of a Plan Cycle are held for a further three years, although discretion can be applied in exceptional circumstances. This added stricture on holding the shares further aligns the long-term interests of the shareholders with the long-term incentive programme that the executive directors and members of the Executive Committee participate in. Shares can however be sold to settle the tax liability when shares vest under the PSP.

Rewards under the PSP are linked to the Company's performance against demanding targets over three year Performance Periods. A conditional award of ordinary shares is based on a percentage of the participant's annual basic salary up to a permitted normal maximum of 150%. The conditional awards granted under the PSP as a percentage of basic salary are below the median of comparable benchmarks, as they are generally set at 100% for executive directors and 70% for members of the Executive Committee.

Both TSR and EPS are measured over the three years from the end of the financial year preceding the year in which the award is made. Prior to each conditional award being made, the EPS performance targets will be reviewed to ensure that they remain challenging.

Board Remuneration Report continued

SINGLE FIGURE OF REMUNERATION

The following tables provide a single figure for remuneration of the executive and non-executive directors. In calculating this figure, we have used the methodology proposed by the Financial Reporting Lab at the Financial Reporting Council.

Chief Executive Officer and Group Finance Director

	Mark Abrahams[1]		John Pratt[2]		Nicholas Hobson[3]	
	2016 £000	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Base salary	**106**	-	**267**	164	**334**	435
Taxable benefits	**6**	-	**36**	9	**26**	35
Pension	**-**	-	**99**	28	**87**	113
Annual bonus	**-**	-	**-**	-	**-**	-
PSP	**-**	-	**-**	-	**-**	-
Total	**112**	-	**402**	201	**447**	583

The Board did not waive any emoluments in respect of the year ended 31 August 2016.

Base salary – The base salaries for executive directors were not increased in the year ended 31 August 2016.

Taxable benefits – These principally comprise car allowance or company car, private medical insurance, business travel and subsistence expenses and, in relation to Nicholas Hobson, some relocation expenses.

Pension – The values include all cash allowances/contributions and/or accrual in respect of pension.

Annual bonus – No annual performance-related bonus is due for the year ended 31 August 2016.

PSP – No shares were allotted in the year because neither performance measure met the minimum target in the PSP over the three year Performance Period from 1 September 2012 to 31 August 2015.

(1) Mark Abrahams' remuneration is shown from when he resumed the position of Chief Executive Officer on 8 June 2016; prior to that he was Executive Chairman from 4 January 2016 and prior to that was Non-Executive Chairman. His remuneration as Chairman was £249,196 in the year and his total remuneration in the year covering the multiple roles was £355,679. His base salary for being Chief Executive Officer is £435,000 per year which matched the base salary of Nicholas Hobson as Chief Executive Officer. Mark Abrahams is not in receipt of any pension contributions or pension allowance although he does draw a defined benefit pension from the Fenner Pension Scheme.

(2) John Pratt is an active member of the defined benefit Fenner Pension Scheme and accrued benefits under that scheme (as well as receiving a pension allowance). The amount disclosed in the table is an accounting disclosure based on the notional value of the increase in John Pratt's accrued defined benefit pension (as disclosed on page 56) plus his cash pension allowance. The actual cost to the Company of providing the retirement benefit in the year was £64,842 (being the cost of pension accrual of £41,832 plus his cash pension allowance of £23,010) as actuarially certified by Xafinity Consulting Limited.

(3) Nicholas Hobson's annual salary was partly denominated in US dollars and converted to sterling for payment purposes. The reported amounts in sterling varied with changes to the sterling/US dollar rate of exchange. The pension allowance includes £34,016 of Company contributions into the defined contribution Fenner Retirement Plan. Nicholas Hobson's remuneration is shown up to the date he stepped down from the Board on 8 June 2016.

Chairman and non-executive directors

	Vanda Murray[1]		Mark Abrahams[2]		Geraint Anderson[3]		Chris Surch[4]		Alan Wood[5]		John Sheldrick[6]	
	2016 £000	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Fees	**72**	53	**236**	138	**29**	-	**16**	-	**17**	48	**32**	48
Taxable benefits	**1**	-	**13**	8	**1**	-	**1**	-	**1**	1	**-**	1
Total	**73**	53	**249**	146	**30**	-	**17**	-	**18**	49	**32**	49

(1) Vanda Murray was a non-executive director during the year and became Chairman of the Remuneration Committee from 13 January 2016 and received an additional fee for chairing the Committee equivalent to £3,000 per annum. Vanda became the acting Non-Executive Chairman on 8 June 2016 and her fee increased to £125,000 per annum.

(2) Mark Abrahams had been the Non-Executive Chairman up until 4 January 2016 whereupon he became the Executive Chairman and his fee increased from £138,000 per annum to £435,000 per annum. Mark Abrahams stepped down as Executive Chairman on 8 June 2016 and became Chief Executive Officer. His remuneration as Chief Executive Officer is included in the executive directors single figure of remuneration table above.

(3) Geraint Anderson joined the Board on 13 January 2016 and his fee is shown from that date. His annual fee is £45,000.

(4) Chris Surch joined the Board on 1 May 2016 and his fee (including the fee for being the Chairman of the Audit Committee) is shown from that date. His annual fee is £48,000.

(5) Alan Wood retired from the Board on 13 January 2016 and his fee is shown up to that date.

(6) John Sheldrick retired from the Board on 30 April 2016 and his fee is shown up to that date.

None of the non-executive directors were awarded an RPI increase to their fees in the year ended 31 August 2016.

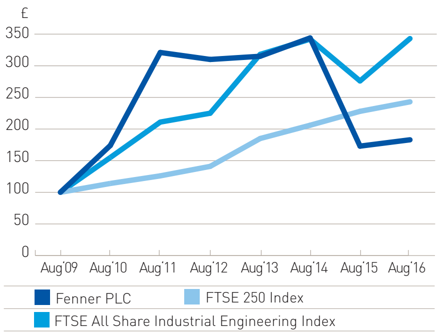
The non-executive directors' taxable benefits, where incurred, comprise travel expenses. In addition, Mark Abrahams also had a car allowance when Non-Executive Chairman and had an increase in his car allowance to £25,000 per annum from 4 January 2016 when he became Executive Chairman.

TOTAL SHAREHOLDER RETURN

The performance chart illustrates the Company's TSR over the past seven years compared to the TSR of the FTSE All Share Industrial Engineering Index and the FTSE 250. The Committee obtains appropriate third party confirmation of the extent to which the PSP targets are met.

This graph shows the value, by 31 August 2016, of £100 invested in Fenner PLC on 31 August 2009 compared with the value of £100 invested in the FTSE 250 Index and FTSE All Share Industrial Engineering Index on the same date. These indices have been chosen because the Company has been a constituent for the majority of the period illustrated. The other points plotted are the values at intervening financial year ends.

	Fenner PLC	FTSE 250 Index	FTSE All Share Industrial Engineering Index
31 August 2009	100	100	100
31 August 2010	174	114	155
31 August 2011	321	126	211
31 August 2012	310	141	225
31 August 2013	315	185	318
31 August 2014	344	206	342
31 August 2015	173	228	276
31 August 2016	183	243	343



CHIEF EXECUTIVE OFFICER SIX YEAR HISTORIC PAY FIGURES

The table below shows Nicholas Hobson's total remuneration since March 2011 when he took office to the date he stepped down from the Board on 8 June 2016. It also shows total remuneration for Mark Abrahams for the years from 1 September 2010 to the end of February 2011 when he stepped down as Chief Executive Officer and became the Non-Executive Chairman of the Group. Mark Abrahams appears again from 8 June 2016 when he resumed the role of Chief Executive Officer. The table also shows annual bonus and PSP vesting outcomes. The total remuneration figure is calculated on the same basis as the single figures given on page 54.

Financial year	Incumbent	CEO total remuneration £000	Annual bonus outcome % of max.	PSP vesting outcome % of max.
2016 (from 8 June 2016)	Mark Abrahams	112	-	-
2016 (to 8 June 2016)	Nicholas Hobson	447	0%	0%
2015	Nicholas Hobson	583	0%	0%
2014	Nicholas Hobson	676	0%	33%
2013	Nicholas Hobson	841	0%	100%
2012	Nicholas Hobson	1,254	100%	46%
2011 (from 1 March 2011 to 31 August 2011)	Nicholas Hobson	456	100%	n/a
2011 (from 1 September 2010 to 28 February 2011)	Mark Abrahams	648	100%	50%

TERMINATION ARRANGEMENTS FOR NICHOLAS HOBSON

No special termination payments have been made to Nicholas Hobson; he will be in receipt of his contractual pay and benefits to the end of his notice period which expires on 30 April 2017. He will not be entitled to any bonus provision for that period; thereafter his remuneration entitlement will cease.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Chairman and non-executive directors are generally appointed for fixed three year terms, with provision for additional fixed term appointments as deemed appropriate and in the best interests of the Company.

The non-executive directors do not participate in any of the Group's bonus or share incentive schemes nor do they accrue any pension entitlement.

EXTERNAL APPOINTMENTS

The Board remains of the view that, in principle, external non-executive appointments broaden the experience and knowledge of the executive directors, which in turn is of benefit to the Company. Executive directors may, subject to approval by the Board and providing there is no conflict of interest, be allowed to accept appointments as a non-executive director of another company (with only one such appointment allowed in a FTSE 100 company). Mark Abrahams is Chairman of Inspiration Healthcare Group plc and retained fees of £35,000 per annum in relation to that non-executive position. John Pratt does not currently hold any external non-executive positions and neither did Nicholas Hobson.

PERCENTAGE CHANGE IN REMUNERATION OF THE CHIEF EXECUTIVE OFFICER

Due to the geographic and business complexity of the Fenner Group, it is considered appropriate to use a comparative group based on members of the Executive Committee, Head Office-based staff and other senior managers located in the UK. General salary increases, excluding promotional and other non-routine increases for this group, ranged between 0% and 3% for the year under review and averaged 0.6% compared to a zero increase for both Nicholas Hobson and Mark Abrahams in the year.

PAYMENTS FOR LOSS OF OFFICE

No payments have been made to past directors for loss of office in 2015/16. Nicholas Hobson is in receipt of his contractual pay and benefits only for the duration of his notice period, during which time he will be on garden leave.

INTERESTS IN SHARES

	31 August 2016	1 September 2015
Mark Abrahams	**726,726**	726,726
John Pratt	**36,045**	36,045
Vanda Murray	**2,000**	2,000
Geraint Anderson (1)	**-**	-
Chris Surch (2)	**-**	-
Nicholas Hobson (3)	**300,000**	300,000
Alan Wood (4)	**5,528**	5,528
John Sheldrick (5)	**10,000**	10,000

(1) Geraint Anderson's holding is from 13 January 2016.
(2) Chris Surch's holding is from 1 May 2016.
(3) Nicholas Hobson's holding is up to 8 June 2016.
(4) Alan Wood's holding is up to 13 January 2016.
(5) John Sheldrick's holding is up to 30 April 2016.

All directors' interests are beneficially held. There have been no other changes in the interests set out above between 31 August 2016 and 16 November 2016.

Executive directors also hold conditional share awards under the PSP, details of which are set out on page 56.

Shareholding guidelines

An Executive Management Share Ownership Policy was introduced in 2011, setting the expectation that executive directors build up a shareholding equivalent to 100% of basic salary in the Company's shares and members of the Executive Committee build up a holding equivalent to 50% of basic salary in the Company's shares, at the point of acquisition of the shares. The Policy allows shares to be sold to settle tax liabilities on them and for retirement planning purposes. The Policy aims to encourage executives to build and maintain a meaningful shareholding in the Company, which can be achieved by the retention of shares vesting under the long-term incentive arrangements and the purchase of shares in the market. This helps ensure that their interests are aligned with those of shareholders. Mark Abrahams holds shares exceeding the shareholding guidelines, as did Nicholas Hobson before he stepped down from the Board. John Pratt will build up his holding over time to reach the levels required under the Policy.

Board Remuneration Report continued

DIRECTORS' PENSION ENTITLEMENT

Executive retained benefits

Mark Abrahams is not in receipt of any pension allowance or contributions by the Company into a pension scheme; he is however in receipt of a defined benefit pension from the Fenner Pension Scheme.

Nicholas Hobson's pension entitlement to the date he stepped down from the Board is set out on page 54 and his pension entitlement was capped at 26% of basic salary.

In the year under review, John Pratt has been a director for the full year ended 31 August 2016 and the disclosures relating to his pension are set out in the table below.

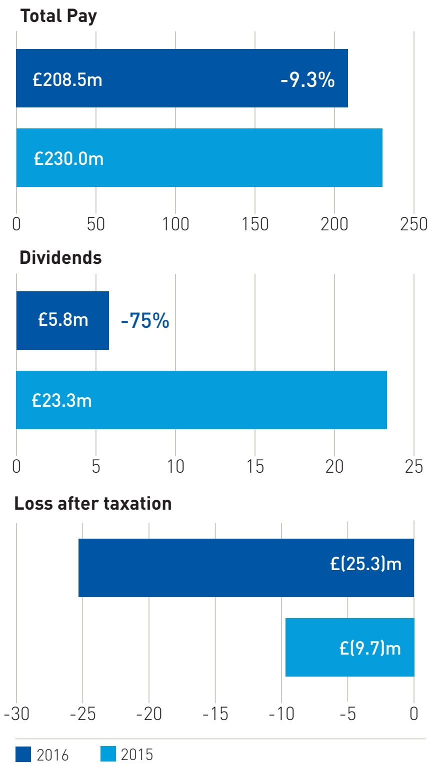
Accrued pension at 31 August 2015	£67,754 pa
Accrued pension at 31 August 2016	£72,310 pa
Notional value of increase in accrued pension less member contributions over period	£76,180

John Pratt's final pensionable salary is determined each 1 September.

Details on the amount of contributions paid over the period have been provided by Hymans Robertson LLP and the actuarial calculation by Xafinity Consulting Limited.

RELATIVE IMPORTANCE OF SPEND ON PAY

The graphs below show the Group's total expenditure on pay, Company dividends and the Group's loss after taxation relating to the year under review and the prior year and the percentage change year-on-year.



SHARE SCHEMES

None of the directors held any share options during the year. The Company did not operate any other share based schemes other than the PSP in the year and no plan cycles have yet been issued under the Sharesave Plan.

Awards to executive directors under the PSP were as follows:

Allocation Date	Conditional award 1 September 2015 Number	Conditional award in the year Number	Dividend roll up applied to conditional award in the year** Number	Shares vested Number	Shares lapsed/ forfeited Number	**Conditional award 31 August 2016 Number**	Value awarded	End of Performance Period & Award Determination Date*
Mark Abrahams	-	-	-	-	-	**-**	-	-
Nicholas Hobson[1]								
14 November 2012	89,326	-	-	-	89,326	**-**	-	13 November 2015
20 November 2013	104,713	-	8,377	-	12,497	**100,593**	-	19 November 2016
18 November 2014	159,328	-	12,393	-	76,058	**95,663**	-	17 November 2017
19 November 2015		323,502	24,443	-	270,251	**77,694**	-	18 November 2018
John Pratt								
14 November 2012 (2)	42,471	-	-	-	42,471	**-**	-	13 November 2015
20 November 2013 (2)	30,378	-	2,452	-	-	**32,830**	-	19 November 2016
18 November 2014 (2)	99,953	-	8,070	-	-	**108,023**	-	17 November 2017
19 November 2015		198,661	16,042	-	-	**214,703**	-	18 November 2018
Total of awards in year		522,163		-			-	

(1) All conditional awards to Nicholas Hobson have been pro-rated to 30 April 2016.

(2) These were awarded before John Pratt became Group Finance Director and represent his conditional awards whilst a member of the Executive Committee.

* The Performance Periods for each of the PSP Plan Cycles run for three years from 1 September in the year the Plan Cycle was conditionally awarded to 31 August in the year of the third anniversary of the Plan Cycle.

** Dividend roll ups have been applied since 2008 in line with the PSP Rules. They accrue over the Plan Cycle and are added to the original conditional award before the final award and allotment of shares is made.

The performance criteria attached to the conditional award of shares made on 19 November 2015 relate to the Company's TSR which is compared with the FTSE 250 (excluding the Company and investment trusts) and the EPS performance target.

There have been no variations in the terms and conditions of scheme interests during the year.

Awards only vest if the performance targets achieve median and above in the case of TSR, in which case awards will vest on a straight-line basis between 25% and 100% of the TSR allocation. For the EPS performance measure, EPS has to grow by 25% or more in the Performance Period. Awards vest on a straight-line basis between 0% and 100% for underlying EPS growth between 25% and 40%.

The Plan Cycle that ended on 13 November 2015 was independently evaluated and resulted in a nil award.

The market value (as defined in the PSP Rules) of an ordinary share of the Company at the beginning of the 7th Plan Cycle was 358.12p; at the end of that Plan Cycle was 126.75p; and at 19 November 2015 for the 1st Plan Cycle of the new 2015 PSP was 134.4p.

STATEMENT OF VOTING AT THE AGM

The table below sets out the voting outcome in respect of the Remuneration Policy Report and the Annual Remuneration Report for 2015 (at the AGM held on 13 January 2016).

Resolutions of the 2016 AGM

Approval of the Remuneration Policy Report

Votes for	127,715,262	87.96%
Votes against	17,489,693	12.04%
Total votes	145,204,955	
Votes withheld*	3,873,793	

Approval of the Annual Remuneration Report

Votes for	144,365,100	96.90%
Votes against	4,620,996	3.10%
Total votes	148,986,096	
Votes withheld*	93,114	

*votes withheld are not counted in the total votes

DILUTION LIMITS

Fenner share plans comply with the current ABI Guidelines on headroom which provide that overall dilution under all plans should not exceed 10% over a 10 year period in relation to the Company's issued share capital, with a further limitation of 5% in any 10 year period on executive plans. Assuming none of the outstanding awards lapse and will be exercised and having included all exercised awards, as at 31 August 2016, the Company has utilised 2.16% of the 10% in 10 years limit and 2.16% of the 5% in 10 years limit.

REMUNERATION COMMITTEE MEMBERSHIPS AND GOVERNANCE

Details of the Remuneration Committee's membership and governance responsibilities are given in the Corporate Governance report on pages 33 to 34.

ADVISORS USED IN THE YEAR

The Committee has taken advice from AON Hewitt who were appointed by the Committee in 2006 and provided data in relation to the PSP and TSR outcome for the 8th Plan Cycle. AON Hewitt designed the original PSP ahead of it being adopted in 2007 and the current PSP. AON Hewitt does not provide any other services to the Company. They are viewed as independent, objective and cost effective given their involvement at the outset of the PSP. Total fees paid to AON Hewitt in the year amounted to £1,800 and are charged on an hourly basis.

Deloitte LLP continue to provide advice on the Sharesave Plan. Deloitte LLP also acts for the Company in a corporate finance and tax advisory capacity and assist in transaction services support. They are viewed as independent, objective and cost effective. No fees were paid in the year to Deloitte LLP for the work for the Remuneration Committee. Deloitte will not be advising on remuneration once they become the auditors of the Group as they will be restricted by the Company policy on non-audit services provided by the external auditor at that point.

The Company AGM will be held on 11 January 2017.

- The Chairman of the Remuneration Committee's Statement (pages 47 to 48) and the Annual Remuneration Report (pages 53 to 57) will be submitted to an advisory shareholder vote at the AGM.

Independent Auditors' Report to the members of Fenner PLC

REPORT ON THE GROUP FINANCIAL STATEMENTS

Our opinion

In our opinion, Fenner PLC's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 August 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated balance sheet as at 31 August 2016;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated cash flow statement for the year then ended;
- the Consolidated statement of changes in equity for the year then ended; and
- the Notes to the Group financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and applicable law.

Our audit approach

Overview

Materiality

Overall Group materiality: £1.86m which represents 5% of operating profit before amortisation of intangible assets acquired and exceptional items.

Audit scope

We conducted audit work on 88 reporting components, including six which we considered to be significant in the context of the Group, which together comprised 87% of the Group's revenue and 88% of the Group's operating profit before amortisation of intangible assets acquired and exceptional items.

We, as the Group engagement team, audited four of the most significant components across the UK and USA and worked closely with audit teams outside the UK especially on the remaining significant components in Australia and the Netherlands.

We increased our base scope to include additional coverage such as territories where statutory audits were taking place.

Areas of focus

- Valuation of goodwill and intangible assets acquired
- Valuation of defined benefit pension scheme liabilities
- Taxation
- Exceptional items

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "Areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus		How our audit addressed the area of focus
Valuation of goodwill and intangible assets acquired	We focused on this area because the determination of whether or not goodwill and intangible assets acquired are impaired involves complex and subjective judgements by management about the future results of the relevant parts of the business. When there is a trigger, and on an annual basis, management calculate the amount of headroom between the value in use of the Group's Cash Generating Units ('CGUs') and their carrying value to determine whether there is a potential impairment of the goodwill relating to those CGUs. The determination of the amount of headroom is dependent on the value in use of the CGU, which in turn, is dependent on estimates of short-term and long-term profit growth from operational improvements. Opening goodwill and intangible assets acquired was £181.6m across 16 CGUs. An impairment of £25.0m was recognised during the year in relation to two CGUs where management's assessment of value in use was below the carrying value of goodwill and intangible assets acquired. This related to the Mandals and the ECS Conveyor Services (Americas) CGUs, where following the impairment no goodwill or intangible assets acquired remain at the year end. In testing management's assessment of the value in use in each of these CGUs we focused on the following key assumptions: • Budgeted and forecast cash flows for the next three years; • The country specific long-term (terminal) growth rate applied beyond the end of the three year forecast period; and • The country specific discount rates applied to the model. For CGUs where no impairment was recognised we focused our audit attention on the sensitivity analysis and alternative scenarios prepared by management and assessed the judgements they had made. See note 1 and note 2 within the Group financial statements for disclosure of the related accounting policies, judgements and estimates and note 15 for detailed goodwill and other intangible assets disclosures.	We obtained management's model and were able to agree the data used for all CGUs back to the underlying sources. As noted opposite, we tested the CGUs where impairment had been recognised and agreed that the conclusion was supported by appropriate cash flow assumptions. We then extended our focus to any CGUs where minimal headroom existed, identifying these through both management's and our own sensitivity analysis and agreed with the conclusion that no impairment was required. In particular: • We agreed the reasonableness of management's approved three year budget and forecast and challenged the forecast growth in revenue and profit by taking into account the sales growth and cost savings achieved in prior years and by evaluating the accuracy of management's forecasting process by comparing previous budgets to actual results, and assessing the current budget in light of our knowledge and understanding of current business plans and the economic climate; • We compared the country specific terminal growth rates in the forecasts to third party economic and industry forecasts noting that those used by management were within an acceptable range; and • We assessed the country specific discount rate (weighted average cost of capital) for the Company against comparable organisations noting that the rates used across the Group were within a reasonable range. We evaluated management's sensitivity analysis and performed additional sensitivity analysis to ascertain the extent of change in those assumptions that either individually or collectively would be required for the goodwill and intangibles to be impaired noting that, with the exception of Statewide and American Industrial Plastics, it would require a significantly adverse change to occur in all CGUs, a set of circumstances that management consider unlikely, before the balances would be impaired. Based on the evidence obtained we determined that the two impairments recorded were appropriate and that no further impairments were required and that the disclosure of Statewide and American Industrial Plastics was appropriate given the sensitive nature of the headroom in those CGUs.

Area of focus		How our audit addressed the area of focus
Valuation of defined benefit pension scheme liabilities	We focused on this area as the pension scheme valuations are highly sensitive to changes in the assumptions used within the models which calculate the valuation and the subsequent charge or credit to the consolidated statement of comprehensive income. At 31 August 2016 the net pension deficit amounted to £49.0m, with £35.6m of the deficit in the UK scheme and £13.4m in the overseas schemes. We focussed our testing on the UK scheme and the Fenner Dunlop BV scheme, which is based in the Netherlands, as all other overseas schemes are immaterial to the Group. The key assumptions to which the liability is most sensitive, and to which we therefore paid particular attention in evaluating the valuation of the net deficit, were: Discount rate: Under International Accounting Standard ("IAS") 19 Revised 'Employee Benefits', the discount rate is set with reference to the yield on high quality corporate bonds of term appropriate to the duration of the liabilities; Inflation rate: The level of future pension payments is linked to price inflation indices. Various investment market statistics are used to form a view on the long-term average rates of price and consumer price inflation; and Mortality: Scheme specific base tables should be used with an allowance for future improvements in life expectancy based on recent projections. These projections will depend on future expectations of improvements in life expectancy and are therefore uncertain. See note 1 and note 2 within the Group financial statements for disclosure of the related accounting policies, judgements and estimates and note 28 for detailed pension disclosures.	We tested the actuarial valuations used by management in the preparation of the financial statements, in conjunction with our own specialist actuaries, as follows: We tested the completeness and accuracy of the pension scheme membership data provided to management's actuary on which the pension liability is calculated by reconciling movements in membership data to supporting documentation. We noted no material exceptions from our testing. We assessed the appropriateness and consistency of the key assumptions used by management to value the pension liabilities: Discount rate: We tested the appropriateness of the discount rate assumptions used by reference to the yields available on AA corporate bond indices and the duration of the scheme's liabilities. Inflation rate: We tested the appropriateness of both the CPI and RPI rates used by reference to the Bank of England implied inflation spot curve and the duration of the scheme's liabilities. Mortality: We tested the appropriateness of the base tables selected for use by management by reference to those provisionally adopted for the most recent actuarial valuation of the scheme and also market practice. For the Fenner Dunlop BV scheme, we used our specialist actuarial knowledge to obtain evidence that the assumptions used in calculating the pension scheme liabilities, including salary increases and mortality rate assumptions, were consistent with relevant national and industry benchmarks. Based on the evidence obtained from our testing of the assumptions outlined above, we considered the assumptions used for both schemes to be within our expected ranges and in line with recognised market practices.
Taxation	The Group operates in multiple tax jurisdictions. With a changing global tax environment the Group is naturally exposed to a number of taxation risks. Provisioning for these tax risks involves significant management estimates. In addition, the Group has significant deferred tax assets of £28.1m. The recognition of these is also a judgmental area especially where the recognition of these is supported by future taxable profits. See note 1 and note 2 within the Group financial statements for disclosure of the related accounting policies, judgements and estimates and notes 11 and 17 for detailed taxation disclosures.	In conjunction with our component audit teams we tested taxation by focussing on territories where there were complex tax laws or significant balances such as the US. Utilising our own tax specialists we assessed and formed our own views on the key judgements with respect to open tax positions and found that the judgements made by management were consistent with our views. Where the recoverability of deferred tax assets is dependent on future profits, we checked that the forecasts used were consistent with the management approved three year plan that we subjected to scrutiny and challenge as part of the goodwill impairment review.
Exceptional items	Exceptional items consist of a number of one off costs relating to the impairment of goodwill and intangible assets acquired (£25.0m) and restructuring costs (£15.8m) which include impairment of property plant and equipment (£2.9m), impairment of inventories (£0.4m), impairment of receivables (£1.0m) as well as other restructuring and redundancy related costs (£11.5m). Given the magnitude of these items we focused particular audit effort in this area to determine whether these items were accurately recorded, complete and appropriately classified as exceptional, and did not in fact relate to the underlying trade of the business, and that exceptional costs and credits were treated consistently with prior periods. See note 1 and note 2 within the Group financial statements for disclosure of the related accounting policies, judgements and estimates and note 8 for detailed exceptional costs disclosures.	We tested exceptional costs across all reporting components by evaluating their treatment for compliance with the Group accounting policy, noting that the policy had been applied consistently for all items across the Group. In order to do this we considered: • agreeing the value of the impairment through to our work on the valuation of goodwill and intangible assets; • testing the completeness of impairment of plant and inventory through the inspection of plant and inventory held at sites which were closed in the year and across other sites; • verifying the circumstances relating to impairment of receivables and that it too was sufficiently linked to the impact of the turmoil in the US coal market; • testing a sample of redundancy costs to payments made and by testing outstanding redundancy costs to payroll records and notification to the employees; and • by agreeing other restructuring related costs to third party invoices and by testing outstanding third party provisions to commitments and post year end payments. We challenged management on the appropriateness of the classification of each item, being mindful that classification should be balanced between gains and losses, the basis for the classification clearly disclosed and applied consistently from one year to the next.

Independent Auditors' Report to the members of Fenner PLC continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along two business segments, being Engineered Conveyor Solutions and Advanced Engineered Products. The Group financial statements are a consolidation of 140 reporting components in 15 territories, comprising the Group's operating businesses and centralised functions.

Of the Group's 140 reporting components, we identified 88 that, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics or because management requested the Group scope was extended to include these. Of these, we identified six which were considered to be of high importance given their financial significance to the Group. These financially significant components were identified as Fenner Drives US, CDI Houston, ECS Netherlands, ECS US, ECS Australia and Secant Group.

Further testing was performed at the Group level in particular in the areas of pensions, intangible assets, exceptional items and taxation as these were considered areas of focus for the audit.

The Group engagement leader was the engagement partner taking overall responsibility for the audits on Fenner Drives US, CDI Houston, ECS US and Secant Group. For ECS Netherlands and ECS Australia, the other financially significant components, where a local engagement partner led the audit, the Group engagement team directed, supervised and reviewed the work of the component auditors and their working papers to ensure consistency and quality across the Group. For all other components where the Group engagement leader was not the local engagement leader he oversaw the review of the PwC component auditor's planned approach to the audits and the outcome of those audits. Where necessary, additional meetings were held between the Group and component auditors to ensure that all matters were appropriately addressed. All of the remaining reporting components were subject to desk top review or limited scope audit procedures.

As a result, audit procedures were performed over reporting components comprising 88% of the Group's consolidated operating profit before amortisation of intangible assets acquired and exceptional items and 87% of the Group's consolidated revenue.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

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

Overall Group materiality

£1.86m (2015: £2.4m).

How we determined it

5% of operating profit before amortisation of intangible assets acquired and exceptional items.

Rationale for benchmark applied

The measure used is considered to be the one widely used to assess the underlying performance of the Group. Both exceptional items and amortisation of intangible assets acquired are considered to be appropriate adjustments as they do not reflect the underlying performance of the Group.

Component materiality

For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components ranged from £27,800 to £1,500,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.15m (2015: £0.2m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 17, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

OTHER REQUIRED REPORTING

Consistency of other information

Companies Act 2006 opinion

In our opinion, 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.

ISAs (UK & Ireland) reporting

Under ISAs (UK & 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.

We have no exceptions to report.

- the statement given by the directors on page 46, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.

We have no exceptions to report.

- the section of the Annual Report on pages 39 to 42, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- the directors' confirmation on page 17 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.

We have nothing material to add or to draw attention to.

- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

We have nothing material to add or to draw attention to.

- the directors' explanation on page 17 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate Governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance statement relating to 10 further provisions of the Code. We have nothing to report having performed our review.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 46, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

OTHER MATTER

We have reported separately on the Company financial statements of Fenner PLC for the year ended 31 August 2016 and on the information in the Board Remuneration Report that is described as having been audited.

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
16 November 2016

Notes:

The maintenance and integrity of the Fenner PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement
for the year ended 31 August 2016

	Notes	2016 £m	2015 £m
Revenue	5	**572.5**	666.7
Cost of sales		**(410.3)**	(476.1)
Gross profit		**162.2**	190.6
Distribution costs		**(52.3)**	(55.1)
Administrative expenses		**(124.6)**	(126.4)
Operating profit before amortisation of intangible assets acquired and exceptional items		**37.1**	56.4
Amortisation of intangible assets acquired		**(11.0)**	(12.9)
Exceptional items	8	**(40.8)**	(34.4)
Operating (loss)/profit	6	**(14.7)**	9.1
Finance income	9	**0.5**	0.5
Finance costs	10	**(16.1)**	(14.9)
Loss before taxation		**(30.3)**	(5.3)
Taxation	11	**5.0**	(4.4)
Loss for the year		**(25.3)**	(9.7)
Attributable to:			
Owners of the parent		**(26.3)**	(10.5)
Non-controlling interests		**1.0**	0.8
		(25.3)	(9.7)
Loss per share			
Basic	13	**(13.6)p**	(5.4)p
Diluted	13	**(13.6)p**	(5.4)p

Consolidated statement of comprehensive income

for the year ended 31 August 2016

	Notes	2016 £m	2015 £m
Loss for the year		**(25.3)**	(9.7)
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements on defined benefit post-retirement schemes	28	**(24.5)**	0.7
Tax on items that will not be reclassified	11	**3.7**	0.2
		(20.8)	0.9
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**80.6**	(11.5)
Cash flow hedges	26	**-**	3.4
Net investment hedges	26	**(30.8)**	9.0
Tax on items that may be reclassified	11	**(2.3)**	(2.3)
		47.5	(1.4)
Total other comprehensive income/(expense) for the year		**26.7**	(0.5)
Total comprehensive income/(expense) for the year		**1.4**	(10.2)

Attributable to:		
Owners of the parent	**(1.8)**	(9.0)
Non-controlling interests	**3.2**	(1.2)
	1.4	(10.2)

Consolidated balance sheet
at 31 August 2016

	Notes	2016 £m	2015 Restated (note 3) £m
Non-current assets			
Property, plant and equipment	14	**228.8**	208.4
Intangible assets	15	**178.3**	188.5
Deferred tax assets	17	**28.1**	20.8
Derivative financial assets	25	**-**	11.7
		435.2	429.4
Current assets			
Inventories	18	**75.3**	76.0
Trade and other receivables	19	**104.9**	105.2
Assets held for sale	37	**2.2**	-
Current tax assets		**7.2**	3.6
Derivative financial assets	25	**0.6**	0.8
Cash and cash equivalents	20	**94.9**	100.1
		285.1	285.7
Total assets		**720.3**	715.1
Current liabilities			
Borrowings	24	**(76.7)**	(46.8)
Trade and other payables	27	**(117.5)**	(113.9)
Liabilities held for sale	37	**(1.0)**	-
Current tax liabilities		**(1.9)**	(6.7)
Derivative financial liabilities	25	**(1.1)**	(0.2)
Provisions	30	**(17.9)**	(8.9)
		(216.1)	(176.5)
Non-current liabilities			
Borrowings	24	**(168.2)**	(191.3)
Trade and other payables	27	**(0.8)**	(0.7)
Retirement benefit obligations	28	**(49.0)**	(26.4)
Provisions	30	**-**	(10.7)
Deferred tax liabilities	17	**(7.5)**	(7.2)
Derivative financial liabilities	25	**-**	(1.1)
		(225.5)	(237.4)
Total liabilities		**(441.6)**	(413.9)
Net assets		**278.7**	301.2
Equity			
Share capital	31	**48.5**	48.5
Share premium	32	**-**	51.7
Retained earnings		**159.2**	111.4
Exchange reserve	32	**76.8**	(7.8)
Hedging reserve	32	**(16.9)**	22.3
Merger reserve	32	**-**	65.9
Equity attributable to owners of the parent		**267.6**	292.0
Non-controlling interests		**11.1**	9.2
Total equity		**278.7**	301.2

The financial statements on pages 62 to 95 were approved by the Board of Directors on 16 November 2016 and signed on its behalf by:

V Murray OBE
Chairman

W J Pratt
Group Finance Director

Registered Number: 329377

Consolidated cash flow statement

for the year ended 31 August 2016

	Notes	2016 £m	2015 Restated (note 3) £m
Loss before taxation		**(30.3)**	(5.3)
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		**35.2**	36.3
Impairment of property, plant and equipment		**2.9**	1.6
Impairment of intangible assets		**25.0**	24.5
Other exceptional non-cash movements		**4.8**	1.4
Cash payments in respect of prior year exceptional items		**(2.3)**	(2.7)
Defined benefit post-retirement costs charged to operating profit		**0.8**	2.1
Cash contributions to defined benefit post-retirement schemes		**(5.2)**	(4.9)
Movement in provisions		**(0.8)**	(0.8)
Finance income		**(0.5)**	(0.5)
Finance costs		**16.1**	14.9
Other non-cash movements		**1.2**	0.3
Operating cash flow before movement in working capital		**46.9**	66.9
Movement in inventories		**11.1**	15.2
Movement in trade and other receivables		**13.6**	20.4
Movement in trade and other payables		**(9.6)**	(21.7)
Net cash from operations		**62.0**	80.8
Taxation paid		**(6.2)**	(8.5)
Net cash from operating activities		**55.8**	72.3
Investing activities			
Purchase of property, plant and equipment		**(14.2)**	(25.2)
Disposal of property, plant and equipment		**1.9**	3.6
Purchase of intangible assets		**(1.1)**	(2.2)
Acquisition of businesses	36	**(5.6)**	(25.6)
Interest received		**0.5**	0.5
Net cash used in investing activities		**(18.5)**	(48.9)
Financing activities			
Dividends paid to Company's shareholders	12	**(23.3)**	(23.3)
Dividends paid to non-controlling interests		**(1.3)**	(2.0)
Settlement of derivative financial instruments	25	**10.5**	-
Interest paid		**(13.7)**	(14.7)
Repayment of borrowings		**(29.7)**	(3.8)
New borrowings		**0.6**	12.7
Net cash used in financing activities		**(56.9)**	(31.1)
Net decrease in cash and cash equivalents		**(19.6)**	(7.7)
Cash and cash equivalents at start of year		**93.1**	95.8
Exchange movements		**16.5**	5.0
Cash and cash equivalents at end of year		**90.0**	93.1

Cash and cash equivalents comprises:		
Cash and cash equivalents	**94.9**	100.1
Bank overdrafts	**(4.9)**	(7.0)
	90.0	93.1

Consolidated statement of changes in equity

for the year ended 31 August 2016

	Notes	Attributable to owners of the parent								
		Share capital £m	Share premium £m	Retained earnings £m	Exchange reserve £m	Hedging reserve £m	Merger reserve £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 September 2014		48.5	51.7	143.5	1.7	12.2	65.9	323.5	12.7	336.2
(Loss)/profit for the year		-	-	(10.5)	-	-	-	(10.5)	0.8	(9.7)
Other comprehensive income/(expense)										
Currency translation differences		-	-	-	(9.5)	-	-	(9.5)	(2.0)	(11.5)
Cash flow hedges	26	-	-	-	-	3.4	-	3.4	-	3.4
Net investment hedges	26	-	-	-	-	9.0	-	9.0	-	9.0
Remeasurements on defined benefit post-retirement schemes	28	-	-	0.7	-	-	-	0.7	-	0.7
Tax on other comprehensive income/(expense)	11	-	-	0.2	-	(2.3)	-	(2.1)	-	(2.1)
Total other comprehensive income/(expense)		-	-	0.9	(9.5)	10.1	-	1.5	(2.0)	(0.5)
Total comprehensive income/(expense) for the year		-	-	(9.6)	(9.5)	10.1	-	(9.0)	(1.2)	(10.2)
Transactions with owners										
Dividends paid in the year	12	-	-	(23.3)	-	-	-	(23.3)	(2.0)	(25.3)
Share-based payments	29	-	-	0.6	-	-	-	0.6	-	0.6
Transfer of non-controlling interests		-	-	0.3	-	-	-	0.3	(0.3)	-
Tax on transactions with owners	11	-	-	(0.1)	-	-	-	(0.1)	-	(0.1)
Total transactions with owners		-	-	(22.5)	-	-	-	(22.5)	(2.3)	(24.8)
At 1 September 2015		**48.5**	**51.7**	**111.4**	**(7.8)**	**22.3**	**65.9**	**292.0**	**9.2**	**301.2**
(Loss)/profit for the year		**-**	**-**	**(26.3)**	**-**	**-**	**-**	**(26.3)**	**1.0**	**(25.3)**
Other comprehensive income/(expense)										
Currency translation differences		**-**	**-**	**-**	**78.4**	**-**	**-**	**78.4**	**2.2**	**80.6**
Net investment hedges	26	**-**	**-**	**-**	**10.5**	**(41.3)**	**-**	**(30.8)**	**-**	**(30.8)**
Remeasurements on defined benefit post-retirement schemes	28	**-**	**-**	**(24.5)**	**-**	**-**	**-**	**(24.5)**	**-**	**(24.5)**
Tax on other comprehensive income/(expense)	11	**-**	**-**	**3.6**	**(4.3)**	**2.1**	**-**	**1.4**	**-**	**1.4**
Total other comprehensive income/(expense)		**-**	**-**	**(20.9)**	**84.6**	**(39.2)**	**-**	**24.5**	**2.2**	**26.7**
Total comprehensive income/(expense) for the year		**-**	**-**	**(47.2)**	**84.6**	**(39.2)**	**-**	**(1.8)**	**3.2**	**1.4**
Transactions with owners										
Dividends paid in the year	12	**-**	**-**	**(23.3)**	**-**	**-**	**-**	**(23.3)**	**(1.3)**	**(24.6)**
Share-based payments	29	**-**	**-**	**0.7**	**-**	**-**	**-**	**0.7**	**-**	**0.7**
Capital reduction	32	**-**	**(51.7)**	**117.6**	**-**	**-**	**(65.9)**	**-**	**-**	**-**
Total transactions with owners		**-**	**(51.7)**	**95.0**	**-**	**-**	**(65.9)**	**(22.6)**	**(1.3)**	**(23.9)**
At 31 August 2016		**48.5**	**-**	**159.2**	**76.8**	**(16.9)**	**-**	**267.6**	**11.1**	**278.7**

Notes to the Group financial statements

1. Significant accounting policies

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS IC interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Group financial statements are prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

After making enquiries, the directors have formed a judgement that there is a reasonable expectation the Group has adequate resources to continue in operational existence for the foreseeable future and for a period of at least 12 months from the date of this report. Accordingly, the Board has assessed that the going concern basis of accounting is appropriate in preparing the financial statements. In forming this view, the directors have reviewed the Group's budget and cash flow forecasts against availability of financing, including an assessment of sensitivities to changes in market conditions. In particular, the Group has sufficient existing bank facilities and cash balances to repay the private placement loan notes due in June 2017.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Except for the change detailed in note 3, there were no other new standards, amendments or interpretations adopted by the Group and effective for the first time for the year ended 31 August 2016 that have had a material impact on the Group.

A number of new standards, amendments or interpretations have been published but are not mandatory for the year ended 31 August 2016 and consequently have not yet been applied in preparing the financial statements.

IFRS 9 'Financial Instruments'

IFRS 9 covers the requirements for classification, measurement, impairment and hedge accounting. The standard is effective for accounting periods beginning on or after 1 January 2018. The Group is in the process of assessing the impact of this standard.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 establishes a single, comprehensive framework for revenue recognition, based on a five-step model. The standard is effective for accounting periods beginning on or after 1 January 2018. The Group is in the process of assessing the impact of this standard.

IFRS 16 'Leases'

IFRS 16 covers the requirements for the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for accounting periods beginning on or after 1 January 2019. The Group is in the process of assessing the impact of this standard.

No other standards, amendments or interpretations are expected to have a material impact on the Group.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of consolidation

The Group financial statements comprise the financial statements of Fenner PLC and subsidiaries controlled by the Group as at 31 August each year.

Subsidiaries

Subsidiary undertakings are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The acquisition of subsidiaries is accounted for using the acquisition method. The consideration for the acquisition is measured at the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued by the Group at the date of completion. Costs directly attributable to the acquisition are recognised in the income statement in the period in which they are incurred. The subsidiary's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the date of acquisition. Subsidiaries acquired or disposed of during the year are consolidated from the date that control is transferred or until control ceases respectively. Where necessary, the accounting policies of acquired subsidiaries are adjusted to bring them into line with those used by the Group.

Non-controlling interests in subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of acquisition and the non-controlling interest's share of changes in equity since the date of acquisition.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Foreign currencies

Functional and presentation currency

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which it operates (the functional currency). The Group financial statements are presented in pounds sterling, which is the presentation currency of the Group.

Transactions and balances

Transactions in currencies other than an entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities are retranslated at the rates prevailing on the balance sheet date.

Non-monetary items measured at historical cost are not retranslated. Exchange differences arising on the settlement and retranslation of monetary items are recognised in the income statement in the period.

Net investment in foreign operations

For the consolidation of operations where the functional currency is different to the Group's presentation currency, the assets and liabilities are translated at exchange rates prevailing on the balance sheet date and income and expenses are translated at the average exchange rates for the period. Exchange differences arising are recognised directly in equity in the exchange reserve. On disposal of such operations, the cumulative exchange differences are included in the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of that operation and are retranslated at the closing rate at each balance sheet date. The Group has adopted the transitional provisions of IFRS 1 'First-time Adoption of International Financial Reporting Standards' to not apply this to goodwill arising on acquisitions prior to 1 September 2004, the date of transition to IFRS.

Revenue recognition

Revenue is measured at the fair value of the consideration receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue from the sale of goods in both the AEP and ECS divisions is recognised when the significant risks and rewards of ownership have passed to the buyer. For domestic sales, revenue is principally recognised upon the despatch of goods. For export sales made under internationally accepted trade terms, revenue is recognised when the primary duties required to transfer risk, as stipulated in those terms, have been completed. Revenue from the provision of short-term services, which principally relate to the ECS division, is recognised in the period in which the services are completed.

Interest income

Interest income relates to bank interest or similar income and is recognised on an accruals basis using the effective interest method.

Notes to the Group financial statements continued

1. Significant accounting policies continued

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are included in property, plant and equipment at the lower of their fair value at the inception of the lease and the present value of the minimum lease payments. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Rentals payable under operating leases are recognised in the income statement on a straight-line basis over the term of the relevant lease.

Government grants

Government grants in respect of property, plant and equipment are treated as deferred income in the balance sheet and are recognised in the income statement over the expected useful life of the relevant asset. Government grants in respect of revenue expenditure are recognised in the income statement in the period in which the related expenditure is incurred.

Share-based payments

The Group operates equity-settled share schemes for certain employees. The cost of equity-settled share-based payments is measured at fair value at the date of grant, excluding the effect of non market-based vesting conditions. The cost is recognised in the income statement on a straight-line basis over the vesting period with the corresponding amount credited to equity, based on an estimate of the number of shares that will eventually vest. The estimate of the level of vesting is reviewed annually and the charge is adjusted accordingly in respect of non market-based vesting conditions. The fair values are measured using the Monte Carlo simulation approach.

Post-retirement benefits

The Group operates various pension schemes, including both defined benefit and defined contribution schemes.

For defined benefit schemes, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of scheme assets. The defined benefit obligation is calculated annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Current service costs, past service costs and administration expenses are recognised within operating costs in the income statement. Net interest costs, which are calculated by applying the discount rate to the net pension liability, are recognised as notional interest within finance costs in the income statement. Remeasurements, which represent the difference between the actual return on assets and the amount implied by the net interest cost, together with experience adjustments and changes in actuarial assumptions, are charged or credited to equity in other comprehensive income.

For defined contribution schemes, payments are recognised in the income statement as they are incurred. The Group has no further payment obligations once the contributions have been paid.

Some Group companies provide post-retirement healthcare benefits to their retirees. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension schemes. These obligations are valued annually by independent qualified actuaries.

Exceptional items

Exceptional items are items of income and expense which are material and, due to their nature or size, are presented separately on the face of the income statement in order to provide a better understanding of the Group's financial performance. Such exceptional items may include impairments of intangible or tangible assets, business restructuring costs, profits or losses arising from the disposal or closure of a business and adjustments to fair values in respect of acquisitions, such as changes to contingent consideration, together with the associated taxation.

Taxation

Current tax is the tax expected to be payable on taxable profit for the period using tax rates that have been enacted or substantively enacted by the balance sheet date, together with any adjustments in respect of previous years. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are not taxable or deductible or are taxable or deductible in other years.

Deferred tax is recognised using the liability method for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, unless specifically exempt. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is calculated using tax rates that are expected to apply in the period when the liability is settled or the asset realised. The resulting charge or credit is recognised in the income statement except when it relates to items recognised directly in equity, in which case the charge or credit is also recognised directly in equity.

Dividends

Dividends proposed by the Board are recognised in the financial statements when they have been approved by shareholders at the AGM. Interim dividends are recognised when they are paid.

Segmental reporting

Segmental information is reported in a manner consistent with the information provided to the Chief Operating Decision Maker. This information is used for allocating resources and assessing performance of the operating segments.

Property, plant and equipment

Property, plant and equipment is stated at historical cost or deemed cost less accumulated depreciation and any accumulated impairment losses.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use, including borrowing costs for qualifying assets. The Group has adopted the transitional provisions of IFRS 1 to record the previously revalued freehold land and buildings as deemed cost at 1 September 2004, the date of transition to IFRS.

Freehold land is not depreciated. Depreciation on other assets is recognised in the income statement to write down the value of the asset to its residual value on a straight-line basis over the estimated useful life of the asset from the date it is brought into use. Estimated useful lives most widely applied are as follows:

Freehold buildings	40 years
Leasehold buildings	Unexpired term of lease
Plant, machinery and equipment	3-10 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Assets under construction are not depreciated until commissioned.

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The carrying amount of goodwill is reviewed for impairment annually, or more frequently when events or changes in circumstances indicate that the carrying amount may be impaired. Any impairment is recognised in the income statement and is not subsequently reversed. Any excess of the Group's interest in the fair value of the identifiable assets and liabilities of the acquired entity over cost is recognised immediately in the income statement. On disposal of a subsidiary, the attributable amount of goodwill is included in the profit or loss on disposal.

Goodwill arising on acquisitions prior to 1 September 2004, the date of transition to IFRS, has been recorded at the previous UK GAAP carrying amount at that date, subject to any impairment required at that date. Goodwill written off to reserves under UK GAAP prior to 1998 continues to be included in reserves and is not included in any subsequent profit or loss on disposal.

Other intangible assets
Intangible assets acquired in a business combination are initially recognised at their fair value. Other intangible assets are initially recognised at cost. Intangible assets are subsequently stated at fair value or cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the asset. Estimated useful lives most widely applied are as follows:

Computer software	3-5 years
Brands and trademarks	3-20 years
Customer relationships	4-16 years
Technology based assets	5 years
Non-compete agreements	3-6 years

Impairment
The carrying amounts of goodwill and other intangible assets with indefinite useful lives are reviewed for impairment annually, or more frequently when events or changes in circumstances indicate that the carrying amount may be impaired. The carrying amount of property, plant and equipment and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Goodwill is allocated to those CGUs that are expected to benefit from the business combination in which the goodwill arose.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Any impairment loss is recognised in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss previously been recognised for the asset or CGU. Any reversal of an impairment loss is recognised in the income statement. Impairment losses on goodwill are not subsequently reversed.

Inventories
Inventories are stated at the lower of cost and net realisable value with allowance for obsolete or slow moving items. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Raw materials are generally determined on a first in, first out basis.

Financial assets
Financial assets are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Provision is made when there is objective evidence that the Group will not be able to collect all amounts due and this cost is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited to the income statement.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, deposits available on demand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. For the purposes of the cash flow statement, cash and cash equivalents also includes bank overdrafts as they are an integral part of the Group's cash management.

Financial liabilities
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade payables
Trade payables are obligations to pay for goods or services acquired from suppliers in the ordinary course of business. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings
Bank loans and overdrafts and other loans are initially measured at fair value less direct transaction costs. They are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments, including forward foreign currency contracts, options, currency swaps and non-derivative cash instruments, including foreign currency borrowings, to hedge its exposure to the financial risks of changes in foreign exchange rates or interest rates. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently measured at fair value at each balance sheet date.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity. Amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting or the ineffective portion of financial instruments that are designated and effective as hedges are recognised in the income statement as they are incurred.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument in equity at that time is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the cumulative gain or loss in equity is transferred to the income statement in the period.

Provisions
Provisions in respect of restructuring costs, property and environmental costs, contingent and deferred consideration on acquisition and redemption liability on acquisitions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material using a suitable pre-tax rate which matches the maturity of and risks associated with that liability.

Share capital
Ordinary shares are classified as equity. Equity instruments issued are recorded at the proceeds received net of directly attributable issue costs.

Notes to the Group financial statements continued

2. Critical accounting estimates and judgements

The preparation of financial statements requires management to make certain assumptions, estimates and judgements that may affect the reported amounts of assets, liabilities, income and expenses. These are based on historical experience and any other factors, including expectations of future events, that are considered appropriate and these are continually reviewed. Subsequent actual results may however differ from these estimates and judgements. Areas where assumptions, estimates and judgements may give rise to risk of material adjustments to the carrying values of assets and liabilities or reported results in the next financial year are as follows:

Impairment of goodwill and intangible assets acquired

Impairment testing for the carrying amount of goodwill and intangible assets acquired is based on estimated recoverable amounts of CGUs, based on value in use calculations. This is calculated using cash flow projections based on financial forecasts for a period of three years and, thereafter, extrapolated using estimated growth rates in the respective territories. Cash flows are discounted using an appropriate pre-tax cost of capital for each respective territory. See note 15.

Retirement benefit obligations

Retirement benefit obligations are based on actuarial valuations that use a number of assumptions. These include the discount rate, which is based on the interest rate of high quality corporate bonds denominated in the currency of the benefits and that have terms to maturity approximating to the terms of the related obligation, inflation rates, expected salary increases and mortality. See note 28.

Taxation

The Group is subject to taxation in various jurisdictions and uncertainties exist over the interpretation of the respective tax regulations and the ultimate determination by the tax authorities in those jurisdictions. Taxation is calculated based on the best estimates of amounts expected to be due. Where the final tax determination is different to the amounts initially recorded, they are subsequently adjusted in the period in which such determination is made. Deferred taxation is recognised based on the estimated likelihood that future taxable profits will be available against which temporary differences can be utilised. See notes 11 and 17.

Exceptional items and non-GAAP performance measures

Certain items of income and expense are classified as exceptional items due to their nature or size. These are presented separately on the face of the income statement in order to provide a better understanding of the Group's financial performance. Such exceptional items may include impairments of intangible or tangible assets, business restructuring costs, profits or losses arising from the disposal or closure of a business and adjustments to fair values in respect of acquisitions, such as changes to contingent consideration, together with the associated taxation. See note 8.

Exceptional items, together with amortisation of intangible assets acquired and notional interest, are excluded from underlying performance measures in order to present a more meaningful measure of the underlying performance of the business. These measures are consistent with how underlying business performance is measured internally.

Provisions

Provisions represent management's best estimate of expenditure required to settle obligations existing at the balance sheet date. For certain obligations within redemption liability on acquisitions, payments are contingent on the future performance of acquired businesses and this is estimated based on financial forecasts. Where the effect is material, obligations are discounted using suitable rates based on borrowings that match the maturity of the consideration being discounted. See note 30.

3. Changes in accounting policies

In March 2016, the IFRS IC issued an agenda decision in respect of the treatment of cash pooling arrangements clarifying in which circumstances these can be offset in accordance with IAS 32 'Financial Instruments: Presentation'. It was determined that where a Group does not expect to settle subsidiaries' bank balances on a net basis, these balances cannot be offset. In response to this, the Group has reviewed its cash pooling arrangements which has resulted in changes to the amounts that can be offset. Comparative information for the year ended 31 August 2015 has been restated. The impact of this change on 2015 is to increase both cash and cash equivalents and current borrowings in the Consolidated balance sheet by £6.9m. There was no overall impact on net debt or net assets.

4. Segment information

IFRS 8 'Operating Segments' requires segment information to be presented on the same basis as that used for internal management reporting.

For the purposes of managing the business, the Group is organised into two reportable segments: Advanced Engineered Products and Engineered Conveyor Solutions.

Advanced Engineered Products

AEP provides high value-added solutions using advanced polymeric materials in three related products areas:
- Advanced Sealing Technologies (seals for upstream/midstream oil & gas and petrochemicals; and seals for fluid power);
- Precision Polymers (precision belts for power transmission and motion control; elastomeric solutions; and specialist hoses); and
- Solesis Medical Technologies (biomedical textile components and biomaterials; and single-use products for blood management, bioprocessing and cell therapy).

Engineered Conveyor Solutions

ECS manufactures rubber ply, solid woven and steel cord heavyweight conveyor belt to the mining, industrial and bulk handling markets. ECS also provides related conveyor services such as maintenance, design and installation.

Operating segments within these reportable segments have been aggregated where they have similar economic characteristics with similar products and services, production processes, methods of distribution and customer types.

The Chief Operating Decision Maker ("CODM") for the purpose of IFRS 8 is the Board of Directors. The financial position of the segments is reported to the CODM on a monthly basis and this information is used to assess the performance of the Group and to allocate resources on an appropriate basis.

Segment performance is reviewed down to the operating profit level. Financing costs and taxation are managed on a Group basis so these costs are not allocated to operating segments.

Transfer prices on inter-segment revenues are on an arm's length basis in a manner similar to transactions with third parties.

Segment information for the years ended 31 August 2016 and 31 August 2015 is as follows:

	Advanced Engineered Products		Engineered Conveyor Solutions		Unallocated Corporate		Total	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 Restated (note 3) £m
Segment result								
Segment revenue	**250.7**	266.2	**321.8**	400.5	**-**	-	**572.5**	666.7
Operating profit before amortisation of intangible assets acquired and exceptional items	**29.9**	41.0	**14.2**	23.3	**(7.0)**	(7.9)	**37.1**	56.4
Amortisation of intangible assets acquired	**(6.3)**	(6.4)	**(4.7)**	(6.5)	**-**	-	**(11.0)**	(12.9)
Exceptional items	**(8.7)**	(13.6)	**(30.8)**	(20.8)	**(1.3)**	-	**(40.8)**	(34.4)
Operating (loss)/profit	**14.9**	21.0	**(21.3)**	(4.0)	**(8.3)**	(7.9)	**(14.7)**	9.1
Net finance costs							**(15.6)**	(14.4)
Taxation							**5.0**	(4.4)
Loss for the year							**(25.3)**	(9.7)
Segment assets								
Property, plant and equipment	**81.8**	72.0	**146.0**	135.4	**1.0**	1.0	**228.8**	208.4
Intangible assets	**134.3**	126.1	**44.0**	62.4	**-**	-	**178.3**	188.5
Inventories	**32.2**	31.2	**43.1**	44.8	**-**	-	**75.3**	76.0
Trade and other receivables	**40.3**	41.6	**61.8**	61.9	**2.8**	1.7	**104.9**	105.2
Assets held for sale	**2.2**	-	**-**	-	**-**	-	**2.2**	-
Intra-group receivables	**0.1**	0.1	**0.1**	0.1	**(0.2)**	(0.2)	**-**	-
Total segment assets	**290.9**	271.0	**295.0**	304.6	**3.6**	2.5	**589.5**	578.1
Unallocated assets							**130.8**	137.0
Total assets							**720.3**	715.1
Segment liabilities								
Trade and other payables	**35.4**	37.6	**75.1**	70.9	**7.8**	6.1	**118.3**	114.6
Liabilities held for sale	**1.0**	-	**-**	-	**-**	-	**1.0**	-
Intra-group payables	**1.4**	1.2	**1.5**	0.7	**(2.9)**	(1.9)	**-**	-
Total segment liabilities	**37.8**	38.8	**76.6**	71.6	**4.9**	4.2	**119.3**	114.6
Unallocated liabilities							**322.3**	299.3
Total liabilities							**441.6**	413.9
Other segment information								
Capital expenditure	**11.3**	23.4	**4.8**	4.7	**-**	-	**16.1**	28.1
Depreciation and amortisation	**10.3**	9.0	**13.8**	14.3	**0.1**	0.1	**24.2**	23.4
Impairment of non-current assets	**4.1**	10.1	**23.8**	16.0	**-**	-	**27.9**	26.1
Property, plant and equipment and intangible assets on acquisition	**(0.1)**	18.5	**-**	-	**-**	-	**(0.1)**	18.5

Unallocated assets comprise deferred tax assets, derivative financial assets, current tax assets and cash and cash equivalents. Unallocated liabilities comprise borrowings, current tax liabilities, derivative financial liabilities, provisions, retirement benefit obligations and deferred tax liabilities.

Capital expenditure includes finance leases. Amortisation excludes amortisation of intangible assets acquired.

Notes to the Group financial statements continued

4. Segment information continued

Geographical disclosures

The Group operates in four main geographical areas: United Kingdom; Rest of Europe, Middle East and Africa; Americas; and Asia Pacific.

Geographical information for the years ended 31 August 2016 and 31 August 2015 is as follows:

	Revenue		Non-current assets		Capital expenditure	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
United Kingdom	**17.7**	21.1	**26.1**	30.4	**1.5**	0.9
Rest of Europe, Middle East and Africa	**107.4**	118.1	**42.1**	40.7	**2.0**	6.4
Americas	**268.7**	329.6	**217.8**	223.5	**9.7**	18.2
Asia Pacific	**178.7**	197.9	**121.1**	102.3	**2.9**	2.6
	572.5	666.7	**407.1**	396.9	**16.1**	28.1

Revenue is based on the region in which the customer is located. Non-current assets and capital expenditure are based on the region in which the assets are located. Non-current assets exclude deferred tax assets and derivative financial assets.

No individual customer or group of customers represent more than 10% of Group revenue.

5. Revenue

Revenue is analysed as follows:

	2016 £m	2015 £m
Sales of goods	**500.6**	585.8
Provision of short-term services	**71.9**	80.9
	572.5	666.7

6. Operating (loss)/profit

Operating (loss)/profit has been arrived at after charging/(crediting):

	2016 £m	2015 £m
Material cost of sales	**192.5**	236.9
Aggregate employment costs	**208.5**	230.0
Depreciation of property, plant and equipment	**22.5**	21.9
Amortisation of intangible assets acquired	**11.0**	12.9
Amortisation of other intangible assets	**1.7**	1.5
Impairment of property, plant and equipment (note 8)	**2.9**	1.6
Impairment of goodwill and intangible assets acquired (note 8)	**25.0**	24.5
Other exceptional items (note 8)	**12.9**	8.3
Foreign exchange losses	**0.2**	0.2
Profit on disposal of property, plant and equipment	**(0.4)**	(0.3)
Research and development costs	**3.8**	3.6
Operating lease charges	**10.3**	11.0

Total fees payable by the Group to PricewaterhouseCoopers LLP for work performed in respect of the audit and other services provided to the Company and its subsidiary undertakings during the year are as follows:

	2016 £m	2015 £m
Fees payable to the Company's auditors for the audit of the Company and Group financial statements	**0.1**	0.1
Fees payable to the Company's auditors for other services to the Company's subsidiary undertakings:		
- audit	**0.7**	0.7
- other non-audit services	**0.1**	0.1

Further details of non-audit services can be found in the Audit Committee Report on page 41. In addition, fees for actuarial and audit services of less than £0.1m (2015: less than £0.1m) were borne by the Fenner Pension Scheme.

7. Employees

Aggregate employment costs are as follows:

	2016 £m	2015 £m
Wages and salaries	180.4	198.8
Social security costs	17.9	18.8
Pension costs - defined contribution schemes	8.9	9.7
Pension costs - defined benefit schemes	0.8	2.1
Share-based payments	0.5	0.6
	208.5	230.0

The average monthly number of employees during the year, including executive directors, is as follows:

	2016	2015
Production	3,326	3,690
Selling and distribution	531	602
Administration	673	784
	4,530	5,076

Information on directors' remuneration is included in the audited part of the Board Remuneration Report on pages 53 to 57.

8. Exceptional items

	2016 £m	2015 £m
Charged to operating profit		
Impairment of goodwill and intangible assets acquired	25.0	24.5
Restructuring costs	15.8	9.9
	40.8	34.4
Credited to taxation		
Taxation on exceptional items	(7.1)	(4.5)

Exceptional items comprise £8.7m in respect of AEP, £30.8m in respect of ECS and £1.3m in respect of corporate activities.

Impairment of goodwill and intangible assets acquired

The impairment of goodwill and intangible assets acquired relates to Mandals (£4.1m) and ECS Conveyor Services (Americas) (£20.9m). The impairments were triggered by a reduction in the projected cash flows in these cash-generating units. Further details on impairment can be found in note 15.

Restructuring costs

Restructuring costs relate to severance, asset impairments, onerous contracts and other costs in connection with restructuring programmes across the Group, principally: the restructuring programme in ECS Americas following the continuing difficult conditions in the US coal mining sector which included the closure of the majority of the belt manufacturing facility at Port Clinton, Ohio and the fabricated products operation at Allison, Pennsylvania; the closure of the two UK-based CDI Energy Products operations, which operated in the European oil & gas sector, with partial relocation of production to other global CDI locations; certain restructuring within the Precision Polymers businesses; and restructuring within the corporate headquarters.

At 31 August 2016, £8.1m had been paid in cash, with £3.2m held in provisions and payable after the year end, £2.9m provided in respect of impairment of property, plant and equipment, £0.4m provided in respect of impairment of inventories, £1.0m provided in respect of impairment of receivables and £0.2m credited to equity. The impairments of property, plant and equipment and inventories are all within ECS and principally relate to the closures at Port Clinton and Allison.

In addition, cash payments of £2.3m were made in the year in respect of prior year exceptional items.

Exceptional items are classified within administrative expenses (£33.3m), cost of sales (£7.1m) and distribution costs (£0.4m) in the Consolidated income statement.

9. Finance income

	2016 £m	2015 £m
Bank interest receivable	0.5	0.5

Notes to the Group financial statements continued

10. Finance costs

	2016 £m	2015 £m
Interest payable on bank overdrafts and loans	3.4	4.4
Interest payable on other loans	11.2	10.4
	14.6	14.8
Less amounts capitalised on qualifying assets	(0.2)	(0.4)
Interest payable	14.4	14.4
Net interest on defined benefit post-retirement schemes (note 28)	0.8	1.0
Interest on the unwinding of discount on provisions (note 30)	0.8	1.1
Finance charge/(credit) on redemption liability (note 30)	0.1	(1.6)
Notional interest	1.7	0.5
Total finance costs	16.1	14.9

11. Taxation

	2016 £m	2015 £m
Current taxation		
UK corporation tax:		
- current year	0.8	0.4
- double tax relief	(0.4)	(0.4)
	0.4	-
Overseas tax:		
- current year	(0.2)	6.2
- adjustments in respect of prior years	0.5	(0.8)
	0.3	5.4
	0.7	5.4
Deferred taxation		
Origination and reversal of temporary differences:		
UK:		
- current year	(0.5)	(0.7)
- adjustments in respect of prior years	(0.3)	0.2
Overseas:		
- current year	(4.8)	(1.3)
- adjustments in respect of prior years	(0.1)	0.8
	(5.7)	(1.0)
Total taxation	(5.0)	4.4

The taxation (credit)/charge includes a credit of £7.1m (2015: £4.5m) in respect of exceptional items, £3.6m (2015: £2.5m) in respect of the amortisation of intangible assets acquired and £0.2m (2015: £0.2m) in respect of notional interest.

The main rate of UK corporation tax reduced from 21% to 20% on 1 April 2015. UK corporation tax is calculated at an average rate of 20.0% (2015: 20.6%) of the estimated assessable profit for the year. Overseas tax is calculated at the rates prevailing in the respective jurisdictions.

The (credit)/charge for the year and effective tax rate can be reconciled to the loss per the income statement as follows:

	2016 £m	2015 £m
Loss before taxation	(30.3)	(5.3)
Taxation at the average UK corporation tax rate of 20.0% (2015: 20.6%)	(6.1)	(1.1)
Expenses/income not allowable/taxable in determining taxable profit	(6.9)	(0.3)
Adjustments in respect of prior years	0.1	0.2
Effect of overseas tax rates	0.8	(0.8)
Losses arising and other temporary differences not recognised in deferred tax	7.1	6.4
Total taxation	(5.0)	4.4

Taxation recognised directly in equity comprises a deferred taxation credit of £1.4m (2015: charge of £2.2m). This relates to a credit of £3.7m (2015: charge of £0.1m) in respect of remeasurements on defined benefit post-retirement schemes, a credit of £2.1m (2015: charge of £2.3m) in respect of cash flow and net investment hedges, a charge of £4.3m (2015: £nil) in respect of exchange differences and other net charges of £0.1m (2015: credits of £0.3m), recognised in other comprehensive income, and other net charges of £nil (2015: £0.1m), recognised in transactions with owners.

12. Dividends

	2016 £m	2015 £m
Dividends paid or approved in the year		
Interim dividend for the year ended 31 August 2015 of 4.0p (2014: 4.0p) per share	7.8	7.8
Final dividend for the year ended 31 August 2015 of 8.0p (2014: 8.0p) per share	15.5	15.5
	23.3	23.3
Dividends neither paid nor approved in the year		
Interim dividend for the year ended 31 August 2016 of 1.0p (2015: 4.0p) per share	1.9	7.8
Final dividend for the year ended 31 August 2016 of 2.0p (2015: 8.0p) per share	3.9	15.5
	5.8	23.3

The interim dividend for the year ended 31 August 2016 was paid on 7 September 2016. The proposed final dividend for the year ended 31 August 2016 is subject to approval by shareholders at the AGM. Consequently, neither has been recognised as liabilities at 31 August 2016. If approved, the final dividend will be paid on 9 March 2017 to shareholders on the register on 27 January 2017.

13. Earnings/(loss) per share

	2016 £m	2015 £m
Earnings/(loss)		
Loss for the year attributable to owners of the parent	(26.3)	(10.5)
Amortisation of intangible assets acquired	11.0	12.9
Exceptional items	40.8	34.4
Notional interest	1.7	0.5
Taxation attributable to amortisation of intangible assets acquired, exceptional items and notional interest and exceptional tax credit (note 11)	(10.9)	(7.2)
Profit for the year before amortisation of intangible assets acquired, exceptional items and notional interest	16.3	30.1
	number	number
Average number of shares		
Weighted average number of shares in issue	194,002,741	194,002,741
Weighted average number of shares held by the Employee Share Ownership Plan Trust	(114,177)	(114,177)
Weighted average number of shares in issue - basic and diluted	193,888,564	193,888,564
	pence	pence
Earnings/(loss) per share		
Underlying - Basic (before amortisation of intangible assets acquired, exceptional items and notional interest)	8.4	15.5
Underlying - Diluted (before amortisation of intangible assets acquired, exceptional items and notional interest)	8.4	15.5
Basic	(13.6)	(5.4)
Diluted	(13.6)	(5.4)

Underlying earnings/(loss) per share measures have been presented to provide a more meaningful measure of the underlying performance of the Group.

Notes to the Group financial statements continued

14. Property, plant and equipment

	Freehold land and buildings £m	Leasehold land and buildings £m	Plant, machinery and equipment £m	Assets under construction £m	Total £m
Cost					
At 1 September 2014	85.3	20.0	285.1	8.8	399.2
Additions	13.9	0.7	8.1	5.8	28.5
Acquisition of businesses	-	0.3	1.0	-	1.3
Disposals	(0.6)	-	(2.1)	-	(2.7)
Transfers from assets under construction	3.0	-	4.3	(7.3)	-
Reclassifications	3.2	(3.2)	-	-	-
Exchange movements	(2.7)	1.0	(10.5)	0.4	(11.8)
At 1 September 2015	**102.1**	**18.8**	**285.9**	**7.7**	**414.5**
Additions	**4.7**	**-**	**5.9**	**2.2**	**12.8**
Disposals	**(0.9)**	**(0.1)**	**(6.5)**	**-**	**(7.5)**
Transfers from assets under construction	**4.7**	**-**	**2.3**	**(7.0)**	**-**
Transfers to assets held for sale (note 37)	**-**	**(0.1)**	**(0.9)**	**-**	**(1.0)**
Reclassifications	**(0.3)**	**0.2**	**0.1**	**-**	**-**
Exchange movements	**18.5**	**2.6**	**47.2**	**0.7**	**69.0**
At 31 August 2016	**128.8**	**21.4**	**334.0**	**3.6**	**487.8**
Accumulated depreciation and impairment					
At 1 September 2014	18.4	8.4	162.3	-	189.1
Depreciation charge for the year	2.0	1.3	18.6	-	21.9
Impairment charge	0.1	-	1.5	-	1.6
Disposals	(0.2)	-	(2.1)	-	(2.3)
Reclassifications	1.0	(1.0)	-	-	-
Exchange movements	(0.3)	0.5	(4.4)	-	(4.2)
At 1 September 2015	**21.0**	**9.2**	**175.9**	**-**	**206.1**
Depreciation charge for the year	**2.6**	**1.4**	**18.5**	**-**	**22.5**
Impairment charge	**0.9**	**-**	**2.0**	**-**	**2.9**
Disposals	**-**	**(0.1)**	**(5.9)**	**-**	**(6.0)**
Transfers to assets held for sale (note 37)	**-**	**(0.1)**	**(0.7)**	**-**	**(0.8)**
Exchange movements	**3.5**	**1.6**	**29.2**	**-**	**34.3**
At 31 August 2016	**28.0**	**12.0**	**219.0**	**-**	**259.0**
Net book value					
At 31 August 2016	**100.8**	**9.4**	**115.0**	**3.6**	**228.8**
At 31 August 2015	81.1	9.6	110.0	7.7	208.4
At 31 August 2014	66.9	11.6	122.8	8.8	210.1

The net book value of plant, machinery and equipment includes an amount of £1.7m (2015: £1.8m) in respect of assets held under finance leases.

The net book value includes capitalised borrowing costs for qualifying assets of £1.0m (2015: £0.8m).

Borrowings of £0.3m (2015: £0.3m) are secured on freehold land and buildings.

At 31 August 2016, the Group had entered into contractual commitments for the purchase of property, plant and equipment amounting to £1.0m (2015: £3.7m).

Depreciation is classified within cost of sales (£20.7m), administrative expenses (£1.4m) and distribution costs (£0.4m) in the Consolidated income statement.

15. Intangible assets

	Goodwill £m	Intangible assets acquired: Brands and trademarks £m	Customer relationships £m	Non-compete agreements £m	Other £m	Computer software £m	Total £m
Cost							
At 1 September 2014	141.0	23.8	130.6	7.1	3.1	11.3	316.9
Additions	-	-	-	-	-	2.2	2.2
Acquisition of businesses	5.4	3.3	8.5	-	-	-	17.2
Disposals	-	-	-	-	-	(0.1)	(0.1)
Exchange movements	(3.6)	-	(1.1)	-	-	-	(4.7)
At 1 September 2015	**142.8**	**27.1**	**138.0**	**7.1**	**3.1**	**13.4**	**331.5**
Additions	**-**	**-**	**-**	**-**	**-**	**1.1**	**1.1**
Acquisition of businesses (note 36)	**(0.1)**	**-**	**-**	**-**	**-**	**-**	**(0.1)**
Disposals	**(8.1)**	**(1.0)**	**(31.9)**	**(2.6)**	**(0.4)**	**(0.9)**	**(44.9)**
Exchange movements	**20.5**	**4.4**	**22.8**	**0.9**	**0.4**	**2.2**	**51.2**
At 31 August 2016	**155.1**	**30.5**	**128.9**	**5.4**	**3.1**	**15.8**	**338.8**
Accumulated amortisation and impairment							
At 1 September 2014	18.8	11.3	61.8	4.2	2.9	5.4	104.4
Amortisation charge for the year	-	2.5	9.2	1.0	0.2	1.5	14.4
Impairment charge	8.4	0.4	14.9	0.8	-	-	24.5
Disposals	-	-	-	-	-	(0.1)	(0.1)
Exchange movements	(0.8)	0.1	0.8	-	-	(0.3)	(0.2)
At 1 September 2015	**26.4**	**14.3**	**86.7**	**6.0**	**3.1**	**6.5**	**143.0**
Amortisation charge for the year	**-**	**2.4**	**8.0**	**0.6**	**-**	**1.7**	**12.7**
Impairment charge	**16.6**	**0.9**	**7.5**	**-**	**-**	**-**	**25.0**
Disposals	**(8.1)**	**(1.0)**	**(31.9)**	**(2.6)**	**(0.4)**	**(0.9)**	**(44.9)**
Exchange movements	**5.3**	**2.6**	**14.4**	**0.8**	**0.4**	**1.2**	**24.7**
At 31 August 2016	**40.2**	**19.2**	**84.7**	**4.8**	**3.1**	**8.5**	**160.5**
Net book value							
At 31 August 2016	**114.9**	**11.3**	**44.2**	**0.6**	**-**	**7.3**	**178.3**
At 31 August 2015	116.4	12.8	51.3	1.1	-	6.9	188.5
At 31 August 2014	122.2	12.5	68.8	2.9	0.2	5.9	212.5

Other intangible assets acquired relates to order book, leases and technology based assets.

All intangible assets have finite useful lives except for goodwill.

The remaining useful lives at 31 August 2016 are approximately 8 to 12 years in respect of brands and trademarks, 3 to 14 years in respect of customer relationships and 1 year in respect of non-compete agreements.

Amortisation is classified within administrative expenses in the Consolidated income statement.

Notes to the Group financial statements continued

15. Intangible assets continued

Impairment testing for goodwill

Goodwill acquired through business combinations is allocated at acquisition to the Group's cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill is allocated to CGUs as follows:

	2016 £m	2015 £m
Advanced Engineered Products		
Fenner Advanced Sealing Technologies (Fluid Power)	**28.3**	25.3
Fenner Advanced Sealing Technologies (Process)	**18.6**	15.9
American Industrial Plastics	**10.3**	8.8
Transeals	**3.3**	2.6
CDI Singapore	**1.1**	0.9
EGC	**0.8**	0.7
Fenner Drives (US)	**4.1**	3.5
Dawson Hose (UK)	**-**	2.2
Mandals	**-**	1.5
Secant Group	**8.7**	7.4
Charter Medical	**6.0**	5.2
	83.4	74.0
Engineered Conveyor Solutions		
ECS (Americas, Europe and Australia)	**14.2**	14.2
ECS (UK & India)	**1.5**	1.5
ECS Conveyor Services (Americas)	**-**	14.0
BBCS / LECS	**10.9**	8.8
Statewide Belting Service	**4.9**	3.9
	31.5	42.4
Total goodwill	**114.9**	116.4

The carrying amount of goodwill is reviewed for impairment annually, or more frequently when events or changes in circumstances indicate that the carrying amounts may be impaired. In addition, the carrying amounts of intangible assets acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may be impaired. The recoverable amounts of CGUs are based on value in use calculations using cash flow projections discounted to calculate the net present value. The key assumptions used to determine the value in use relate to profits derived from sales volumes, selling prices and costs, growth rates and pre-tax discount rates.

Cash flow projections

Cash flow projections are based on the most recent annual budgets and financial forecasts for a period of three years which have been approved by Group management. The principal components of these forecasts: sales volumes, selling prices and costs, are based on recent history, current trading conditions and expected future changes in operating conditions.

Growth rates

Cash flows beyond the three year period are extrapolated using estimated long-term growth rates in the respective territories based on data from the IMF. These growth rates range from 2.1% to 4.9%.

Discount rates

Cash flows are discounted to net present value using an appropriate pre-tax cost of capital for each respective territory based on data from external sources. The use of localised discount rates more accurately reflects the risk and rewards of operating in different geographical territories. These discount rates range from 9.6% to 14.8%.

The above assumptions apply to all of the Group's CGUs.

The methodology for impairment testing is consistent with that adopted in the year ended 31 August 2015.

Impairment charges in the year are recognised in the Consolidated income statement within exceptional items. These are as follows:

		Intangible assets acquired			
	Discount rate	Goodwill £m	Brands and trademarks £m	Customer relationships £m	Total £m
Advanced Engineered Products					
Mandals	11.0%	1.6	0.1	2.4	4.1
Engineered Conveyor Solutions					
ECS Conveyor Services (Americas)	13.5%	15.0	0.8	5.1	20.9
Total impairment charge		**16.6**	**0.9**	**7.5**	**25.0**

Mandals manufactures lay flat hoses for use in demanding applications including in the exploitation of shale oil & gas reserves. The impairment resulted from the continuing low oil and gas prices which has had a significant impact on Mandals end markets and, as a result, on its actual and forecast cash flows. This has resulted in the recognition of an impairment charge totalling £4.1m.

ECS Conveyor Services (Americas) provides a wide range of services principally to the US coal and Chilean copper mining markets. The impact of continuing low energy prices on the US coal mining industry and low commodity prices have reduced customer expenditures. This has led to reductions in actual and projected cash flows from the previous year, resulting in the recognition of impairment charges totalling £20.9m.

Neither of the CGUs impaired in the year have any remaining carrying value of goodwill or intangible assets acquired. No impairment has been identified in relation to any of the other CGUs.

Whilst management believes that the assumptions used in testing for impairments are realistic, it is possible that variations in key assumptions could affect the recoverable amount of CGUs. A sensitivity analysis has been performed by varying key assumptions individually whilst holding other variables constant.

A summary of the CGUs with the lowest headroom, where a reasonably possible change in key assumptions could occur, together with the required variance to cash flows, growth rates and discount rates, beyond which an impairment would be triggered, is provided below.

	Cash flow	Growth rate		Discount rate		Goodwill and intangible assets acquired as at 31 August 2016 £m
	Sensitivity (decrease)	Current assumption	Sensitivity (pcp decrease)	Current assumption	Sensitivity (pcp increase)	
Statewide Belting Service	6.6%	2.8%	0.8	12.3%	0.7	8.4
American Industrial Plastics	22.4%	2.2%	3.0	12.8%	2.5	19.4

Headroom is the excess of the recoverable amount over the carrying value of the CGU and is illustrated in the cash flow sensitivity column above.

To calculate the cash flow sensitivity, the decrease has been applied to each of the first three years of the cash flow projections used and then extrapolated using estimated growth rates in the respective territories.

Notes to the Group financial statements continued

16. Other investments

	£m
Cost	
At 1 September 2014, 1 September 2015 and **at 31 August 2016**	**0.5**
Accumulated impairment	
At 1 September 2014, 1 September 2015 and **at 31 August 2016**	**0.5**
Net book value	
At 31 August 2016, at 31 August 2015 and at 31 August 2014	**-**

17. Deferred tax

Deferred tax assets/(liabilities) are attributable to the following:

	Assets		Liabilities		Net	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Property, plant and equipment	**3.7**	3.9	**(11.3)**	(11.7)	**(7.6)**	(7.8)
Intangible assets	**12.6**	9.7	**(5.9)**	(8.1)	**6.7**	1.6
Retirement benefit obligations	**10.0**	6.0	**-**	-	**10.0**	6.0
Taxation losses	**0.7**	2.8	**-**	-	**0.7**	2.8
Fixed asset revaluation	**-**	-	**(0.5)**	(0.5)	**(0.5)**	(0.5)
Other short-term temporary differences	**14.3**	11.9	**(3.0)**	(0.4)	**11.3**	11.5
Offset between assets and liabilities	**(13.2)**	(13.5)	**13.2**	13.5	**-**	-
	28.1	20.8	**(7.5)**	(7.2)	**20.6**	13.6

Movements in net deferred tax assets/(liabilities) are as follows:

	Property, plant and equipment £m	Intangible assets £m	Retirement benefit obligations £m	Taxation losses £m	Fixed asset revaluation £m	Other temporary differences £m	Total £m
At 1 September 2014	(6.4)	(5.4)	6.9	4.1	(0.8)	15.1	13.5
(Charged)/credited to income statement	(0.8)	4.9	(0.7)	(1.2)	-	(1.2)	1.0
(Charged)/credited to equity	-	-	(0.1)	-	0.3	(2.4)	(2.2)
Acquisition of businesses	-	0.2	-	-	-	-	0.2
Exchange differences	(0.6)	1.9	(0.1)	(0.1)	-	-	1.1
At 1 September 2015	**(7.8)**	**1.6**	**6.0**	**2.8**	**(0.5)**	**11.5**	**13.6**
(Charged)/credited to income statement	**1.4**	**4.5**	**(0.1)**	**(0.2)**	**-**	**0.1**	**5.7**
(Charged)/credited to equity	**-**	**(0.2)**	**3.7**	**-**	**-**	**(2.1)**	**1.4**
Transfers to current taxation	**-**	**-**	**-**	**(2.2)**	**-**	**-**	**(2.2)**
Reclassifications	**0.3**	**-**	**-**	**-**	**-**	**(0.3)**	**-**
Exchange differences	**(1.5)**	**0.8**	**0.4**	**0.3**	**-**	**2.1**	**2.1**
At 31 August 2016	**(7.6)**	**6.7**	**10.0**	**0.7**	**(0.5)**	**11.3**	**20.6**

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset of current tax and there is an intention to settle the balances net. Deferred tax assets have not been recognised in respect of certain tax losses amounting to £12.6m (2015: £8.6m) and intangible assets of £3.1m (2015: £nil) since it is not envisaged that such profits will be available in the foreseeable future. In addition, deferred tax assets have not been recognised in respect of UK capital losses of £0.4m (2015: £0.4m) since it is not envisaged that suitable capital gains will be available in the foreseeable future.

Deferred tax liabilities have not been recognised on the undistributed earnings of subsidiaries because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate of temporary differences in respect of this is £1.1m (2015: £1.4m).

18. Inventories

	2016 £m	2015 £m
Raw materials	**24.2**	25.0
Work in progress	**13.4**	13.3
Finished goods	**37.7**	37.7
	75.3	76.0

Inventories are presented net of provision for inventory write downs, based on management's estimate of the net realisable value of inventories. The amount charged to the income statement in the year in respect of write downs of inventories is £7.1m (2015: £5.2m). The amount credited to the income statement in the year in respect of reversals of write downs of inventories is £1.5m (2015: £1.0m), principally resulting from the subsequent sale of inventory previously provided for. These amounts are classified within cost of sales in the Consolidated income statement. The cost of inventories recognised as an expense in the year is £371.6m (2015: £432.0m).

19. Trade and other receivables

	2016 £m	2015 £m
Trade receivables	**92.5**	95.4
Other receivables	**5.7**	3.9
Prepayments and accrued income	**6.7**	5.9
	104.9	105.2

Trade receivables are presented net of provision for impairment of trade receivables of £6.3m (2015: £4.2m), estimated by management based on past default experience and other factors as considered appropriate.

Movements in the provision for impairment of trade receivables are as follows:

	2016 £m	2015 £m
At start of year	**4.2**	3.0
New provisions charged to income statement during the year	**3.2**	1.5
Provisions not required credited to income statement during the year	**(0.5)**	(0.1)
Provisions utilised during the year	**(1.0)**	(0.2)
Exchange movements	**0.4**	-
At end of year	**6.3**	4.2

New provisions and provisions not required are classified within administrative expenses in the Consolidated income statement.

The ageing analysis of trade receivables not impaired, based on the due date, is as follows:

	2016 £m	2015 £m
Not overdue	**79.3**	75.0
Less than one month	**10.6**	13.6
Between one and two months	**1.7**	3.6
Between two and three months	**0.3**	2.3
Between three and six months	**0.6**	0.9
	92.5	95.4

Trade and other receivables are non-interest bearing. There is no material difference between the carrying amount and fair value of trade and other receivables.

20. Cash and cash equivalents

	2016 £m	2015 Restated (note 3) £m
Cash at bank and in hand	**76.5**	67.2
Short-term deposits	**18.4**	32.9
	94.9	100.1

Cash at bank and short-term deposits earn interest at floating rates based on bank deposit rates. Short-term deposits have an original maturity of three months or less. There is no material difference between the carrying amount and fair value of cash and cash equivalents.

Notes to the Group financial statements continued

21. Reconciliation of net cash flow to movement in net debt

	2016 £m	2015 £m
Net decrease in cash and cash equivalents	(19.6)	(7.7)
Net decrease/(increase) in borrowings resulting from cash flows	29.1	(8.9)
Movement in net debt resulting from cash flows	9.5	(16.6)
Finance leases	(0.8)	(0.7)
Exchange movements	(20.7)	(3.4)
Movement in net debt in the year	(12.0)	(20.7)
Net debt at start of year	(138.0)	(117.3)
Net debt at end of year	(150.0)	(138.0)

Net debt comprises cash and cash equivalents of £94.9m (2015: £100.1m restated - note 3), current borrowings of £76.7m (2015: £46.8m restated - note 3) and non-current borrowings of £168.2m (2015: £191.3m).

22. Financial risk management

In the normal course of business, the Group is exposed to certain financial risks, principally foreign exchange risk, interest rate risk, liquidity risk and credit risk. These risks are managed by the central treasury function in conjunction with the operating units, in accordance with risk management policies that are designed to minimise the potential adverse effects of these risks on financial performance. The policies are reviewed and approved by the Board.

Foreign exchange risk

The Group has operations around the world and is therefore exposed to foreign exchange risk arising from net investments in foreign operations. Where cost effective, the exposures arising from the translation of the net assets of the Group's foreign operations are managed through the use of borrowings or cross-currency swaps in the relevant foreign currency.

Some Group operations also enter into commercial transactions in currencies other than their functional currencies. Exposures arising from the translation of foreign currency transactions are continually monitored and material exposures are managed through the use of forward contracts or options once cash flows can be identified with sufficient certainty. Exposures arising from the translation of intra-group lending are managed through the use of borrowings in the relevant foreign currency.

The following table shows the impact (due to the retranslation of non-functional currency monetary assets and liabilities in the Group's operations) of a, reasonably possible, 10% movement in the Group's principal foreign currency exchange rates at the year end date.

	10% increase		10% decrease	
	Effect on profit before taxation £m	Effect on shareholders' equity £m	Effect on profit before taxation £m	Effect on shareholders' equity £m
31 August 2016				
US dollar	(0.3)	12.2	0.4	(15.0)
Euro	(0.3)	(1.1)	0.3	1.4
Norwegian krone	-	1.7	-	(2.1)
Chinese renminbi	0.1	0.8	(0.1)	(1.0)
31 August 2015				
US dollar	(0.2)	8.7	0.3	(10.6)
Euro	(0.2)	1.2	0.3	(1.5)
Australian dollar	-	6.0	-	(7.3)

The effect on profit before taxation is due to the retranslation of trade receivables, cash and cash equivalents, borrowings, trade payables and derivative financial assets and liabilities denominated in non-functional currencies. The effect on shareholders' equity is due to the effect on profit as well as the effect of financial assets and liabilities denominated in foreign currencies qualified as either cash flow hedges or net investment hedges.

Further details of the currency profile of borrowings are given in note 24.

Interest rate risk

The Group's exposure to interest rate risk arises on floating rate borrowings and cash and cash equivalents. This is reviewed regularly and is managed through the use of an appropriate mix of fixed rate and floating rate instruments in response to market conditions.

The impact of interest rate risk on the Group's result is due to changes in interest rates on net floating rate cash and cash equivalents and borrowings. At 31 August 2016, if interest rates on the Group's net floating rate cash and cash equivalents and borrowings had been 100 basis points higher, a reasonably possible movement, with all other variables held constant, the effect on profit before taxation in the year would have been a credit of £0.7m (2015: £0.5m). A reduction of 100 basis points would have the equal and opposite effect. There is no further impact on shareholders' equity.

Further details of the interest rate profile of borrowings are given in note 24.

Liquidity risk

The Group manages its liquidity risk to ensure that sufficient resources are available for both short-term working capital and longer-term strategic requirements. This is achieved through an appropriate mix of long and short-term borrowings and, as far as possible, the major part of the Group's total borrowings are managed so that they are drawn down using committed debt facilities which would not mature for at least one year. The Group's principal loan facilities are raised and managed centrally but are supplemented by local overdraft and working capital facilities. Committed debt facilities principally comprise revolving bank credit facilities and private placements.

The Group regularly monitors expected cash flows against availability of financing. Regular updating of business forecasts, including cash flows, is a process embedded into the Group's internal financial reporting routines. Forecasts are initially carried out at an individual operating unit level, but are consolidated and reviewed by Group management. The availability of financing, headroom over existing facilities and forward compliance with financial covenants are monitored against expected cash flows. The process takes into account the shorter-term liquidity needs of individual operating units or territories as well as the availability of funding to fulfil longer-term strategic objectives such as major capital expenditure or business acquisitions.

The maturity profile of non-derivative financial liabilities is as follows:

	Less than one year £m	Between one and five years £m	More than five years £m	Total £m
31 August 2016				
Trade and other payables (excluding statutory liabilities)	**113.8**	**0.8**	**-**	**114.6**
Bank overdrafts	**4.9**	**-**	**-**	**4.9**
Bank loans	**16.9**	**-**	**-**	**16.9**
Other loans	**80.8**	**32.4**	**167.3**	**280.5**
Finance leases	**0.8**	**0.8**	**-**	**1.6**
	217.2	**34.0**	**167.3**	**418.5**
31 August 2015				
Trade and other payables (excluding statutory liabilities)	110.0	0.7	-	110.7
Bank overdrafts	7.0	-	-	7.0
Bank loans	17.4	27.9	-	45.3
Other loans	10.3	89.4	150.0	249.7
Finance leases	0.8	0.7	-	1.5
	145.5	118.7	150.0	414.2

The above analysis includes both principal and interest amounts.

The maturity profile of derivative financial assets/(liabilities) is as follows:

	Less than one year £m	Between one and five years £m	More than five years £m	Total £m
31 August 2016				
Forward foreign currency contracts and options:				
- outflow	**(20.5)**	**(0.2)**	**-**	**(20.7)**
- inflow	**19.4**	**0.2**	**-**	**19.6**
	(1.1)	**-**	**-**	**(1.1)**
Currency swaps:				
- outflow	**(113.5)**	**-**	**-**	**(113.5)**
- inflow	**114.1**	**-**	**-**	**114.1**
	0.6	**-**	**-**	**0.6**
31 August 2015				
Forward foreign currency contracts and options:				
- outflow	(16.0)	(0.4)	-	(16.4)
- inflow	16.1	0.4	-	16.5
	0.1	-	-	0.1
Currency swaps:				
- outflow	(67.4)	(22.3)	(26.9)	(116.6)
- inflow	68.0	25.0	34.6	127.6
	0.6	2.7	7.7	11.0

The above analyses for non-derivative and derivative financial instruments show the contractual undiscounted cash flows based on the earliest date that the Group may be required to settle the instrument.

Notes to the Group financial statements continued

22. Financial risk management continued

Credit risk

Credit risk principally arises on short-term deposits, derivative financial instruments and trade and other receivables.

The credit risk arising on short-term deposits and derivative financial instruments is managed through the use of counterparties with high credit ratings assigned by international credit rating agencies.

The Group only trades with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to take on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is managed appropriately in its chosen markets. The credit risk arising on trade receivables is spread across a large number of customers and across many countries. There are no significant concentrations of credit risk.

The Group's maximum exposure to credit risk is equal to the carrying value of these instruments.

An analysis showing the ageing of trade receivables not impaired is given in note 19.

23. Capital management

The Group's capital management aims to maintain appropriate levels of total equity and net debt in support of the Group's businesses to maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in the Group's trading, capital expenditure, expenditure on acquisitions and external factors such as exchange rates and economic conditions. To maintain or adjust its capital structure, the Group may undertake measures such as adjusting the dividend payment to shareholders, returning capital to shareholders, issuing new shares or varying the size and maturity profile of its borrowing facilities. The Group monitors capital using the following indicators:

Net debt to EBITDA ratio	2016	2015
Net debt (£m)	150.0	138.0
Operating (loss)/profit (£m)	(14.7)	9.1
Depreciation, amortisation and impairment charges (£m)	63.1	62.4
Exceptional items (excluding impairment charges) (£m)	12.9	8.3
EBITDA (£m)	61.3	79.8
Net debt to EBITDA (times)	2.4	1.7

Net debt to EBITDA comprises net debt divided by operating profit before depreciation, amortisation, impairment charges and exceptional items.

EBITDA interest cover	2016	2015
EBITDA (£m)	61.3	79.8
Net interest payable (excluding notional interest) (£m)	13.9	13.9
EBITDA interest cover (times)	4.4	5.7

EBITDA interest cover comprises operating profit before depreciation, amortisation, impairment charges and exceptional items divided by net interest payable (excluding notional interest).

The Group's principal loan covenants are: net debt to EBITDA ratio (net debt being less than 3.5 times adjusted EBITDA); and EBITDA interest cover (adjusted EBITDA being at least 3 times the net interest payable).

At 31 August 2016, the Group comfortably complied with its loan covenants. Net debt to reported EBITDA was 2.4 times (2015: 1.7 times) while reported EBITDA interest cover was 4.4 times (2015: 5.7 times). When considering compliance with loan covenants, reported EBITDA is adjusted for, inter alia, acquisitions and certain non-cash items, whilst net debt may be adjusted from the exchange rates prevailing at the balance sheet date to average exchange rates. The effects of these adjustments are to increase the headroom available against the covenants required.

24. Borrowings

	2016 £m	2015 Restated (note 3) £m
Current		
Bank overdrafts	4.9	7.0
Bank loans	2.4	39.1
Other loans	68.7	-
Obligations under finance leases	0.7	0.7
	76.7	46.8
Non-current		
Bank loans	13.5	1.2
Other loans	154.0	189.5
Obligations under finance leases	0.7	0.6
	168.2	191.3
Total borrowings	244.9	238.1

Bank loans principally comprise £13.5m (2015: £38.7m) drawn down under committed revolving bank credit facilities expiring in July 2019.

Other loans principally comprise US dollar private placements (Senior Guaranteed Loan Notes) as follows:

Maturity	Interest rate	Principal	2016 £m	2015 £m
1 June 2017	5.78%	US$90.0m	**68.7**	58.4
1 September 2021	5.12%	US$80.0m	**61.1**	52.0
1 September 2021	5.27%	US$55.0m	**42.0**	35.7
1 September 2023	5.42%	US$65.0m	**49.6**	42.2
			221.4	188.3

Arrangement fees of £0.9m (2015: £1.4m) are being amortised over the lives of the respective loans.

Bank balances are stated net where a legal right of offset exists and when the balances are settled on a net basis.

Future minimum lease payments under finance leases, together with the present value of lease obligations, are analysed as follows:

	2016 £m	2015 £m
Minimum lease payments:		
- less than one year	**0.8**	0.8
- after one year but not more than five years	**0.8**	0.7
	1.6	1.5
Finance charges	**(0.2)**	(0.2)
Present value of finance lease obligations	**1.4**	1.3

The present value of finance lease obligations comprises £0.7m (2015: £0.7m) due in less than one year and £0.7m (2015: £0.6m) due after one year but not more than five years.

The interest rate and currency profile of borrowings is as follows:

	Floating rate £m	Fixed rate £m	Total £m
31 August 2016			
US dollar	**0.4**	**221.0**	**221.4**
Euro	**0.2**	**-**	**0.2**
Australian dollar	**1.4**	**-**	**1.4**
Chinese renminbi	**12.4**	**1.3**	**13.7**
Other currencies	**8.2**	**-**	**8.2**
	22.6	**222.3**	**244.9**
31 August 2015			
US dollar	0.4	152.5	152.9
Euro	0.1	14.6	14.7
Australian dollar	8.0	20.7	28.7
Chinese renminbi	12.7	1.3	14.0
Norwegian krone	17.8	-	17.8
Other currencies	10.0	-	10.0
	49.0	189.1	238.1

Fixed rate borrowings principally relate to the US dollar private placements. The interest rates on floating rate borrowings are principally linked to LIBOR or similar local currency rates.

Notes to the Group financial statements continued

24. Borrowings continued

The carrying amount and fair value of borrowings is as follows:

	2016		2015 Restated (note 3)	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Current borrowings	**76.7**	**78.5**	46.8	46.8
Non-current borrowings	**168.2**	**183.4**	191.3	205.8
	244.9	**261.9**	238.1	252.6

The fair value of fixed rate borrowings represents the value of replacing the existing fixed rate liabilities at the balance sheet date with borrowings with similar terms to the remaining life of the loans. The fair value of all other floating rate borrowings approximates to their carrying amounts where rates are reset to market rates at intervals of less than one year.

At 31 August 2016, the Group had available £111.5m (2015: £87.7m) of undrawn committed borrowing facilities which expire in July 2019.

Non-current borrowings of £0.3m (2015: £0.3m) are secured on specific freehold land and buildings.

25. Derivative financial instruments

	Assets		Liabilities		Net	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Non-current						
Currency swaps:						
- Cash flow hedges	**-**	5.5	**-**	-	**-**	5.5
- Net investment hedges	**-**	6.2	**-**	(1.1)	**-**	5.1
	-	11.7	**-**	(1.1)	**-**	10.6
Current						
Forward foreign currency contracts and options - held for trading	**-**	0.1	**(1.1)**	-	**(1.1)**	0.1
Currency swaps:						
- Cash flow hedges	**0.1**	-	**-**	-	**0.1**	-
- Net investment hedges	**0.5**	0.7	**-**	(0.2)	**0.5**	0.5
	0.6	0.8	**(1.1)**	(0.2)	**(0.5)**	0.6

Analysed as:

	Assets		Liabilities		Net	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Derivative financial instruments at fair value through profit and loss	**-**	0.1	**(1.1)**	-	**(1.1)**	0.1
Derivative financial instruments used for hedging:						
- Cash flow hedges	**0.1**	5.5	**-**	-	**0.1**	5.5
- Net investment hedges	**0.5**	6.9	**-**	(1.3)	**0.5**	5.6
	0.6	12.5	**(1.1)**	(1.3)	**(0.5)**	11.2

The fair value of derivative financial instruments is equal to the carrying amount. The fair value of forward foreign currency contracts represents the gain or loss resulting from translation of the contracts using forward rates at the balance sheet date compared to actual contract rates. The fair value of currency swaps and forward foreign currency options represents the market value of a comparable instrument at the balance sheet date.

Forward foreign currency contracts and options

The loss on forward foreign currency contracts and options of £1.2m (2015: gain of £0.2m) has been recognised within administrative expenses in the Consolidated income statement.

Currency swaps

Non-current currency swaps were in respect of US dollars that had been swapped into sterling and this sterling balance then swapped into euros and Australian dollars. During the year there was a loss of £0.1m in respect of these swaps. In December 2015, following the Group's review of its balance sheet hedging strategy, these were settled as cash at a value of £10.5m. During the year there was a gain of £0.1m in respect of current currency swaps. In 2015, the overall gain of £11.6m was recognised as a cash flow hedge gain of £3.4m and a net investment hedge gain of £8.2m in the hedging reserve in other comprehensive income.

26. Financial instruments

Hedging
Group financial instruments denominated principally in euros, Australian dollars and US dollars are designated as hedges of the net investment in overseas subsidiaries. The overall loss on translation to sterling at the year end of £30.8m (2015: gain of £9.0m) is recognised in the hedging reserve in other comprehensive income. This comprises a gain of £nil (2015: £8.2m) in respect of derivative financial instruments (note 25) and a loss of £30.8m (2015: gain of £0.8m) in respect of borrowings.

There was no cash flow hedge gain or loss during the year. In 2015, the cash flow hedge gain of £3.4m, recognised in the hedging reserve in other comprehensive income, was in respect of derivative financial instruments (note 25).

No ineffectiveness in respect of cash flow hedges or net investment hedges has been recognised in the Consolidated income statement.

Fair values for financial instruments
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets and liabilities.
Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
Level 3 - Inputs that are not based on observable market data.

At 31 August 2016, all financial instruments (comprising cash and cash equivalents, borrowings, trade and other receivables, trade and other payables, provisions and derivative financial instruments) are measured at fair value using level 2 observable inputs, except for redemption liability on acquisitions within provisions, amounting to £13.2m, which is measured using level 3 unobservable inputs.

The redemption liability on acquisitions includes an element which is conditional on the future profitability of BBCS/LECS. The main assumptions used for determining this amount are the discount rate and projected future cash flows.

A 1% increase or decrease in the discount rate would have a negligible impact on the liability. A 20% increase or decrease in projected future cash flows would increase or decrease, respectively, the liability by £0.1m.

Movements in redemption liability on acquisitions are detailed in note 30.

Further disclosures in respect of the fair values for each financial instrument are found in the respective notes to the Group financial statements.

27. Trade and other payables

	2016 £m	2015 £m
Current		
Trade payables	**63.3**	60.8
Taxes and social security	**3.7**	3.9
Other payables	**21.0**	18.7
Accruals and deferred income	**29.5**	30.5
	117.5	113.9
Non-current		
Accruals and deferred income	**0.8**	0.7

Trade and other payables are non-interest bearing. There is no material difference between the carrying amount and fair value of trade and other payables.

28. Post-retirement benefits
The Group operates a number of defined benefit post-retirement schemes for qualifying employees in operations around the world. The schemes based in the UK and the Netherlands together account for 96% of both total scheme assets and total scheme liabilities. The assets of all the schemes are held in separate trustee-administered funds. The cost of all the schemes are assessed in accordance with the advice of independent qualified actuaries using the projected unit credit method.

In addition, the Group operates a number of defined contribution schemes for employees. Contributions to these schemes are in addition to those outlined below and are charged to the income statement as paid. The total charge for the year was £8.9m (2015: £9.7m).

UK scheme
The Fenner Pension Scheme is a funded defined benefit pension scheme, which was closed to new entrants in 1997. Scheme members accrue an annual pension, being a proportion of final salary for each year of pensionable service, increasing in line with inflation whilst in payment, subject to certain caps and floors. The scheme is governed by a Corporate Trustee, the Fenner Pension Scheme Trustee Limited, which in turn is governed by the Trustee directors who are required to act in accordance with the Trust Deed & Scheme Rules, within the framework of pension and trust law. Trustee directors are a mixture of Company-nominated appointments, member-nominated appointments and an Independent Trustee Director.

The scheme is subject to triennial valuations, the most recent of which was carried out at 31 March 2014. Following these valuations and the agreement of the underlying assumptions, a Schedule of Contributions is agreed between the Trustee and the Company. The schedule details the contributions payable for on-going accrual and deficit repayment and ensures that the Company and Trustee are in line with the Statutory Funding Objective, to remove the deficit within an appropriate time frame. Between the valuation dates, regular reviews of the deficit are carried out by the Trustee and if the deficit level is outside of an agreed range it will trigger a review of the contributions and may cause revisions to the cash contributions made by the Company.

Notes to the Group financial statements continued

28. Post-retirement benefits continued

The most recent actuarial valuation was updated as at 31 August 2016 by an independent qualified actuary.

By funding the defined benefit scheme, the Group is exposed to the risk that the funding of its obligations is higher than anticipated. This could arise due to a number or reasons, including:

Investment risk: a significant proportion of the scheme assets are held in more volatile equities and growth funds, which are expected to provide real returns over the long term. In the short term, there is a risk that their value may decrease, leading to an increase in the deficit. The Company and Trustee have taken action to mitigate the investment risk in the scheme by investing a proportion of its assets in Liability Driven Investments ("LDI"). The LDI is designed to move in the same way as the scheme liabilities as calculated with reference to the funding basis.

Interest rate risk: the scheme liabilities are discounted using the current rate of return on high quality corporate bonds. There is a risk that scheme liabilities do not move in the same direction or with the same magnitude as the scheme assets, a significant proportion of which are held in more volatile asset classes. This could lead to an increase in the deficit.

Inflation risk: as many of the scheme benefits are linked to the inflation rate, there is a risk that increases in this rate could result in an increase in obligations. Whilst the scheme assets provide a hedge against this in the long term, in the short term, this could lead to an increase in the deficit.

Mortality risk: increases in the forecast life expectancy of members, for example due to the continued improvements in healthcare, could result in an increase in the deficit.

Legislative risk: there is a risk that unforeseen changes to the legislative environment could result in an increase in the deficit.

The weighted average duration of the Fenner Pension Scheme liabilities is 15.3 years (2015: 14.6 years). This can be subdivided into active members 20.2 years (2015: 19.3 years), deferred pensioners 20.5 years (2015: 19.6 years) and pensions in payment 11.6 years (2015: 11.1 years).

Overseas schemes

The principal overseas scheme is the Fenner Dunlop BV scheme, which is based in the Netherlands. This is a career average pay scheme with indexation in line with the industry-wide pension fund. The accrued nominal benefits in this scheme are fully insured with registered insurance companies, which mitigates the downside risk to the Group.

The scheme is subject to annual actuarial valuations carried out this year on 30 June 2016. The actuarial valuation was updated as at 31 August 2016 by an independent qualified actuary.

The weighted average duration of the Fenner Dunlop BV scheme liabilities is 21.0 years (2015: 21.2 years). This can be subdivided into active members 26.1 years (2015: 24.9 years), deferred pensioners 24.6 years (2015: 24.8 years) and pensions in payment 10.3 years (2015: 9.6 years).

Actuarial assumptions

The principal assumptions used to determine the assets and liabilities of the schemes are as follows:

	2016		2015	
	UK scheme	Overseas schemes	UK scheme	Overseas schemes
Discount rate	2.0%	1.2% - 3.3%	3.7%	2.3% - 5.0%
Inflation rate - RPI	2.8%	n/a	3.0%	n/a
Inflation rate - CPI	2.1%	2.0%	2.3%	2.0%
Rate of increase in salaries	3.8%	2.5% - 4.5%	4.0%	2.0% - 4.5%
Rate of increase in benefits in payment subject to Limited Price Indexation increases:				
- capped at 5.0% (based on RPI)	2.7%	n/a	2.9%	n/a
- capped at 2.5% (based on RPI)	1.9%	n/a	2.0%	n/a
- capped at 3.0% (based on CPI)	1.8%	n/a	1.9%	n/a

The principal assumptions of the schemes are determined using appropriate expert advice and available market data. The assumptions of the overseas schemes are given as a range of values in respect of the individual schemes. The range of values is a consequence of the different territories in which the Group operates defined benefit schemes.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables, with adjustments to reflect the schemes' actual mortality experience.

In respect of the Fenner Pension Scheme, the Group has used SAPS S2PA mortality tables based on year of birth (as published by the Institute of Actuaries) for both pensioner and non-pensioner members, adjusted to reflect the results of an investigation into the actual mortality experience of scheme members. In addition, to allow for future improvements in longevity, the CMI 2015 projections (as published by the Institute of Actuaries) have been used with a minimum long-term rate of future annual mortality improvements of 1.25%.

In respect of the Fenner Dunlop BV Scheme, the Group has used the AG-2014 prognostic mortality table. A correction table is applied to reflect mortality rates of a working population. For each combination of age and gender, a different mortality correction is applied.

The expected future lifetime of average members currently at age 65 and average members at age 65 in 20 years time (i.e. members currently aged 45 years) is as follows:

	2016 UK scheme	2016 Overseas schemes	2015 UK scheme	2015 Overseas schemes
Current pensioner at age 65:				
- men	**22.4 years**	**19.0 - 22.8 years**	22.6 years	18.7 - 22.7 years
- women	**24.4 years**	**22.0 - 24.7 years**	24.6 years	21.2 - 24.6 years
Future pensioner at age 65 (current age 45):				
- men	**24.1 years**	**19.0 - 24.0 years**	24.4 years	18.7 - 24.0 years
- women	**26.3 years**	**22.0 - 25.8 years**	26.5 years	21.2 - 25.8 years

Analysis of assets of the schemes

The fair value of assets of the schemes are as follows:

	2016 UK scheme £m	2016 Overseas schemes £m	2016 Total £m	2015 UK scheme £m	2015 Overseas schemes £m	2015 Total £m
Quoted						
Equities	**47.7**	**3.0**	**50.7**	52.7	4.6	57.3
Global return funds	**11.5**	**-**	**11.5**	12.4	-	12.4
Dynamic asset allocation fund	**15.7**	**0.7**	**16.4**	14.5	-	14.5
Government bonds	**-**	**1.1**	**1.1**	-	5.7	5.7
Corporate bonds	**-**	**0.8**	**0.8**	-	0.8	0.8
Loan funds	**28.0**	**-**	**28.0**	15.1	-	15.1
	102.9	**5.6**	**108.5**	94.7	11.1	105.8
Not Quoted						
Liability Driven Investment solution	**64.8**	**-**	**64.8**	39.7	-	39.7
Insurance policies	**-**	**41.7**	**41.7**	-	23.5	23.5
Property	**-**	**0.7**	**0.7**	-	0.6	0.6
Cash and cash equivalents	**2.5**	**1.5**	**4.0**	13.0	0.5	13.5
	67.3	**43.9**	**111.2**	52.7	24.6	77.3
Total assets of the schemes	**170.2**	**49.5**	**219.7**	147.4	35.7	183.1

Amounts recognised in the financial statements

Amounts charged/(credited) to the Consolidated income statement are as follows:

	2016 UK scheme £m	2016 Overseas schemes £m	2016 Total £m	2015 UK scheme £m	2015 Overseas schemes £m	2015 Total £m
Current service cost	**1.0**	**0.9**	**1.9**	0.9	0.8	1.7
Administration expenses	**0.4**	**0.1**	**0.5**	0.5	0.1	0.6
Past service - plan amendment	**-**	**(0.4)**	**(0.4)**	-	(0.2)	(0.2)
Past service - settlement of schemes	**(1.2)**	**-**	**(1.2)**	-	-	-
Past service - curtailment of schemes	**-**	**-**	**-**	(0.6)	-	(0.6)
Net interest cost	**0.6**	**0.2**	**0.8**	0.8	0.2	1.0
	0.8	**0.8**	**1.6**	1.6	0.9	2.5

Current service cost, administration expenses and past service are classified within operating profit and net interest cost is classified as notional interest within finance costs in the Consolidated income statement.

Past service - plan amendment in 2016 relates to a reduction in conditional benefits in a transitory agreement adopted by Fenner Dunlop BV.

Past service - settlement of schemes in 2016 relates to the Fenner Pension Scheme carrying out an exercise offering eligible current pensioners and dependant members the option to commute small pensions for a cash lump sum. The cash lump sums were determined by the Trustee after taking advice from the actuary and were based on the scheme's current commutation factors. The lump sums represent a settlement of benefits for the members taking the option.

Both past service - plan amendment and settlement of schemes are classified within operation profit before amortisation of intangible assets acquired and exceptional items. In 2015, past service - curtailment of schemes, which related to the redundancies of active members of the UK scheme, was classified within exceptional items as it formed part of the wider restructuring programme at the ECS UK operation, the cost of which was charged to exceptional items.

Notes to the Group financial statements continued

28. Post-retirement benefits continued

Amounts recognised in the Consolidated statement of changes in equity are as follows:

	2016			2015		
	UK scheme £m	Overseas schemes £m	Total £m	UK scheme £m	Overseas schemes £m	Total £m
Actual return on plan assets	29.9	7.1	37.0	7.9	3.8	11.7
Less interest on plan assets	(5.3)	(1.0)	(6.3)	(5.4)	(1.0)	(6.4)
	24.6	6.1	30.7	2.5	2.8	5.3
Other actuarial remeasurements due to:						
- changes in financial assumptions	(47.6)	(10.7)	(58.3)	(1.3)	(3.9)	(5.2)
- changes in demographic assumptions	2.9	-	2.9	-	0.2	0.2
- experience on obligations	-	0.2	0.2	-	0.4	0.4
	(44.7)	(10.5)	(55.2)	(1.3)	(3.3)	(4.6)
Total remeasurements	(20.1)	(4.4)	(24.5)	1.2	(0.5)	0.7

Remeasurements are recognised in other comprehensive income in the period in which they are incurred.

Movements in the net retirement benefit obligation in the Consolidated balance sheet are as follows:

	2016			2015		
	UK scheme £m	Overseas schemes £m	Total £m	UK scheme £m	Overseas schemes £m	Total £m
Net liabilities at start of year	(18.6)	(7.8)	(26.4)	(21.9)	(8.1)	(30.0)
Charged to income statement	(0.8)	(0.8)	(1.6)	(1.6)	(0.9)	(2.5)
Remeasurements	(20.1)	(4.4)	(24.5)	1.2	(0.5)	0.7
Employer contributions	3.9	1.3	5.2	3.7	1.2	4.9
Exchange movements	-	(1.7)	(1.7)	-	0.5	0.5
Net liabilities at end of year	(35.6)	(13.4)	(49.0)	(18.6)	(7.8)	(26.4)

The Group expects its cash contributions to its defined benefit schemes in the year ending 31 August 2017 to be £6.1m (2016: £5.2m).

The present value of obligations includes £1.3m (2015: £0.6m) in respect of schemes that are wholly unfunded.

Movements in the present value of obligations are as follows:

	UK scheme £m	Overseas schemes £m	Total £m
At 1 September 2014	166.6	43.1	209.7
Current service cost	0.9	0.8	1.7
Past service - plan amendment	-	(0.2)	(0.2)
Past service - curtailment of schemes	(0.6)	-	(0.6)
Interest cost	6.2	1.2	7.4
Remeasurements	1.3	3.3	4.6
Employee contributions	0.3	0.4	0.7
Benefits paid	(8.7)	(1.5)	(10.2)
Exchange movements	-	(3.6)	(3.6)
At 1 September 2015	166.0	43.5	209.5
Current service cost	1.0	0.9	1.9
Past service - plan amendment	-	(0.4)	(0.4)
Past service - settlement of schemes	(3.4)	-	(3.4)
Interest cost	5.9	1.2	7.1
Remeasurements	44.7	10.5	55.2
Employee contributions	-	0.4	0.4
Benefits paid	(8.4)	(1.6)	(10.0)
Exchange movements	-	8.4	8.4
At 31 August 2016	205.8	62.9	268.7

The reduction in employee contributions in the year is a result of the UK scheme moving to a salary sacrifice arrangement. Contributions on behalf of employees are now paid by the respective UK operations.

Movements in the fair value of assets of the schemes are as follows:

	UK scheme £m	Overseas schemes £m	Total £m
At 1 September 2014	144.7	35.0	179.7
Administration expenses	(0.5)	(0.1)	(0.6)
Interest income	5.4	1.0	6.4
Remeasurements	2.5	2.8	5.3
Employer contributions	3.7	1.2	4.9
Employee contributions	0.3	0.4	0.7
Benefits paid	(8.7)	(1.5)	(10.2)
Exchange movements	-	(3.1)	(3.1)
At 1 September 2015	**147.4**	**35.7**	**183.1**
Administration expenses	**(0.4)**	**(0.1)**	**(0.5)**
Past service - settlement of schemes	**(2.2)**	**-**	**(2.2)**
Interest income	**5.3**	**1.0**	**6.3**
Remeasurements	**24.6**	**6.1**	**30.7**
Employer contributions	**3.9**	**1.3**	**5.2**
Employee contributions	**-**	**0.4**	**0.4**
Benefits paid	**(8.4)**	**(1.6)**	**(10.0)**
Exchange movements	**-**	**6.7**	**6.7**
At 31 August 2016	**170.2**	**49.5**	**219.7**

Sensitivity analysis

Changes to the principal assumptions can have an effect on the reported retirement benefit obligation for 2016. The effects of these changes are as follows:

		(Decrease)/increase in retirement benefit obligations	
	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	1.0%	(33.8)	43.7
Inflation	1.0%	15.4	(12.9)
Life expectancy	1 year	11.5	(12.3)

The sensitivity analyses, with the exception of inflation, are based on a change in assumption while holding all other assumptions constant. In practice movements in assumptions may be correlated. For the inflation sensitivity, the assumptions for salary increases, increases to pensions in payment and the revaluation of deferred pension before retirement are appropriately adjusted in line with the inflation movement.

Notes to the Group financial statements continued

29. Share-based payments

Performance Share Plan

Conditional awards of shares are made to certain employees within the Group. The conditional award is made to each employee at the start of a three year performance period and is based on a percentage of the basic annual salary of each employee. The awards are subject to the satisfaction of performance criteria.

The proportion of the conditional share awards that vest is based on a combination of the Total Shareholder Return ("TSR") measure and an earnings per share ("EPS") measure. For the 20 November 2013 and 18 November 2014 schemes, the TSR measure accounts for 66.7% of the final allocation on vesting and the EPS measure for 33.3%. For the 18 November 2015 scheme, the TSR measure accounts for 50% of the final allocation on vesting and the EPS measure for 50%. The EPS performance target is set against underlying EPS growth in the Company measured over the three years from the end of the financial year preceding the year in which the award was made.

Details of movements in conditional awards under the Performance Share Plan are as follows:

	Shares number
At 1 September 2014	1,222,628
Conditional awards during the year	631,418
Dividend roll up awards applied	97,694
Forfeited during the year	(30,778)
Lapsed during the year	(416,652)
At 1 September 2015	**1,504,310**
Conditional awards during the year	**1,441,947**
Dividend roll up awards applied	**197,336**
Forfeited during the year	**(799,599)**
Lapsed during the year	**(439,451)**
At 31 August 2016	**1,904,543**

Dividend roll ups have been applied since 2008 in line with the Performance Share Plan Rules. They accrue over the Plan Cycle and are added to the original conditional award before the final award and allotment of shares is made.

The following conditional awards, including dividend roll up awards, were outstanding at 31 August 2016:

Date of conditional awards	Shares number	Remaining contractual life
20 November 2013	373,135	0.2 years
18 November 2014	555,666	1.2 years
18 November 2015	975,742	2.2 years
	1,904,543	

The fair value of awards made under the Performance Share Plan is measured using the Monte Carlo simulation approach. The following assumptions were used for each set of conditional awards:

	20 November 2013	18 November 2014	18 November 2015
Share price at date of conditional awards	439p	267p	144p
Fair value of shares awarded - TSR	288p	90p	51p
Fair value of shares awarded - EPS	439p	267p	144p
Expected volatility	37%	33%	33%
Expected life	3 years	3 years	3 years
Risk free rate	0.7%	0.9%	0.8%

Expected volatility is determined by calculating the historical volatility of the Company's share price for a three year period from the conditional award date.

An amount of £0.7m (2015: £0.6m) has been recognised as a charge within administrative expenses in the Consolidated income statement and a credit to retained earnings within equity. Of this amount, £0.5m (2015: £0.6m) is classified within operating profit before amortisation of intangible assets acquired and exceptional items and £0.2m (2015: £nil) has been classified within exceptional items as it related to restructuring at the corporate headquarters.

Further details of the Performance Share Plan can be found in the Board Remuneration Report on pages 47 to 57.

30. Provisions

Movements in provisions are as follows:

	Redemption liability on acquisitions £m	Restructuring costs £m	Property and environmental £m	Contingent and deferred consideration on acquisitions £m	Total £m
At 1 September 2015	9.8	2.7	1.5	5.6	19.6
Provisions created during the year	-	3.2	-	-	3.2
Provisions utilised during the year	-	(2.3)	(0.7)	(5.6)	(8.6)
Provisions released during the year	-	-	(0.1)	-	(0.1)
Notional interest on the unwinding of discount	0.8	-	-	-	0.8
Notional finance charge on redemption liability	0.1	-	-	-	0.1
Exchange movements	2.5	0.4	-	-	2.9
At 31 August 2016	13.2	4.0	0.7	-	17.9

Analysed as:

	2016 £m	2015 £m
Current	17.9	8.9
Non-current	-	10.7
	17.9	19.6

Provisions represent the best estimate of obligations at the balance sheet date. Where the effect of discounting is material, provisions have been discounted at a suitable pre-tax rate based on borrowings that match the maturity of the amounts being discounted, to reflect the risks associated with future cash flows. Redemption liability on acquisitions has been discounted at 7.2%.

The redemption liability on acquisitions relates to the obligation in respect of put and call options in relation to the purchase of non-controlling interests in acquisitions. The put and call options are exercisable in November 2016 on completion of the acquisition of the remaining non-controlling interests in BBCS/LECS. The restructuring costs provision principally relates to costs associated with the restructuring and closure of operations.

31. Share capital

Movements in share capital allotted, called up and fully paid are as follows:

	Number	£m
At 1 September 2014, at 1 September 2015 and **at 31 August 2016**	194,002,741	48.5

The Company has one class of ordinary shares of 25p which carry no right to fixed income.

Notes to the Group financial statements continued

32. Reserves

Included within retained earnings is a reserve for the Company's own shares held by the Employee Share Ownership Plan Trust ("ESOP") of £0.1m (2015: £0.1m). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentives schemes. At 31 August 2016, the ESOP held 114,177 (2015: 114,177) of the Company's shares. The market value of these shares was £0.2m (2015: £0.2m).

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations.

The hedging reserve comprises gains and losses on changes in the valuation of assets and liabilities designated as hedges.

The merger reserve related to merger relief given on the excess of the value of shares issued over the nominal value in accordance with Section 612 of the Companies Act 2006.

On 6 July 2016, Fenner PLC completed a capital reduction, approved by the High Court, which created £128.0m of additional distributable reserves out of the Company's share premium account (£51.7m) and merger reserve (£76.3m). This was achieved through the capitalisation of a sum of up to £76.3m standing to the credit of the merger reserve by way of a bonus issue of newly created B ordinary shares; the share capital of the Company was subsequent reduced by cancelling the B ordinary shares and by cancelling the balance standing to the credit of the share premium account. In the Consolidated financial statements, goodwill of £10.4m was previously written off against the merger reserve, in respect of the year ended 31 August 1997, and therefore the overall increase to retained earnings is £117.6m.

Distributable reserves relate to amounts in the retained earnings reserve to the extent that profits are realised.

33. Contingent liabilities

In the normal course of business the Group has given guarantees and counter indemnities in respect of commercial transactions.

The Group is involved as defendant in a small number of potential and actual litigation cases in connection with its business. The directors believe that the likelihood of a material liability arising from these cases is remote.

34. Operating lease commitments

Outstanding commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

	2016 £m	2015 £m
Within one year	**9.4**	8.4
In the second to fifth years inclusive	**20.8**	20.1
After more than five years	**19.4**	20.5
	49.6	49.0

Operating lease commitments principally comprise land and buildings in various operations across the Group, totalling £43.0m (2015: £42.6m).

Operating lease charges recognised in the Consolidated income statement are shown in note 6.

35. Related party transactions

Key management personnel

Key management comprises the Group's executive and non-executive directors and members of the Executive Committee. Remuneration of key management is as follows:

	2016 £m	2015 £m
Short-term employee benefits	**3.4**	3.3
Post-employment benefits	**0.4**	0.5
	3.8	3.8

There were no other related party transactions to disclose.

36. Acquisitions

As permitted by IFRS 3 (Revised) 'Business Combinations', provisional estimates of the fair values of assets and liabilities acquired can be amended for a period of up to 12 months following acquisition if subsequent information becomes available which changes the estimates of fair values at the date of acquisition. In respect of the acquisition of Charter Medical, Limited on 30 January 2015, the estimated fair value of trade and other payables reduced by £0.3m and the fair value of inventories reduced by £0.2m, resulting in a decrease in goodwill on acquisition of £0.1m.

Payments amounting to £5.6m were made in the year in respect of deferred consideration on acquisitions made in previous years.

37. Post-balance sheet events

Disposal of Xeridiem Medical Devices

On 1 September 2016, the Group disposed of Xeridiem Medical Devices, Inc, a manufacturer of minimally invasive catheter and other single-use medical devices, located in Arizona, USA. Cash proceeds, net of expenses, were £6.4m, subject to working capital adjustments. The results of Xeridiem Medical Devices have not been disclosed as a discontinued operation since it did not represent a separate major line of business or geographical area of operations, did not form part of a single coordinated plan to dispose of such operations and was not acquired exclusively with a view to resale.

The following assets and liabilities of Xeridiem Medical Devices are classified as held for sale in the Consolidated balance sheet:

	2016 £m	2015 £m
Assets held for sale		
Property, plant and equipment	0.2	-
Inventories	0.8	-
Trade and other receivables	1.2	-
	2.2	-
Liabilities held for sale		
Trade and other payables	1.0	-

Acquisition of non-controlling interests

On 1 November 2016, the Group acquired the remaining non-controlling interests in Belle Banne Conveyor Services Pty Limited and Leading Edge Conveyor Services Pty Limited, both based in Australia, following the sellers' exercising of their put options granted in November 2010, the date the Group acquired its controlling interest. The consideration has not yet been finalised. The estimated present value of this obligation is provided in the redemption liability on acquisitions at the balance sheet date.

Independent Auditors' Report to the members of Fenner PLC

REPORT ON THE COMPANY FINANCIAL STATEMENTS

Our opinion

In our opinion, Fenner PLC's Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 August 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Company balance sheet as at 31 August 2016;
- the Company statement of changes in equity for the year then ended; and
- the Notes to the Company financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards comprising FRS 101 'Reduced Disclosure Framework' and applicable law (United Kingdom Generally Accepted Accounting Practice).

OTHER REQUIRED REPORTING

Consistency of other information

Companies Act 2006 opinion

In our opinion, 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.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & 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 Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Board Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Board Remuneration Report - Companies Act 2006 opinion

In our opinion, the part of the Board Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 46, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

OTHER MATTER

We have reported separately on the Group financial statements of Fenner PLC for the year ended 31 August 2016.

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
16 November 2016

Notes:

The maintenance and integrity of the Fenner PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Company balance sheet
at 31 August 2016

	Notes	2016 £m	2015 £m
Fixed assets			
Tangible fixed assets	4	**2.9**	3.8
Investments	5	**77.4**	77.7
		80.3	81.5
Current assets			
Debtors	6	**156.3**	160.2
Cash at bank and in hand		**3.4**	16.0
		159.7	176.2
Creditors: amounts falling due within one year	7	**(12.3)**	(12.6)
Net current assets		**147.4**	163.6
Total assets less current liabilities		**227.7**	245.1
Retirement benefit obligations	8	**(35.6)**	(18.6)
Provisions for liabilities	9	**(0.5)**	(0.6)
Net assets		**191.6**	225.9
Capital and reserves			
Called up share capital	10	**48.5**	48.5
Share premium account	11	**-**	51.7
Profit and loss account		**142.3**	48.5
Revaluation reserve		**0.8**	0.9
Merger reserve	11	**-**	76.3
Total shareholders' funds		**191.6**	225.9

The financial statements on pages 97 to 104 were approved by the Board of Directors on 16 November 2016 and signed on its behalf by:

V Murray OBE
Chairman

W J Pratt
Group Finance Director

Registered Number: 329377

Company statement of changes in equity
for the year ended 31 August 2016

	Called up share capital £m	Share premium account £m	Profit and loss account £m	Revaluation reserve £m	Merger reserve £m	Total shareholders' funds £m
At 1 September 2014	48.5	51.7	43.3	1.0	76.3	220.8
Profit for the year	-	-	27.6	-	-	27.6
Other comprehensive income/(expense)						
Remeasurements on defined benefit post-retirement schemes	-	-	1.2	-	-	1.2
Transfers	-	-	0.1	(0.1)	-	-
Tax on other comprehensive income/(expense)	-	-	(0.7)	-	-	(0.7)
Total other comprehensive income/(expense)	-	-	0.6	(0.1)	-	0.5
Total comprehensive income/(expense) for the year	-	-	28.2	(0.1)	-	28.1
Transactions with owners						
Dividends paid in the year	-	-	(23.3)	-	-	(23.3)
Share-based payments	-	-	0.3	-	-	0.3
Total transactions with owners	-	-	(23.0)	-	-	(23.0)
At 1 September 2015	**48.5**	**51.7**	**48.5**	**0.9**	**76.3**	**225.9**
Profit for the year	**-**	**-**	**6.0**	**-**	**-**	**6.0**
Other comprehensive income/(expense)						
Remeasurements on defined benefit post-retirement schemes	**-**	**-**	**(20.1)**	**-**	**-**	**(20.1)**
Transfers	**-**	**-**	**0.1**	**(0.1)**	**-**	**-**
Tax on other comprehensive income/(expense)	**-**	**-**	**2.7**	**-**	**-**	**2.7**
Total other comprehensive income/(expense)	**-**	**-**	**(17.3)**	**(0.1)**	**-**	**(17.4)**
Total comprehensive income/(expense) for the year	**-**	**-**	**(11.3)**	**(0.1)**	**-**	**(11.4)**
Transactions with owners						
Dividends paid in the year	**-**	**-**	**(23.3)**	**-**	**-**	**(23.3)**
Share-based payments	**-**	**-**	**0.4**	**-**	**-**	**0.4**
Capital reduction	**-**	**(51.7)**	**128.0**	**-**	**(76.3)**	**-**
Total transactions with owners	**-**	**(51.7)**	**105.1**	**-**	**(76.3)**	**(22.9)**
At 31 August 2016	**48.5**	**-**	**142.3**	**0.8**	**-**	**191.6**

Notes to the Company financial statements

1. Significant accounting policies

Basis of preparation

Fenner PLC is a limited company incorporated in the United Kingdom and is listed on the London Stock Exchange.

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") and the Companies Act 2006 and under the historical cost convention.

The Company financial statements are prepared on the going concern basis as set out in note 1 to the Group financial statements on page 67.

These are the first financial statements of the Company which have been prepared in accordance with FRS 101. The date of transition to FRS 101 was 1 September 2014. Comparative information has been restated in accordance with FRS 101 and an explanation of the adjustments required can be found in note 14.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 'Financial Instruments: Disclosures';
- the requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement';
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1; and
  - paragraph 73(e) of IAS 16 'Property, Plant and Equipment';
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements';
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- the requirements of paragraph 17 of IAS 24 'Related Party Disclosures';
- the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 'Impairment of Assets'.

In accordance with the exemptions allowed by Section 408 of the Companies Act 2006, the Company has not presented its own income statement or statement of comprehensive income.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are in respect of retirement benefit obligations. Further details can be found in note 8 to the Company financial statements and note 2 to the Group financial statements.

There were no other new standards, amendments or interpretations adopted by the Company and effective for the first time for the year ended 31 August 2016 that have had a material impact on the Company.

A number of new standards, amendments or interpretations have been published but are not mandatory for the year ended 31 August 2016 and consequently have not yet been applied in preparing the financial statements. None of these are expected to have a material impact on the Company.

The principal accounting policies adopted for the year ended 31 August 2016 are set out below.

Foreign currencies

The Company financial statements are presented in pounds sterling, which is the presentation currency of the Company.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities are retranslated at the rates prevailing on the balance sheet date.

Non-monetary items measured at historical cost are not retranslated. Exchange differences arising on the settlement and retranslation of monetary items are recognised in the income statement in the period.

Share-based payments

The Company operates equity-settled share schemes for certain employees across the Fenner PLC Group. The cost of equity-settled share-based payments is measured at fair value at the date of grant, excluding the effect of non market-based vesting conditions. The cost is recognised in the income statement on a straight-line basis over the vesting period with the corresponding amount credited to equity, based on an estimate of the number of shares that will eventually vest. The estimate of the level of vesting is reviewed annually and the charge is adjusted accordingly in respect of non market-based vesting conditions. The fair values are measured using the Monte Carlo simulation approach.

Post-retirement benefits

The Fenner PLC Group operates a defined benefit pension scheme for certain current and former employees in the UK. The Company is the Principal Employer of the scheme.

The scheme liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of scheme assets. The defined benefit obligation is calculated annually by an independent qualified actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Current service costs, past service costs and administration expenses are recognised within operating costs in the income statement. Net interest costs, which are calculated by applying the discount rate to the net pension liability, are recognised as notional interest within finance costs in the income statement. Remeasurements, which represent the difference between the actual return on assets and the amount implied by the net interest cost, together with experience adjustments and changes in actuarial assumptions, are charged or credited to equity in other comprehensive income.

Taxation

Current tax is the tax expected to be payable on taxable profit for the period using tax rates that have been enacted or substantively enacted by the balance sheet date, together with any adjustments in respect of previous years. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are not taxable or deductible or are taxable or deductible in other years.

Deferred tax is recognised using the liability method for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, unless specifically exempt. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is calculated using tax rates that are expected to apply in the period when the liability is settled or the asset realised. The resulting charge or credit is recognised in the income statement except when it relates to items recognised directly in equity, in which case the charge or credit is also recognised directly in equity.

Notes to the Company financial statements continued

1. Significant accounting policies continued

Dividends
Dividends proposed by the Board are recognised in the financial statements when they have been approved by shareholders at the AGM. Interim dividends are recognised when they are paid.

Tangible fixed assets
Tangible fixed assets are stated at historical cost or deemed cost less accumulated depreciation and any accumulated impairment losses.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use, including borrowing costs for qualifying assets. The Company has adopted the transitional provisions of FRS 101 to record the previously revalued freehold land and buildings as deemed cost at 1 September 2014, the date of transition to FRS 101.

Freehold land is not depreciated. Depreciation on other assets is recognised in the income statement to write down the value of the asset to its residual value on a straight-line basis over the estimated useful life of the asset from the date it is brought into use. Estimated useful lives most widely applied are as follows:

Freehold buildings	40 years
Leasehold buildings	15 years
Plant, machinery and equipment	5 years

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Investments
Investments are stated at cost or valuation less accumulated impairment losses.

Financial instruments
Financial assets are recognised in the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Amounts owed by Group undertakings are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash at bank and in hand comprises cash in hand, deposits available on demand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Amounts owed to Group undertakings are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Share capital
Ordinary shares are classified as equity. Equity instruments issued are recorded at the proceeds received net of directly attributable issue costs.

2. Auditors' remuneration

There was no auditors' remuneration charged in the year (2015: £nil). Amounts borne by other Group undertakings are £0.1m (2015: £0.1m).

3. Dividends

	2016 £m	2015 £m
Dividends paid or approved in the year		
Interim dividend for the year ended 31 August 2015 of 4.0p (2014: 4.0p) per share	7.8	7.8
Final dividend for the year ended 31 August 2015 of 8.0p (2014: 8.0p) per share	15.5	15.5
	23.3	23.3
Dividends neither paid nor approved in the year		
Interim dividend for the year ended 31 August 2016 of 1.0p (2015: 4.0p) per share	1.9	7.8
Final dividend for the year ended 31 August 2016 of 2.0p (2015: 8.0p) per share	3.9	15.5
	5.8	23.3

The interim dividend for the year ended 31 August 2016 was paid on 7 September 2016. The proposed final dividend for the year ended 31 August 2016 is subject to approval by shareholders at the AGM. Consequently, neither has been recognised as liabilities at 31 August 2016. If approved, the final dividend will be paid on 9 March 2017 to shareholders on the register on 27 January 2017.

4. Tangible fixed assets

	Freehold land and buildings £m	Leasehold land and buildings £m	Plant, machinery and equipment £m	Total £m
Cost				
At 1 September 2015	5.1	0.2	0.1	5.4
Disposals	(0.8)	-	-	(0.8)
At 31 August 2016	4.3	0.2	0.1	4.6
Accumulated depreciation				
At 1 September 2015	1.6	-	-	1.6
Charge for the year	0.1	-	-	0.1
At 31 August 2016	1.7	-	-	1.7
Net book value				
At 31 August 2016	2.6	0.2	0.1	2.9
At 31 August 2015	3.5	0.2	0.1	3.8

Freehold land and buildings includes land at a cost of £0.8m (2015: £1.6m) which is not subject to depreciation.

5. Investments

	Subsidiary undertakings £m
Cost	
At 1 September 2015	168.1
Share-based payments - reduction due to scheme lapsing	(0.3)
At 31 August 2016	167.8
Accumulated impairment	
At 1 September 2015 and **at 31 August 2016**	90.4
Net book value	
At 31 August 2016	77.4
At 31 August 2015	77.7

The directors believe that the carrying value of investments is supported by their underlying value in use. Forecast cash flows are extrapolated using long-term growth rates and discounted using the Group's pre-tax weighted average cost of capital of 10.4%.

Details of subsidiary undertakings can be found in Companies of the Group on pages 105 to 106.

Notes to the Company financial statements continued

6. Debtors

	2016 £m	2015 £m
Amounts owed by Group undertakings	**149.9**	156.5
Deferred tax assets	**6.4**	3.7
	156.3	160.2

Amounts owed by Group undertakings are unsecured and repayable on demand and relate to an interest bearing loan to a subsidiary undertaking at a floating rate based on the Group's bank borrowing rate.

Movements in deferred tax assets are as follows:

	£m
At 1 September 2015	**3.7**
Credited to other comprehensive income	**2.7**
At 31 August 2016	**6.4**

Deferred tax assets are all in respect of retirement benefit obligations.

7. Creditors: amounts falling due within one year

	2016 £m	2015 £m
Amounts owed to Group undertakings	**12.0**	12.0
Taxation and social security	**-**	0.3
Accruals and deferred income	**0.3**	0.3
	12.3	12.6

Amounts owed to Group undertakings are interest free and repayable on demand.

8. Retirement benefit obligations

The Fenner PLC Group operates a defined benefit pension scheme for certain current and former employees in the UK. The Company is the Principal Employer of the scheme.

Movements in the net retirement benefit obligation in the Company balance sheet are as follows:

	£m
Net liabilities at start of year	**(18.6)**
Charged to income statement	**(0.8)**
Remeasurements	**(20.1)**
Employer contributions	**3.9**
Net liabilities at end of year	**(35.6)**

Further disclosures can be found in note 28 to the Group financial statements within the sections marked "UK scheme".

9. Provisions for liabilities

	Deferred taxation £m
At 1 September 2015	**0.6**
Credited to income statement	**(0.1)**
At 31 August 2016	**0.5**

Deferred taxation liabilities relate to accelerated tax depreciation of £0.2m (2015: £0.3m), revaluation of tangible fixed assets of £0.2m (2015: £0.2m) and other short-term timing differences of £0.1m (2015: £0.1m).

10. Called up share capital

Movements in share capital allotted, called up and fully paid are as follows:

	Number	£m
At 1 September 2015 and **at 31 August 2016**	**194,002,741**	**48.5**

The Company has one class of ordinary shares of 25p which carry no right to fixed income.

11. Reserves

Included within the profit and loss account is a reserve for the Company's own shares held by the Employee Share Ownership Plan Trust ("ESOP") of £0.1m (2015: £0.1m). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentives schemes. At 31 August 2016, the ESOP held 114,177 (2015: 114,177) of the Company's shares. The market value of these shares was £0.2m (2015: £0.2m).

The merger reserve related to merger relief given on the excess of the value of shares issued over the nominal value in accordance with Section 612 of the Companies Act 2006.

On 6 July 2016, Fenner PLC completed a capital reduction, approved by the High Court, which created £128.0m of additional distributable reserves out of the Company's share premium account (£51.7m) and merger reserve (£76.3m). This was achieved through the capitalisation of a sum of up to £76.3m standing to the credit of the merger reserve by way of a bonus issue of newly created B ordinary shares; the share capital of the Company was subsequent reduced by cancelling the B ordinary shares and by cancelling the balance standing to the credit of the share premium account.

12. Contingent liabilities

The Company has guaranteed the borrowings of certain subsidiary undertakings. At 31 August 2016, these borrowings amounted to £241.7m (2015: £228.2m).

13. Share-based payments

Performance Share Plan

Conditional awards of shares are made to certain employees within the Company. The conditional award is made to each employee at the start of a three year performance period and is based on a percentage of the basic annual salary of each employee. The awards are subject to the satisfaction of performance criteria.

The proportion of the conditional share awards that vest is based on a combination of the Total Shareholder Return ("TSR") measure and an earnings per share ("EPS") measure. For the 20 November 2013 and 18 November 2014 schemes, the TSR measure accounts for 66.7% of the final allocation on vesting and the EPS measure for 33.3%. For the 18 November 2015 scheme, the TSR measure accounts for 50% of the final allocation on vesting and the EPS measure for 50%. The EPS performance target is set against underlying EPS growth in the Company measured over the three years from the end of the financial year preceding the year in which the award was made.

Details of movements in conditional awards under the Performance Share Plan, in respect of employees of the Company, are as follows:

	Shares number
At 1 September 2015	**727,051**
Conditional awards during the year	**829,582**
Dividend roll up awards applied	**106,453**
Forfeited during the year	**(602,110)**
Lapsed during the year	**(191,858)**
At 31 August 2016	**869,118**

Dividend roll ups have been applied since 2008 in line with the Performance Share Plan Rules. They accrue over the Plan Cycle and are added to the original conditional award before the final award and allotment of shares is made.

The following conditional awards, including dividend roll up awards, were outstanding at 31 August 2016:

Date of conditional awards	Shares number	Remaining contractual life
20 November 2013	169,278	0.2 years
18 November 2014	275,162	1.2 years
18 November 2015	424,678	2.2 years
	869,118	

The fair value of awards made under the Performance Share Plan is measured using the Monte Carlo simulation approach. The following assumptions were used for each set of conditional awards:

	20 November 2013	18 November 2014	18 November 2015
Share price at date of conditional awards	439p	267p	144p
Fair value of shares awarded - TSR	288p	90p	51p
Fair value of shares awarded - EPS	439p	267p	144p
Expected volatility	37%	33%	33%
Expected life	3 years	3 years	3 years
Risk free rate	0.7%	0.9%	0.8%

Expected volatility is determined by calculating the historical volatility of the Company's share price for a three year period from the conditional award date.

Further details of the Performance Share Plan can be found in the Board Remuneration Report on pages 47 to 57.

Notes to the Company financial statements continued

14. Explanation of transition to FRS 101

These financial statements are the Company's first financial statements prepared in accordance with FRS 101. The accounting policies set out in note 1 have been applied in preparing the Company financial statements for the year ended 31 August 2016, including comparative information for the year ended 31 August 2015 and the opening balance sheet at 1 September 2014, the Company's date of transition to FRS 101.

In preparing the opening FRS 101 balance sheet and comparative information for the year ended 31 August 2015, the Company has adjusted amounts previously reported in financial statements prepared in accordance with its previous basis of accounting, UK GAAP. An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position is set out below.

		1 September 2014			31 August 2015		
	Notes	UK GAAP £m	Adjustments £m	FRS 101 £m	UK GAAP £m	Adjustments £m	FRS 101 £m
Fixed assets							
Tangible assets		3.9	-	3.9	3.8	-	3.8
Investments		77.7	-	77.7	77.7	-	77.7
		81.6	-	81.6	81.5	-	81.5
Current assets							
Debtors	a,b	161.5	4.3	165.8	156.5	3.7	160.2
Cash at bank and in hand		8.4	-	8.4	16.0	-	16.0
		169.9	4.3	174.2	172.5	3.7	176.2
Creditors: amounts falling due within one year		(12.7)	-	(12.7)	(12.6)	-	(12.6)
Net current assets		157.2	4.3	161.5	159.9	3.7	163.6
Total assets less current liabilities		238.8	4.3	243.1	241.4	3.7	245.1
Retirement benefit obligations	a	-	(21.9)	(21.9)	-	(18.6)	(18.6)
Provisions for liabilities	b	-	(0.4)	(0.4)	(0.2)	(0.4)	(0.6)
Net assets		238.8	(18.0)	220.8	241.2	(15.3)	225.9
Capital and reserves							
Called up share capital		48.5	-	48.5	48.5	-	48.5
Share premium account		51.7	-	51.7	51.7	-	51.7
Profit and loss account		61.1	(17.8)	43.3	63.6	(15.1)	48.5
Revaluation reserve		1.2	(0.2)	1.0	1.1	(0.2)	0.9
Merger reserve		76.3	-	76.3	76.3	-	76.3
Total shareholders' funds		238.8	(18.0)	220.8	241.2	(15.3)	225.9

Notes

a) Recognition of defined benefit pension deficit
Under UK GAAP, the UK defined benefit pension scheme deficit was held at the Fenner PLC Group level, with the individual entities recognising their pension contributions through the income statement as if it were a defined contribution scheme; the Company had no contributions to recognise. Under FRS 101, the UK defined benefit pension deficit has been recognised in full in the Company since it is the Principal Employer of the scheme. The impact of this is an increase in liabilities of £21.9m at 1 September 2014 and £18.6m at 31 August 2015. Associated deferred tax assets have also been recognised; these were £4.4m at 1 September 2014 and £3.7m at 31 August 2015.

b) Other deferred tax assets and liabilities
Under UK GAAP, no deferred tax was provided in respect of the revaluation of tangible fixed assets; this is required under FRS 101. The impact of this is an increase in provisions for liabilities of £0.2m at 1 September 2014 and at 31 August 2015. In addition, there are various differences in recognition criteria for deferred tax between UK GAAP and FRS 101; the impact of these is a reduction in deferred tax assets of £0.1m at 1 September 2014 and an increase in provisions for liabilities of £0.2m at 1 September 2014 and at 31 August 2015.

Companies of the Group

The undertakings whose results or financial position are consolidated within the Group financial statements at 31 August 2016 are as follows:

Company	Country of incorporation	% of issued ordinary shares held	Principal activity
BTL Limited	England	100	Dormant
CDI Energy Products UK Limited	England	100	Manufacturing, Distribution & Servicing
Dunlop Conveyor Belting Investments Limited	England	100	Investment
Fenner Advanced Sealing Investments Limited	England	100	Dormant
Fenner Advanced Sealing Technologies Limited	England	*100	Dormant
Fenner Drives Limited	England	100	Dormant
Fenner Dunlop Limited	England	100	Dormant
Fenner Dynamics Limited	England	100	Dormant
Fenner International Australia Limited	England	100	Investment
Fenner International Limited	England	*100	Investment
Fenner N.A. Limited	England	100	Investment
Fenner Pension Scheme Trustee Limited	England	*100	Pension Scheme Trustee
Hall & Hall Limited	England	100	Investment
Hallite (France) Limited	England	100	Dormant
Hallite Limited	England	*100	Dormant
Hallite Polytek Limited	England	100	Dormant
Hallite Seals International Limited	England	*100	Manufacturing, Distribution & Servicing
Indico (Europe) Limited	England	100	Dormant
J.H. Fenner & Co. Limited	England	*100	Manufacturing, Distribution & Servicing
J.H. Fenner & Co. (Advanced Engineered Products) Limited	England	100	Investment
J.H. Fenner & Co. (India) Limited	England	100	Investment
James Dawson & Son Limited	England	*100	Manufacturing, Distribution & Servicing
James Dawson (China) Limited	England	100	Investment
J.H. Fenner & Co. (Fenaplast) Limited	England	100	Dormant
J.H. Fenner & Co. (Special Belting) Limited	England	*100	Dormant
Norwegian Seals UK Limited	England	100	Dormant
Turner Belting Limited	England	100	Dormant
Vulcanisers International Limited	England	100	Dormant
Apex MasterBlast Trust	Australia	100	Dormant
Australian Conveyor Engineering Pty Limited	Australia	100	Manufacturing, Distribution & Servicing
Australian Conveyor Technologies	Australia	100	Dormant
Belle Banne Conveyor Services Pty Limited	Australia	56	Manufacturing, Distribution & Servicing
Control X Engineering	Australia	100	Dormant
Fenner (Pacific) Pty Limited	Australia	100	Investment
Fenner Australia Financing Pty Limited	Australia	100	Investment
Fenner Dunlop Australia Pty Limited	Australia	100	Manufacturing, Distribution & Servicing
Fenner Dunlop Conveyor Services Pty Limited	Australia	100	Investment
Fenner Investments Australia Limited Partnership	Australia	100	Investment
Hallite Seals Australia Pty Limited	Australia	100	Manufacturing, Distribution & Servicing
Leading Edge Conveyor Services Pty Limited	Australia	69	Manufacturing, Distribution & Servicing
Transeals Pty Limited	Australia	100	Dormant
Hallite Do Brasil – Tecnologia Em Vedacoes Limitada	Brazil	100	Non-trading
Fenner Dunlop (Bracebridge), Inc.	Canada	100	Manufacturing, Distribution & Servicing
Hallite Seals (Canada) Limited	Canada	100	Manufacturing, Distribution & Servicing
Conveyor Services, SA	Chile	66	Manufacturing, Distribution & Servicing
Fenner Dunlop Chile SpA	Chile	100	Dormant
Fenner International Chile Limitada	Chile	100	Investment
Dawson Polymer Products (Shanghai) Company Limited	China	100	Manufacturing, Distribution & Servicing
Dunlop Conveyor Belting (Shanghai) Company Limited	China	100	Manufacturing, Distribution & Servicing
Fenner Management (Shanghai) Company Limited	China	100	Non-trading
Hallite Service (Suzhou) Company Limited	China	100	Dormant
Hallite Shanghai Company Limited	China	100	Manufacturing, Distribution & Servicing
Shanghai Fenner Conveyor Belting Company Limited	China	85	Manufacturing, Distribution & Servicing
Fenner Dunlop SARL	France	100	Manufacturing, Distribution & Servicing
Dichtelemente Hallite GmbH	Germany	100	Manufacturing, Distribution & Servicing

Companies of the Group continued

Company	Country of incorporation	% of issued ordinary shares held	Principal activity
Dunlop Conveyor Belting Ghana Limited	Ghana	100	Manufacturing, Distribution & Servicing
Fenner Conveyor Belting Private Limited	India	100	Manufacturing, Distribution & Servicing
Hallite Sealing Solutions India Private Limited	India	100	Manufacturing, Distribution & Servicing
Fenner Dunlop Italia S.r.l.	Italy	100	Manufacturing, Distribution & Servicing
Hallite Italia S.r.l.	Italy	100	Manufacturing, Distribution & Servicing
Fenner Dunlop Maroc SARL	Morocco	100	Manufacturing, Distribution & Servicing
De Bruin & Berends B.V.	Netherlands	100	Investment
Dunlop Assets B.V.	Netherlands	100	Investment
Dunlop Conveyor Belting International B.V.	Netherlands	100	Dormant
Dunlop Enerka Netherlands B.V.	Netherlands	100	Investment
Dunlop Enerka Netherlands Holding B.V.	Netherlands	100	Investment
Dunlop Manufacturing Holdings B.V.	Netherlands	100	Investment
Dunlop Sales & Marketing B.V.	Netherlands	100	Dormant
Dunlop Service B.V.	Netherlands	100	Manufacturing, Distribution & Servicing
Dunlop Service International B.V.	Netherlands	100	Investment
Fenner Cooperatief W.A.	Netherlands	100	Investment
Fenner Dunlop B.V.	Netherlands	100	Manufacturing, Distribution & Servicing
Fenner Dunlop Steelcord B.V.	Netherlands	100	Dormant
Fenner US Financing B.V.	Netherlands	100	Investment
CDI Energy Products AS	Norway	100	Manufacturing, Distribution & Servicing
Fenner Norway AS	Norway	100	Investment
Mandals AS	Norway	100	Manufacturing, Distribution & Servicing
Mandals Technology AS	Norway	100	Manufacturing, Distribution & Servicing
Dunlop Conveyor Belting Polska sp.zo.o	Poland	100	Manufacturing, Distribution & Servicing
CDI Multiseals Pte. Limited	Singapore	100	Manufacturing, Distribution & Servicing
Fenner Singapore Pte. Limited	Singapore	100	Investment
Fenner Dunlop SL	Spain	100	Manufacturing, Distribution & Servicing
Fenner Conveyor Belting (South Africa) (Pty) Limited	South Africa	71	Manufacturing, Distribution & Servicing
Fenner (South Africa) (Pty) Limited	South Africa	100	Investment
Dunlop Conveyor Belting Distribution FZE	United Arab Emirates	100	Manufacturing, Distribution & Servicing
Dunlop Service Middle East LLC	United Arab Emirates	100	Manufacturing, Distribution & Servicing
American Industrial Plastics, LLC	USA	100	Manufacturing, Distribution & Servicing
CDI Energy Products, Inc.	USA	100	Manufacturing, Distribution & Servicing
Charter Medical, Limited	USA	100	Manufacturing, Distribution & Servicing
EGC Critical Components, LLC	USA	100	Manufacturing, Distribution & Servicing
Fenner America, Inc.	USA	100	Investment
Fenner Advanced Sealing Technologies, LLC	USA	100	Investment
Fenner Drives, Inc.	USA	100	Manufacturing, Distribution & Servicing
Fenner Dunlop Americas, LLC	USA	100	Manufacturing, Distribution & Servicing
Fenner Dunlop Conveyor Systems and Services, LLC	USA	100	Manufacturing, Distribution & Servicing
Fenner Dunlop (Port Clinton), LLC	USA	100	Manufacturing, Distribution & Servicing
Fenner Dunlop (Toledo), LLC	USA	100	Manufacturing, Distribution & Servicing
Fenner Precision, Inc.	USA	100	Non-trading
Fenner Precision, LLC	USA	100	Manufacturing, Distribution & Servicing
Fenner U.S. Holdings, Inc.	USA	100	Investment
Fenner U.S., Inc.	USA	100	Investment
Hallite Seals Americas, Inc.	USA	100	Manufacturing, Distribution & Servicing
SanaVita Medical, LLC	USA	100	Manufacturing, Distribution & Servicing
Solesis Medical Technologies, Inc.	USA	100	Investment
The Secant Group, LLC	USA	100	Manufacturing, Distribution & Servicing
Xeridiem Medical Devices, Inc.	USA	100	Manufacturing, Distribution & Servicing

* Held directly by Fenner PLC.

Alternative Performance Measures

The directors assess the performance of the Group using a variety of performance measures.

The results of the Group are frequently presented on an "underlying" basis, which excludes exceptional items, amortisation of intangible assets acquired and notional interest, as applicable. In addition, the directors use certain financial performance measures that are not defined under IFRS ("non-GAAP measures").

The directors believe the underlying and non-GAAP measures provide a more meaningful measure of the underlying performance of the business, as well as being more consistent with the way that financial information is measured internally by management and presented to the Board.

Reconciliations of these amounts from the most directly comparable measures recognised under IFRS are detailed below.

Underlying operating profit

	2016 £m	2015 £m
Operating (loss)/profit	(14.7)	9.1
Amortisation of intangible assets acquired	11.0	12.9
Exceptional items	40.8	34.4
Underlying operating profit	37.1	56.4

Underlying profit before taxation

	2016 £m	2015 £m
Loss before taxation	(30.3)	(5.3)
Amortisation of intangible assets acquired	11.0	12.9
Exceptional items	40.8	34.4
Notional interest	1.7	0.5
Underlying profit before taxation	23.2	42.5

Underlying earnings per share

A reconciliation is provided in note 13 to the Group financial statements.

Operating cash flow

	2016 £m	2015 £m
Net cash from operations	62.0	80.8
Add back:		
Defined benefit post-retirement costs charged to operating profit	(0.8)	(2.1)
Cash contributions to defined benefit post-retirement schemes	5.2	4.9
Movement in provisions	0.8	0.8
Cash outflow on exceptional items (current year and prior year)	10.4	9.6
Other non-cash movements	(1.2)	(0.3)
Included in investing activities:		
Purchase of property, plant and equipment	(14.2)	(25.2)
Disposal of property, plant and equipment	1.9	3.6
Purchase of intangible assets	(1.1)	(2.2)
Finance leases	(0.8)	(0.7)
Operating cash flow	62.2	69.2

Alternative Performance Measures continued

Free cash flow

	2016 £m	2015 £m
Net cash from operating activities	**55.8**	72.3
Add back:		
Cash outflow on exceptional items (current year and prior year)	**10.4**	9.6
Included in investing activities:		
Purchase of property, plant and equipment	**(14.2)**	(25.2)
Disposal of property, plant and equipment	**1.9**	3.6
Purchase of intangible assets	**(1.1)**	(2.2)
Finance leases	**(0.8)**	(0.7)
Interest received	**0.5**	0.5
Included in financing activities:		
Interest paid	**(13.7)**	(14.7)
Free cash flow	**38.8**	43.2

EBITDA
A reconciliation is provided in note 23 to the Group financial statements.

Net debt
A reconciliation is provided in note 21 to the Group financial statements.

Five Year Summary of the Group

	2016 £m	2015 £m	2014 £m	2013[1] £m	2012[1] £m
Revenue					
AEP	**250.7**	266.2	265.5	270.8	237.2
ECS	**321.8**	400.5	463.9	549.8	593.4
Group	**572.5**	666.7	729.4	820.6	830.6
Operating profit before amortisation of intangible assets acquired and exceptional items					
AEP	**29.9**	41.0	42.3	46.8	43.6
ECS	**14.2**	23.3	45.7	63.0	84.4
Corporate	**(7.0)**	(7.9)	(8.5)	(8.3)	(9.2)
Group	**37.1**	56.4	79.5	101.5	118.8
Amortisation of intangible assets acquired	**(11.0)**	(12.9)	(15.0)	(16.0)	(11.2)
Exceptional items	**(40.8)**	(34.4)	(19.7)	-	-
Operating (loss)/profit	**(14.7)**	9.1	44.8	85.5	107.6
Net finance costs	**(15.6)**	(14.4)	(15.6)	(19.1)	(19.0)
(Loss)/profit before taxation	**(30.3)**	(5.3)	29.2	66.4	88.6
Taxation	**5.0**	(4.4)	(4.5)	(18.4)	(26.2)
(Loss)/profit for the year	**(25.3)**	(9.7)	24.7	48.0	62.4
Earnings/(loss) per share					
Underlying – Basic (before amortisation of intangible assets acquired, exceptional items and notional interest)	**8.4p**	15.5p	23.3p	30.1p	36.1p
Basic	**(13.6)p**	(5.4)p	11.7p	22.9p	30.3p
Dividends paid to Company's shareholders	**23.3**	23.3	21.8	20.3	15.4
Dividend per ordinary share [2]	**3.0p**	12.0p	12.0p	11.25p	10.5p
Capital expenditure (including finance leases)	**16.1**	28.1	28.7	28.7	29.5
Total equity	**278.7**	301.2	336.2	363.1	329.0
Net debt	**(150.0)**	(138.0)	(117.3)	(121.1)	(97.7)
Average number of employees (number)	**4,530**	5,076	5,371	5,272	4,970

[1] 2013 restated following the adoption of IAS 19 (Revised) 'Employee Benefits'. For 2012, no restatement has been made.

[2] Dividend per ordinary share is stated in respect of the period to which the dividends relate. Under International Financial Reporting Standards, this is not the same as the period in which the dividends are recognised in the financial statements.

Shareholder Information

ANNUAL GENERAL MEETING

The 80th Annual General Meeting of the Company will be held at City of London Club, 19 Old Broad Street, London, EC2N 1DS on 11 January 2017 at 10.30 am when the following business will be proposed:

Ordinary business

1 To receive the reports of the Directors and Auditors and the financial statements for the financial year ended 31 August 2016.
2 To approve the Board Annual Remuneration Report.
3 To declare a dividend.
4 To re-elect director.
5 To re-elect director.
6 To re-elect director.
7 To elect director.
8 To elect director.
9 To appoint new auditors.
10 To authorise the Audit Committee to determine the auditors' remuneration.

Special business

11 To authorise the directors to allot shares.
12 To empower the directors to allot shares for cash.
13 To authorise the Company to buy back its own shares.
14 To reduce the notice period required for general meetings.

Note

This is a summary of the Notice of Annual General Meeting and shareholders should refer to the accompanying document which contains the full text of the Notice of Annual General Meeting together with an explanatory letter from the Chairman of the Company.

DIVIDEND INFORMATION

The table below details the amounts of interim and final dividends declared in respect of each of the last five years.

	Interim dividend pence	Final dividend pence	Total dividend pence
2016	1.00	2.00*	3.00*
2015	4.00	8.00	12.00
2014	4.00	8.00	12.00
2013	3.75	7.50	11.25
2012	3.50	7.00	10.50

* Proposed

ADVISORS

Registrars

Capita Asset Services, Huddersfield

Principal Solicitors

Addleshaw Goddard, Leeds
Ashurst, London
Pinsent Mason, Leeds
DLA Piper, Sheffield
Rollits, Hull
Shumaker, Loop & Kendrick, Toledo, USA

Independent Auditors

PricewaterhouseCoopers LLP, Leeds

Brokers

Jefferies, London
Citigroup, London

Principal Bankers

Barclays Bank PLC, Leeds
Lloyds Banking Group plc, Hull
HSBC Bank plc, Leeds
Santander UK plc, London

Investment Bankers

N.M. Rothschild & Sons Limited, Leeds

FINANCIAL CALENDAR

Annual General Meeting – 11 January 2017

Half Year End – 28 February 2017

Half Year Results – 19 April 2017

Year End – 31 August 2017

Full Year Results – 15 November 2017