Annual report and accounts 2008

Delivering performance

RENOLD

www.renold.com

This past year has been a period of geographical expansion and manufacturing cost reduction. We now have a solid platform to build on.

As a business, Renold is well positioned, focused and set for growth today... and tomorrow.

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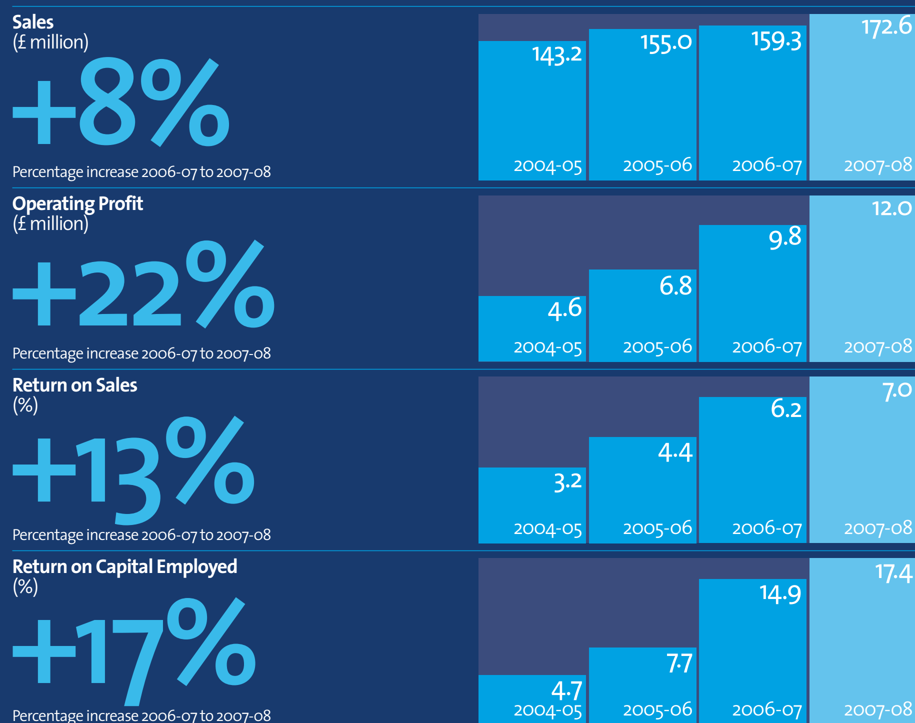
Financial highlights



	2008 £m	2007 £m
Continuing operations:		
Turnover	**172.6**	159.3
Operating profit	**12.2**	3.9
Operating profit before exceptional items	**12.0**	9.8
Profit before tax and exceptional items	**9.1**	7.3
Profit before tax	**9.3**	1.4
Discontinued operations:		
Profit for the year from discontinued operations	**1.5**	(13.5)
Other information:		
Basic profit per share – Group	**11.0p**	(18.3)p
Basic earnings per share – continuing operations	**8.9p**	1.2p
Adjusted earnings per share (adjusting for the after tax effects of exceptional items) – continuing operations	**8.5p**	8.4p
Capital expenditure	**8.2**	5.8
Net debt	**23.9**	19.4

At a glance

Renold plc is an international engineering group, producing a wide range of precision engineering products and application solutions, operating in nineteen countries worldwide. The principal activities of the Group are the manufacture and sale of industrial chains and related power transmission products.

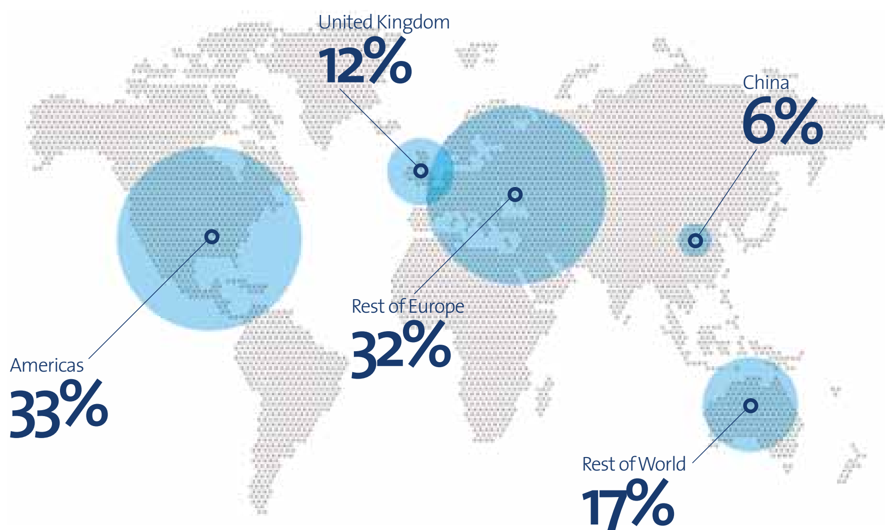
Operating in diverse sectors

- Basic industries – mining, oil, cement, steel
- Construction – off road vehicles, lumber
- Infrastructure – waste water plants, escalators, underground systems, power generation
- Food – palm oil, confectionery, beverages
- Manufacturing – OEMs, printing
- Transport – shipping, freight handling, aerospace
- Leisure – theme parks

Sales – Geographical

Europe	44%
Americas	33%
China	6%
Rest of World	17%

Turnover analysis – Continuing operations



Operations by product

Renold Chain

Renold manufacture a chain for every imaginable application. Heavy duty, high precision, indoor or outdoor, clean or contaminated, high or low temperature environments, these are all in a days work.

The vast range of roller chains means that whatever the requirement there is a Renold solution. Our premier brand, Renold Synergy, offers unbeatable wear and fatigue performance whilst the all purpose range of standard chain provides affordable reliability.

Continuous research, development, innovation and ingenuity has led to the production of more specialised solutions such as Hydro-Service with its superior corrosion resistant coating and the Syno range which sets a new benchmark for chains requiring little or no lubrication. In addition to a broad range of chains involving different materials and platings, there is also a comprehensive range of attachment chains.

Conveying applications including theme park rides, water treatment plants, cement mills, agricultural machinery, mining, and sugar production all rely on high specification materials and treatment processes used in Renold conveyor chains. Lifting chain from Renold also features on 1 in 3 fork lift trucks produced worldwide.

Behind every conceivable industry Renold is working hard at delivering performance and increasing productivity.

Renold Gears

Renold Gears, also at the leading edge of technology in the power transmission industry, are world renowned for their innovative products. A comprehensive range of right angle gear units offer ultimate versatility and durability, with robust construction for arduous applications.

The SMXtra range of shaft mounted helical gear units with the unique Renold quick release bush enables simple installation, whilst other gear hydrostatic variable speed drive units have a proven reliability in hazardous environments, with high speed holding accuracies.

Renold is an influential innovator providing bespoke gear solutions across the globe on escalators, lifts, in power generation, security and steel, and offering unique design and manufacturing capability.

It is also worth mentioning that Renold Gears manufactures not only small units but also very large gearboxes that can weigh well over ten tonnes and be taller than an average human being. They often have to operate in extreme conditions and total reliability is essential.

This part of the Company has earned itself a very good reputation for finding new solutions when refurbishing or upgrading gearboxes and it prides itself on its standards of after sales service.

Renold Couplings

Renold Couplings offers the widest range of coupling solutions in the world. Products ranging from sprag clutches to fluid couplings are all designed and manufactured to the very highest of international standards.

Custom gear spindles and gear couplings are supplied to the primary metals industry, with innovations such as circulating oil lubrication, roll end piloting, and compound tooth curvature keeping Renold at the forefront of the market.

The rubber in compression design of torsionally flexible couplings remains a great success in the diesel engine market, with Hi-Tec Couplings serving demanding applications from steel making to mining and power generation.

A key to the success of the couplings business is its ability to be innovative and harness this to high levels of technical excellence and reliability. Renold Couplings supplies some very famous names in key industries and many of these customers are very long standing clients.

By way of example, this part of the Company has supplied couplings to the large diesel marine market for some years. These are used in a ship's propulsion system and must be utterly reliable because if, for instance, a tanker carrying crude oil loses its propulsion it can rapidly become not only a safety hazard but also an environmental disaster.

Chairman's statement

Matthew Peacock
Chairman

We have a strong platform in place for our next phase of growth.

Overview

In this, my second year as Chairman of your Board, I am again pleased to report that Renold has delivered a strong set of results. Revenue growth of 8% and a strong increase in operating profit of 22% before tax and exceptionals have generated basic earnings per share of 11.0p, compared to a loss per share of (18.3p) a year ago. Within the strong all-round performance set out in this report, the continued delivery of the Profit and Cash Enhancement programme (PACE plan) announced in March 2007 deserves particular comment. At the period end, 46% of our direct labour was in low cost countries compared to the original PACE target of 40% by March 2009. This has grown from only 3% two years ago.

Strategy

We have strengthened the business over the last year, primarily via delivering PACE according to plan. Cost savings, cash generation and capital expenditure targets have been achieved. Risk reduction actions on exchange rate exposure and energy prices were concluded. Progress was made on tax efficiency, pension funding and unlocking freehold property value. Perhaps most significantly, the integration of our June 2007 acquisition of Chinese chain manufacturer Hangzhou Shanshui was successful, and capacity has been doubled from pre-acquisition levels at a very attractive capital cost.

Looking forward, we will continue to focus on cost reduction and on extending geographically. Thus far, the emphasis has been on moving the appropriate manufacturing capacity to low-cost countries – a strategy which will continue to yield growth in our core developed market territories. In addition, now that we are physically present in these low-cost markets, we are in an excellent position to expand our highly regarded product range into them. We estimate that an annual industrial chain market of £400 million exists in new territories where we have a current market share of less than 1%. The expansion to new geographies and product gaps will continue to be pursued via selective infill acquisitions.

To this effect, it was announced on 9 June that Renold is in discussions to acquire a 75% interest in the industrial chain business of L.G. Balakrishnan & Bros Ltd ('LGB'), a public company listed on the stock exchange in India. This business is the market leader for the production and distribution of industrial chains in India as well as having established exports. This will enable Renold to promote its existing product range into India's rapidly growing market place, take account of existing export markets, as well as exploit new product, market and export opportunities.

Your Board

Barbara Beckett will retire from the Board at the AGM in July. I would like to thank Barbara for her contribution over the last three and a half years, particularly in her role as Chairman of the Remuneration Committee. I would like to welcome John Allkins who joined the Board in April 2008 as a non-executive director and as Chairman of the Audit Committee. John is also a non-executive director of Intec Telecom Systems and was previously Group Finance Director of My Travel Group plc. Besides financial skills, he has strong international experience, which will be of benefit in the delivery of the Group's current strategy.

Outlook

We enter our next year with a strong sense of purpose, but also with some caution regarding the outlook for the global economy, notwithstanding that we operate in diverse geographies and sectors which are somewhat uncorrelated with each other. We plan to pursue, actively, the considerable opportunities available to us in the rapidly growing but fragmented emerging markets. However, we will maintain a particularly strong focus this year on cash management and a risk aversion with our balance sheet as we do this. As a consequence, the Board has decided to recommend that no dividend be paid, but it will consider future dividend policy in the light of results from the business going forward.

Additionally, it will remain important in the current year to continue to recover, through price increases and improved efficiency, the inflation we experience in some of our input costs, predominantly in steel, freight and energy.

Our order book at the end of the first quarter of the new financial year is particularly strong, and the Company is well positioned in its geographies and markets. From this solid starting point, I have every confidence in our ability to perform over the coming year under the strong leadership of Bob Davies and his executive team.

Matthew Peacock
Chairman

Chief Executive's review

Bob Davies
Chief Executive

Our strategy is delivering financial results in the short term and building a platform for long term profitable growth.

Overview

I would characterise this year as one of delivering on the challenging targets set and good progress on our strategic, longer term ambitions. I am very proud of Renold's heritage, the patenting of the first transmission chain and over 100 years experience of establishing and maintaining our reputation of superior technology, quality and customer satisfaction. *Renold today* highlights where we are now, capitalising on our heritage coupled with our resolve to be at the forefront of our industry. *Renold tomorrow* summarises how we will maintain and improve on this position in the forthcoming years. At the time of writing we have just announced our planned purchase of LGB in India which demonstrates our commitment to growth in emerging markets and adding value for our customers.

Results

I am proud that we achieved an 8% increase in sales over the last year and this result, together with the 22% improvement in the operating profit before tax and exceptionals, means that the PACE plan is delivering to the bottom line. We will continue to cost control our activities whilst aggressively seeking profitable sales growth across the world in the many sectors in which we operate.

Working capital

I am pleased to report that return on capital employed improved in the year to 17% from 15% in 2006/07. The working capital to sales ratio was maintained at 17% and, although inventory increased by £7.9 million, inventory turns were unchanged.

Movements in exchange rates added £2.9 million to inventory, which also increased as a consequence of higher sales volumes and the increased cost of steel during the year. Understandably, working capital rose as a result of the acquisition of Hangzhou and also because of the buffer stocks manufactured as production was relocated. We will be addressing this through inventory reduction, which will result in cash generation and which will be of particular focus in the coming year.

Renold Hangzhou

In June 2007, we completed the acquisition of a 90% interest in Hangzhou Shanshui, a chain manufacturer based in Hangzhou, China, 200 kilometres west of Shanghai. Integration has proceeded well with capacity more than doubled from pre-acquisition levels and we now have over 400 employees who are skilled and capable of maintaining high quality standards. The increase in capacity was the result of both improved operating practices and £2 million of capital expenditure. A large part of this capital expenditure was sourced locally and represents excellent value for money compared to what it would cost if sourced in Europe or in the US. This important strategic acquisition underpins and reduces the execution risk of PACE and provides a major growth opportunity in the domestic Chinese market and into other parts of South East Asia.

As reported in the media, input costs in China, particularly steel, have increased rapidly and significantly. We are actively pursuing price increases and cost reductions in order to offset these increases.

Potential acquisition in India

Renold announced on 9 June on the London Stock Exchange that it is in discussions to acquire a 75% interest in the industrial chain business of an Indian quoted group, L.G. Balakrishnan & Bros Ltd ('LGB'). LGB has three divisions, one of which is a chain division. We are seeking to acquire all assets of LGB's chain division other than those employed in the manufacture of chains to the automotive industry, which will be retained by LGB. The remainder is the part we are seeking to acquire. This part employs approximately 500 people involved in the manufacture of transmission chain and conveyor chain. This business is based in Tamil Nadu, India. The predominant reason for this acquisition is an entry into the Indian market, which is one of the fastest growing in the world.

This business, already the market leader for the production and distribution of industrial chains in India, will provide an established manufacturing base and sales distribution network. This network will enable Renold to promote its existing product range into India's rapidly growing market place. In addition, the business manufactures products not currently in our portfolio which can be sold through our existing sale distribution channels. This transaction follows on from last year's successful acquisition and integration of Renold Hangzhou in China and is part of our strategy for growth into new markets. If this acquisition concludes, this would exceed the revised PACE target of 60% of the chain direct labour force being in low cost countries. Successful completion of the transaction is dependent upon a number of factors, including regulatory and LGB shareholder approvals which are currently being sought.

Chief Executive's review
continued

Renold today...

Sales and orders

→ Two years ago when we were implementing PACE it was anticipated that we would focus on cost reduction rather than increasing our top line. It is therefore pleasing to report that turnover has increased by 11% in this period despite a strong currency headwind to contend with. At the same time we have seen incoming orders rise across the Group which provides a solid platform going forward.

Earnings

→ A key objective of PACE was to improve our operating profits and margin. Compared to two years ago, our operating profit has increased by 76% to £12 million and the margin moved from 4.4% to 7.0%. It is well known that we have set ourselves an operating margin of 10% under PACE. We remain on course to do this despite the tougher economic climate in much of the developed world during the last twelve months.

Balance sheet and working capital

→ At the end of our 2006 year we had net debt of £20.7 million and a gross pension fund deficit of £53.9 million. We currently have net debt of £23.9 million and the pension deficit has been reduced to £31.2 million. Overall, we have reduced debt and quasi debt by £19.5 million despite acquiring Hangzhou in China last July. It is fair to say that the balance sheet is now far more robust than it has been in the past and we are far more in control of our destiny than was the case only a few years ago. Having said this, there is still scope for improvement in this area.

Currencies

→ We are now a genuinely international company both in terms of manufacturing facilities and sales. We have had to cope with significant US$ weakness in the last two years and the Euro has also been a concern from time to time. It is therefore pleasing to report that our strong focus on currency hedging and use of 'low cost' production centres for manufacturing have produced tangible positive results.

and tomorrow

Our key objectives are:

→ We have made an acquisition in China and plan to acquire in India and intend to increase our geographical footprint, particularly in South America where we are currently under represented. We intend to increase our activity in developing countries, particularly those that offer both domestic and export opportunities.

→ It is vital that we optimise our manufacturing base in order to remain competitive and profitable. Our recent acquisitions go a long way to addressing the issue but there is still more to do in this area. We have placed great emphasis on improving logistics and this is another priority for us moving forward.

→ Renold has always had a reputation for innovation and we intend to continue to build on this in order to maintain and increase our advantage in application solutions. This is where the 'added value' lies in our industry. At the same time we intend to maintain and build on our technology leadership which is well recognised by customers.

→ We have set targets for improving our Return on Sales and Return on Assets which we are well on the way to achieving. However, we operate in a competitive environment so we must continue to pay close attention to costs and reap the full benefits of 'low cost' production, particularly as certain raw material prices have risen sharply in recent times. Our increased global footprint will grow even more.

We will achieve this through:

→ A policy of selective acquisitions that will further increase and improve our geographical and product footprints as well as raising Group turnover and profitability.

→ Placing even greater emphasis on our technological leadership as well as raising the quality of our solutions and customer service to yet higher levels.

→ Ongoing attention to costs has been a central theme of the PACE plan and this will continue to be key looking ahead, with controls now in place that have already proved to be effective in reducing risks to profitability.

→ Getting even closer to having a manufacturing base that optimises production of our products worldwide. The much greater emphasis now put on 'low cost' production, whilst still maintaining quality, is central to improving our profitability in future years.

→ Setting targets for our operating margin and return on capital employed which are attainable based on our action plans set out above being executed as expected.

Chief Executive's review
continued

Pensions
Considerable progress has been made during the year through asset management activities. In particular, a more progressive asset management policy has been agreed and implemented leading to a more diverse and less correlated portfolio. The net UK pension deficit has reduced to £6.8 million (March 2007 – £19.7 million). This reduction has arisen in part due to the discount rate increasing to 6.6% as a result of market interest movements. We are aggressively looking at options to minimise risk going forward.

The gross pension deficit of £31.2 million at 31 March 2008 shows a decrease of £16.8 million from £48.0 million at 31 March 2007.

Burton property
The sale of the Burton-upon-Trent property was concluded in January 2008 and the gross proceeds of £6.4 million were used to reduce net debt and realised a profit of £2.6 million which is reported as an exceptional item. This was a key element in the funding of the PACE plan.

Technology
Renold has maintained its technology leadership through the design and development of products to solve some of the power transmission issues faced in industry today, resulting in building strong relationships with both OEMs and end users. These 'solution products' are aimed at achieving high performance, low maintenance and harmony with the environment. Renold Synergy has been a flagship product for several years, offering unsurpassed performance in highly demanding environments, but for applications where oil free operation is needed such as the food industry, a range of products known by the 'Renold Syno' brand are offered. In addition, 'Renold Hydroservice' has gained in popularity in applications where resistance to corrosion is a priority. Renold has invested in a range of 'Smartlink' products, developed to give visibility of the actual loads and wear in a chain drive system. This has enabled many customers to improve and optimise their own products. The innovative approach to chain engineering has led to strong technical ties with major global OEMs. Renold has continued to invest in engineering in the last year including the addition of a state of the art R&D facility in China and an Innovation Centre in the UK. We intend to make further investments in the coming year.

Renold has maintained its technology leadership through the design and development of products to solve some of the major problems faced in industry today.

Service
The world is becoming a smaller place and increasingly competitive, so Renold has a product offering covering the spectrum of needs from Solution products at one end to utility products, for less exacting applications, at the other. In all cases, the need for excellent service is paramount and a Global Supply Chain organisation has been created in order to ensure that this expectation is fully met. The goals of improving on-time delivery, quality and cost have been key objectives, as this year we intend to keep ongoing focus on these areas particularly with the increased volatility of raw material supply and costs witnessed in recent times.

Organisation
Our organisation has been changed to meet our growth ambitions and the need to be able to best manufacture wherever in the world. We have developed and implemented Global Supply Chain organisation which will ultimately have the responsibility for manufacturing efficiency and customer fulfilment within our chain factories. This will give us the capacity and capability to be responsive and flexible to our current and new customer needs.

Gears and Couplings
The Gears and Couplings business continues to have good sales and profit growth. This growth is being driven by the steel, mining, power generation and transportation industrial sectors in which they operate. Their highly engineered products are valued by customers across the world particularly in China, Europe, Africa and the USA. The contract with Alstom for the mass transit system in the State of New York has been extended and will generate $14 million sales over the next 18 months. Following the acquisition of Renold Hangzhou we have consolidated the manufacture in China of chain products and components there. The Beicai facility in Shanghai is now devoted to the manufacture of gears and couplings products and components. This gives this business access to local markets and a lower cost of manufacture.

We have a clear strategy and a track record of delivering performance. The Renold team is capable and enthused to meet our strategic ambitions. We look forward with confidence to another successful year.

Bob Davies
Chief Executive

Dartford Creek flood defence system

Chain monitoring knows no barriers

Renold's ingenuity and solution capability were called upon to overcome the technological demands involved in manufacturing a massive chain to be used in the raising and lowering of barriers at the Dartford Creek flood defence system. This system is part of several including the Thames Barrier, that protect London from flooding.

Keeping plant and machinery running smoothly is becoming increasingly sophisticated, particularly on heavy-duty applications. In less demanding applications the wear of components is largely a constant, and predictive maintenance keeps machinery running smoothly. It is different on arduous applications where plant and machinery operates at the extremes of tolerances.

The Dartford Barrier is made up of two towers, each almost 100 feet high that stand aside the Darent tributary river. Between them are sections of barrier that are lowered into place sequentially to form a defensive wall against high tides. The chain that drives the mechanism is massive. Over 90 metres in length, it weighs 13 tonnes with a breaking load of 285 tonnes. This chain is tough, for as well as having to bear huge loads when the enormous sections of barrier are raised and lowered, parts of it have to endure spending significant amounts of time submerged underwater.

Manufactured in the UK, the high specification chain was made specifically for purpose. The 6.5 inch pitch links have grease nipples so that lubricant can be applied directly to the link to create a protective layer between the pin, bush and roller.

The chain is also completely coated in grease to protect it from corrosive elements. It is also monitored at regular intervals by Smartlink, the latest in chain monitoring technology from Renold.

Careful monitoring is paramount. Components pushed to the limits could, if left undetected, lead to premature wear or even catastrophic failure. However, knowledge of these factors enables maintenance engineers to be proactive.

Smartlink consists of a strain gauge linked to a microprocessor which collects data about the stresses and forces the chain is exposed to during the lowering and raising of the barrier.

The Smartlink units are connected to the chain's side plates and the information collected can be downloaded to a hand-held device and analysed.

It was discovered that the friction caused by the mechanism of the gates being opened and closed was higher than anticipated causing the chain to experience loads towards the upper end of its calculated working limit under extreme conditions. By establishing this fact prior to the chain being damaged the maintenance team were able to reduce friction levels and thus the loading on the chain.

The most sophisticated version of Smartlink, as fitted on the Dartford Barrier, is capable of collecting a wide range of data and is often used where there are unresolved issues or on safety critical applications.

The Dartford Creek Barrier solution represents an excellent example of Renold's ability to provide innovative and technologically capable bespoke solutions, satisfying customers' requirements however critical the application, arduous the conditions and specific the need.

Screw down gearboxes

Innovative solution from Renold Gears

Screw down gears for an Asian customer are the largest ever made. Another innovative solution from Renold Gears is further proof that the company has a diverse range of talent when it comes to solving problems for customers.

During the year under review, Renold Gears completed the manufacturing of the heaviest pair of worm wheel gearboxes in the company's history at its site in Milnrow near, Rochdale. With a combined weight approaching 25 tons, these huge gearboxes were ordered by a customer in Asia. This alone is proof that Renold's reach and reputation is genuinely international.

Designed and manufactured to be installed in an existing steel mill, the gear units are to be fitted as the main drives of a screw down mechanism which is used to reform recently cast steel billets into thinner width sections. The screw down gear units are driven by massive 220kW motors and literally squeeze the steel into the required section widths.

The units are a single reduction worm gear design with a reduction ratio of 21.5/1 and designed specifically for the application with a huge tooth thickness to withstand in excess of 530,000 Nm of static torque.

They are manufactured in pairs and are identical externally but internally the gears are cut with opposite angle gearing known as left and right hand threads. This gives the desired effect of giving opposite direction of rotation of the output when both units' inputs are driven in the same direction.

Renold Gears has manufactured and supplied many similar screw down gear drives in the past and also supplied specialised worm gears to customers who have built them into their own gearboxes. Where sudden and huge shock loads are going to be encountered, only worm wheel sets manufactured with the maximum tooth width are suitable. In addition, only the combination of hardened steel worm shafts and 'soft' phosphor bronze worm wheels allow these loads to be withstood with no detrimental effect on service life.

The division's capability to undertake complete custom made systems designed to meet the customer specifications, has enabled Renold Gears to continue to win these types of contracts in diverse markets around the world.

Financial review

Overview

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements of the parent company, Renold plc, have been prepared under UK Generally Accepted Accounting Principles (UK GAAP) and are included on pages 68 to 76.

Continuing operations

Revenue

The revenue from continuing operations increased by 8% to £172.6 million. Sales in the second half-year, at £90.5 million, were 10% higher than in the first half.

Operating profit

Operating profit before exceptional items was £12.0 million, up 22% on 2006/07. Return on sales[1] for continuing operations for the year before exceptionals was 7.0% compared with 6.2% for last year. This demonstrates a continuing recovery in margins, which now extends for six consecutive half-year periods. We expect this trend to continue.

Exceptional items were £0.2 million credit, compared with £5.9 million charge in 2006/07. £2.4 million redundancy and restructuring costs incurred mainly in the European chain operations were offset by £2.6 million profit recognised on the sale of the Burton property.

Further details of the exceptional items are given in Note 2(c) to the financial statements.

Financing costs

Total net financing costs increased to £2.9 million (2007 – £2.5 million).

Net bank interest cost rose to £2.6 million (2007 – £2.4 million) due to the increased LIBOR borrowing rates in the period. Amortisation of costs associated with the re-banking in February 2007 were £0.2 million (2007 – £0.2 million). The net interest cost on pension plan balances and the expected return on pension plan assets was a charge of £0.1 million (2007 – credit £0.1 million).

Profit before tax

Profit before tax and before exceptional items was £9.1 million compared with £7.3 million last year. Profit before tax after exceptional items was £9.3 million compared £1.4 million in 2006/07.

Taxation

The tax charge on continuing operations of £3.1 million (2007 – £0.6 million) represented an effective rate of approximately 33%, 7% less than that reported in 2006/07 and a continuation of the downward trend.

Discontinued operations

The Automotive and Machine Tools businesses were divested in 2006/07. In 2007/08, £0.15 million deferred consideration on the sale of the Machine Tool business received in May 2008 was recognised. The remaining £1.35 million deferred consideration will also be recognised when received. £1.5 million of net provision in relation to claims on various warranty matters were released in 2007/08 following settlement of the claims.

Group results for the financial period

The profit for the year was £7.7 million compared with a loss of £12.7 million in 2006/07; the basic earnings per share was 11.0p (2007 – 18.3p loss) and the diluted earnings per share was 10.8p (2007 – 18.1p loss). The basic adjusted earnings per share (from continuing operations before exceptional items) was 8.5p (2007 – 8.4p).

Balance sheet

Net assets at 31 March 2008 were £41.0 million (2007 – £23.9 million). The liability for retirement benefit obligations was £31.2 million (2007 – £48.0 million) before allowing for a net deferred tax asset of £4.8 million (2007 – £11.1 million). Of the £31.2 million obligation, £19.8 million arises in respect of non-UK unfunded schemes which do not require to be prefunded (see pensions below). The UK pension schemes deficit net of deferred tax has reduced to £6.8 million (2007 – £19.7 million).

1 Being operating profit before exceptional items on revenue from continuing operations.

Hi-Tec rubber-in-compression coupling

Providing failsafe operation and protecting men and equipment in mining applications across the world.

Financial review
continued

Cash flow and borrowings
Operating cash inflow from continuing operations was £4.5 million (2007 – £10.3 million).

Operating cash inflow from discontinued operations was £nil (2007 – £4.7 million outflow).

Payment for purchase of property, plant and equipment was £7.5 million (2007 – £6.0 million including £1.5 million related to discontinued activities). Proceeds of disposals of property, plant and equipment and assets held for sale (Burton) were £7.1 million (2007 – £0.2 million).

Group net borrowings at 31 March 2008 were £23.9 million (2007 – £19.4 million) comprising cash and cash equivalents £15.5 million (2007 – £20.3 million) and borrowings, including preference shares, of £39.4 million (2007 – £39.7 million).

Acquisition
In June 2007 we completed the acquisition of a 90% interest in Hangzhou Shanshui for £2.4 million. The existence of put and call options over the remaining 10% shareholding retained by the vendors requires us to account for the £0.5 million contingent consideration as a provision and not to report a minority interest. Goodwill arising on acquisition is £1.2 million. Further details are shown in Note 27.

Treasury and financial instruments
In February 2007 the Group entered into a three year syndicated bank facility led by The Royal Bank of Scotland plc, with Fortis Bank S.A./N.V. as a participant. This facility is the Group's principal credit facility, although it does maintain facilities and relationships with a number of other banks in the territories in which it operates.

The Group treasury policy, approved by the directors, is to manage its funding requirements and treasury risks without undertaking any speculative risks. Note 26 to the financial statements provides details of financial instruments.

The Group maintains a mix of short and medium-term facilities to ensure that it has sufficient available funds for ongoing operations.

A major exposure of the Group earnings and cash flows relates to currency risk on its sales and purchases made in foreign (non-functional) currencies. To reduce such risks, these transactions are covered primarily by forward foreign exchange contracts. Such commitments generally do not extend more than 12 months beyond the balance sheet date, although exceptions can occur where longer-term projects are entered into.

To manage foreign currency exchange risk on the translation of net investments, certain dollar denominated borrowings taken out in the UK to finance US acquisitions have been designated as a hedge of the net investment in US subsidiaries. The carrying value of these borrowings at 31 March 2008 was £6.5 million (2007 – £6.4 million).

Borrowings issued at variable rates expose the Group to cash flow interest rate risk and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group reviews the mix of fixed and floating debt and has interest rate swaps to manage part of this exposure.

At 31 March 2008 the Group had 20% (2007 – 19%) of its gross debt at fixed interest rates. Cash deposits are placed short-term with banks where security and liquidity are the primary objectives. The Group has no significant concentrations of credit risk with sales made to a wide spread of customers, industries and geographies. Policies are in place to ensure that credit risk on individual customers is kept to a minimum.

Renold factory, Hangzhou China
The 250,000 sq ft manufacturing facility is the second largest in the Group and is now fully operational.

Renold Couplings

Wins prestigious mass transit contract

In November 2007 Renold Couplings won a US$ 14 million contract to supply rail traction gearboxes and couplings to Alstom for trains ordered by the New York City Transit Authority (NYCT). The contract is phase two of a three phase schedule and is expected to be fulfilled over an 18 month period commencing in May 2008.

Product innovation and reliability were major contributing factors to Renold being chosen to supply Alstom for the trains ordered by the NYCT destined for operation on the famous New York Subway.

NYCT is the largest subway fleet operator and one of the most extensive and complex public transportation systems in the world. Each day, more than seven million people use The New York Subway and this equates to over 1.5 billion customers annually. The Alstom cars will represent a major upgrade to NYCT's fleet, and will be equipped with several hi-tech customer amenities.

The couplings are being fitted on the new R160 series trains destined for operation on the famous subway. The R160 cars will run on the highest traffic areas of the system, so reliability is an essential factor in design and manufacture.

The new gearboxes and couplings are fitted in-between the AC traction motor and the drive axle. They allow the safe transmission of torque while the motor and gearbox shafts are misaligned, vertically and horizontally, by up to 4.5 degrees.

Renold has a long supply history with NYCT and many other US transit authorities dating back over 45 years. Renold's couplings are extremely robust in design, have an excellent service history, and the major subway car builders such as Kawasaki, Alstom, and Bombardier have all used Renold couplings in their propulsion systems with proven success. Renold Couplings offers the widest range of coupling solutions in the world. Products ranging from sprag clutches to fluid couplings are all designed and manufactured to the very highest of international standards.

Once again, Renold's ability to find innovative solutions for customers is a recognised strength by the leading mass transit rolling stock manufacturers.

Financial review
continued

Pensions

Information on the Group's pension schemes is set out in Note 19 to the financial statements, including the key assumptions used by the actuary in arriving at the IAS 19 funding position.

The gross pension assets and liabilities and resulting deficits are as follows:

	2008 Assets £m	2008 Liabilities £m	2008 Deficit £m	2007 Assets £m	2007 Liabilities £m	2007 Deficit £m
UK Schemes						
– funded	**158.5**	**(168.0)**	**(9.5)**	164.4	(192.5)	(28.1)
Overseas Schemes						
– funded	**15.2**	**(17.1)**	**(1.9)**	15.1	(17.0)	(1.9)
– unfunded	**–**	**(19.8)**	**(19.8)**	–	(18.0)	(18.0)
	173.7	**(204.9)**	**(31.2)**	179.5	(227.5)	(48.0)
Deferred tax asset			**4.8**			11.1
Net			**(26.4)**			(36.9)

During the year, the assets of the funded schemes fell by £5.8 million. The funding deficit improved further, however, as total liabilities decreased by £22.6 million reflecting actuarial gains due primarily from increased bond rates, with the rate used for discounting UK liabilities rising from 5.4% to 6.6%.

The overseas deficit comprises £1.9 million (2007 – £1.9 million) in respect of funded defined benefit schemes, and £19.8 million (2007 – £18.0 million) relating principally to the unfunded German scheme which, as is common in Germany, is a 'pay as you go' scheme which is not required to be pre-funded. There is no obligation for deficit funding payments for this type of scheme.

There are three UK defined benefit pension schemes: (i) the main scheme, which is the Renold Group Pension Scheme (RGPS); (ii) the Renold Supplementary Pension Scheme (RSPS); and (iii) the Jones & Shipman plc Retirement Benefit Plan (J&S).

The status of these schemes at 31 March 2008 is summarised below:

As at 31.3.08	RGPS £m	RSPS £m	J&S £m	**Total £m**
IAS 19 liabilities	(108.3)	(29.1)	(30.6)	**(168.0)**
Market value of assets	102.0	26.5	30.0	**158.5**
Deficit on IAS 19 basis	(6.3)	(2.6)	(0.6)	**(9.5)**
Annual deficit reduction payment (based on funding valuations)	2.2	0.7	0.2	**3.1**
Total members (approx)	5,109	117	1,040	**6,266**
of which active are	415	8	1	**424**

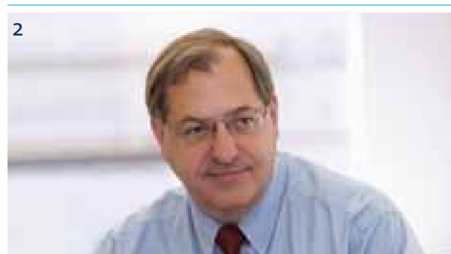
Further details on the Group's pension schemes are given in Note 19 to the financial statements.

Peter Bream
Finance Director

Escalator drives
Escalators found around the world are driven using chain drives and are connected to the output shaft of large wormgear units.

Board of Directors

1

2


3

4

5

6

7

1. **Matthew Peacock**
   Chairman
   Matthew, aged 46, was appointed to the Board and became Chairman in September 2006. He is the co-founder of Hanover Investors, a specialist turnaround investment firm based in London. Prior to Hanover, Matthew ran the International M&A team in London at Barclays De Zoete Wedd, having previously worked in New York for Credit Suisse First Boston. Matthew is also a non-executive director of SMG plc, Cosalt plc and is a non-executive director of Fairpoint plc.

2. **Robert (Bob) Davies**
   Chief Executive
   Bob, aged 54, joined the Group in March 2004 and was appointed Chief Executive in April 2004. A Member of the Institute of Electronic Engineers, he was previously Chief Executive of Druck Holdings plc and prior to that held a number of senior management positions in the Lucas Group and at General Electric, in both the UK and USA.

3. **Peter Bream**
   Finance Director
   Peter, aged 41, joined the Group in July 2006 and was appointed Finance Director in September 2006. He was Finance Director of Provalis plc, a UK listed company, for three years until March 2006. Prior to joining Provalis, Peter was a Divisional Finance Director for API Group plc. Peter is a chartered accountant and has an engineering degree from Cambridge University.

4. **Barbara Beckett**
   Non-Executive Director
   Barbara, aged 54, was appointed to the Board in March 2005. She was the Group Marketing Director of BAA Ltd and has extensive experience throughout the retail/service industries. She has had operations management experience with several major companies including BT plc. Barbara will be retiring at this year's AGM.

5. **Rod Powell**
   Non-Executive Director
   Rod, aged 60, was appointed to the Board in September 2006. A chartered management accountant, a chartered engineer and partner in R J Investments, Rod was formerly Chief Executive of the Control Systems Division of Invensys. Rod is also a director of Cosalt plc, Plasmon plc, Hanover Investors Limited and Dust Networks Inc. (a privately held US company).

6. **David Shearer**
   Senior Independent Non-Executive Director
   David, aged 49, was appointed to the Board in May 2007 as the Senior Independent Non-executive Director. A corporate financier and a former senior partner in Deloitte & Touche where he was a UK Executive Board member, David is Chairman of Crest Nicholson plc. He is also Senior Independent Director of SMG plc and Superglass Holdings plc, a non-executive director of Mithras Investment Trust plc, Aberdeen New Dawn Investment Trust plc, Martin Currie Holdings Limited and Scottish Financial Enterprise and a Governor of The Glasgow School of Art. He was previously a non-executive director of HBOS plc.

7. **John Allkins**
   Non-Executive Director
   John, aged 58, was appointed to the Board and to the chair of the Audit Committee in April 2008. He is also a non-executive director of Intec Telecom Systems Plc and was previously Group Finance Director of MyTravel Group plc. Prior to that, he held a number of Finance Director roles in BT.

The Directors' Report

This is the Directors' Report and the audited financial statements for the year ended 31 March 2008.

Our Group

Renold plc (the "Company") and its subsidiaries (together the "Group") is an international engineering group, producing a wide range of precision engineering products, operating in 19 countries worldwide.

The Group's principal activities are the manufacture and sale of industrial chains and related power transmission products.

Business review and future developments

A review of the business and future developments of the Group, together with a description of the principal risks and uncertainties affecting the business, is set out in the Directors' Report on page 16.

Results

Our profit for the year before tax from continuing operations was £9.3 million compared with a profit of £1.4 million for the previous year. The profit for the year, taking into account discontinued operations, is £7.7 million (2007 – a loss of £12.7 million).

KPIs

Performance in the current and prior years is summarised as follows:

	2008	2007
Operating profit before exceptional items	**£12.0 million**	£9.8 million
Return on sales	**7.0%**	6.2%
Working capital as a percentage of sales	**17%**	17%
Low cost countries direct labour	**46%**	12%
Adjusted EPS[2]	**8.5 pence**	8.4 pence

The Group monitors the performance of its business through detailed monthly operational and financial reporting, with comparisons to budgets and updated forecasts being routinely made. In addition, the Group maintains regular reviews and dialogue with the management of each of the Group's businesses.

At Board level, the most important key performance measures are:

- Operating profit before exceptional items;
- Return on sales, being operating profit before exceptional items as a percentage of sales;
- Working capital as a percentage of sales, being net working capital as a percentage of sales;
- Low cost country direct labour, being a percentage of direct employees in low cost countries; and
- Adjusted EPS, being basic EPS adjusted for the after tax effects of exceptional items.

Our Directors

Directors

The directors' biographical details can be found on page 15. All directors, except John Allkins, were directors throughout the year.

At the 2008 Annual General Meeting, Barbara Beckett will retire, Bob Davies and Peter Bream will retire and offer themselves for re-election by shareholders and John Allkins will offer himself for election for the first time in accordance with the Company's Articles of Association.

Directors' interests

Details of the interests of our directors and their connected persons in our share capital and in options held under share option schemes, along with any changes in such interests since the end of the year, are detailed in the Directors' Remuneration Report on pages 21 to 25. No director had any interests in contracts of significance in relation to the Company's business during the year.

Directors' and officers liability insurance

We maintained liability insurance for our directors and officers throughout the year.

No qualifying third party indemnity provision or qualifying pension scheme indemnity provision was in force when this Directors' Report was approved or was in force during the year.

Going concern

After making enquiries, we, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. We therefore continue to adopt the going concern basis in preparing the financial statements.

Directors' statement as to disclosure of information to auditors

Those directors who were members of the Board at the time of approving this Directors' Report are listed on page 15. Having made enquiries of the Company's auditors, each of our directors confirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of the reports of which our auditors are unaware; and

2 Being basic EPS from continuing operations before exceptional items after tax.

- they have taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that our auditors are aware of that information.

Our Employees

As at 31 March 2008, the Group employed 2,536 people, including 697 in the UK.

Employment policies

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

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

Our policy is to ensure that disabled applicants for employment are given full and fair consideration, and that existing disabled employees are given equal access to training, career development and promotion opportunities. In the event of existing employees becoming disabled, we would explore all reasonable means to achieve retention in employment in the same or an alternative capacity.

UK pension schemes

Our UK pension schemes are largely defined benefit type schemes with assets held separately from those of the Group in trustee administered funds, managed by independent managers. Under the terms of their management agreements, the investment managers of the schemes' assets are not permitted to invest in the securities of Renold plc. The Boards of Trustees of the principal schemes include employee representatives.

In April 2002, the Renold Group Pension Scheme and the Jones & Shipman plc Retirement Benefits Plan (1971) were closed to new entrants subject to appropriate transitional arrangements for existing eligible employees being put in place, and a defined contribution scheme was established as from that date.

Neither our Chairman nor our Chief Executive is a Trustee of the defined benefit or the defined contribution schemes. An independent Trustee Company has been appointed to provide an individual to act as Chairman of the Board of Trustees of the principal schemes.

Our Shares

Share capital

Details of our share capital and any changes during the year are set out in Note 20 to the financial statements on page 58.

Major shareholders

As at the close of business on 30 May 2008, we had been notified of the following interests in voting rights attached to shares or financial instruments under Disclosure and Transparency Rule 5. No major shareholder had any interest in derivatives or financial instruments relating to shares carrying voting rights that are linked to the Company's shares.

Shareholder	Number of voting rights	% of total number of voting rights
Hanover I Master Fund LP	12,937,500	18.47
Prudential plc	8,910,240	12.72
SVG Investment Managers Limited[3]	5,990,511	8.55
Henderson Global Investors	5,050,000	7.21
Lowland Investment Company plc	4,650,000	6.64
Aberforth Partners LLP	4,771,200	6.81

Dividends

Details about our dividend policy are set out in the Chairman's Statement on page 4.

Preference dividend payments were made on 1 July 2007 and 1 January 2008.

Directors' rights in respect of shares

The directors are authorised to issue equity securities for cash either by way of rights issue or in any other way, provided that the shares issued other than by way of rights issue, open offer or other pre-emptive offer or under the various 2004 share and share option schemes of the Company be limited to shares with a nominal value of £870,747, being equal to 5% of the aggregate nominal amount of the Company's ordinary share capital currently in issue. The authority will expire at the next AGM on 30 July 2008.

In addition, the directors have authority to allot shares up to a maximum nominal amount of £5,804,983 representing approximately one third of the issued share capital at the date of passing of the relevant resolution. This authority will expire on 30 July 2008.

3 This shareholding includes 2,950,415 (4.21%) of rights attaching to shares held by Strategic Equity Capital Limited.

The Directors' Report
continued

Finance

Financial instruments
Our financial risk management objectives and policies, and our exposure to risk (including credit risk) are discussed in the Financial Review on pages 11 to 14, in the Directors' Report and in the notes to the accounts on pages 62 and 63.

Policy on payment of suppliers
Under the supervision of the head office, individual operating businesses are responsible for agreeing the terms and conditions under which transactions with their suppliers are conducted, including the terms of payment. It is our Group policy that payments to suppliers are made in accordance with these terms, provided that the supplier complies with all relevant terms and conditions.

As at 31 March 2008, trade creditors of our businesses in the UK and overseas represented 66 days' purchases, compared with 65 last year.

Donations
During the year, we made no contributions to UK organisations for charitable purposes nor any political donations.

Post balance sheet event
In June 2008, Renold Continental Limited committed to sell the freehold of an office building located in Brussels for proceeds expected to be approximately £1.5 million. The anticipated profit on this disposal is estimated to be approximately £0.7 million.

Our principal risks and uncertainties

Risk is inherent in our business activities. We take steps at both a Group and subsidiary level to understand and evaluate potential risks and uncertainties which could have a material impact on our performance in order to mitigate them. Accordingly, a risk aware environment is promoted and encouraged throughout the Group. Details of the principal risks and uncertainties are set out below.

External market

Economic and political risks
We operate in 19 countries and sell to customers in many more, including China. While benefiting from the opportunities and growth in these diverse territories, we are necessarily exposed to the economic, political and business risks associated with international operations such as a global recession, sudden changes in regulation, imposition of trade barriers and wage controls, security risk, limits on the export of currency and volatility of prices, taxes and currencies. Our diversified geographic footprint mitigates against exposure within any one country in which we operate, although we are still exposed to global events.

Raw material prices
This year has seen volatility to the price of raw steel. Movements in steel prices are driven by global market conditions outside the control of the Group. Where contractually possible, we pass price increases onto our customers. This action could potentially impact customer retention.

Acquisitions
In addition to organic growth, we believe that strategic acquisitions are key to delivering both our long and short-term strategy. Acquisition brings with it risk, from the inappropriate selection of a target company, to post acquisition transition and integration issues. The Group has in place a management team which understands and works to mitigate these risks, and uses external advisers, where appropriate.

Operational

Health, safety and the environment
Revision of environmental legislation in various countries takes time and we monitor this at a local level in order to anticipate the effect on our businesses and customers. Unforeseen legislative changes may increase manufacturing costs, but we believe that they can also drive change to make operations more efficient.

Product liability and warranty claims
As a result of the nature of the products manufactured, we face the inherent business risk of exposure to product failure and warranty claims in the event that a product fails. In order to mitigate these risks, where possible, we maintain product liability and product recall insurance.

In order to mitigate the risk of warranty claims for property damage or consequential losses, we have adopted a policy of contractually limiting liability, where possible.

Financial

Liquidity
In the present economic climate, all companies face risk in relation to the availability of debt to fund their ongoing operations. In order to manage this risk, the Group maintains a mix of short and medium-term facilities to ensure that it has sufficient funds available. Its main facility is committed until February 2010. Cash deposits are placed short-term with banks where security and liquidity are the primary objectives.

Foreign exchange risk
The Group has operations in 19 countries and sells into many more with the result that two forms of currency risk, transactional and translational exposure, arise.

Transactional exposure – A major exposure of the Group earnings and cash flows relates to currency risk on its sales and purchases made in foreign (non-functional) currencies. To reduce such risks, these transactions are covered primarily by forward foreign exchange contracts. Such commitments generally do not extend more than 12 months beyond the balance sheet date, although exceptions can occur where longer-term projects are entered into.

Translational exposure – Translational exposure arises due to exchange rate fluctuations in the translation of the results of overseas subsidiaries into sterling. To manage foreign exchange currency risk on the translation of net investments, certain dollar denominated borrowings taken out in the UK to finance US acquisitions have been designated as a hedge of the net investment in US subsidiaries.

Interest rates
Borrowings issued at variable rates expose the Group to cash flow interest rate risk, and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group reviews the mix of fixed and floating debt and has interest rate swaps to manage part of this exposure.

Pensions
Estimates of the amount and timing of future funding obligations for the Group's pension plans are based upon a number of assumptions including future long-term corporate bond yields, the actual and projected performance of the pension plan assets, legislative requirements and increased longevity of members. In the last year, increased bond yields have reduced the deficit. The Group continually reviews risks in relation to the Group's pensions and takes action to mitigate where possible. While the Group is consulted by the trustees on the investment strategies of its pension plans, the Group does not have direct control over these matters, as trustees are responsible for the pension strategy.

Our approach to corporate social responsibility

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

The Board has overall responsibility for corporate social responsibility, including environmental policy & health and safety matters, with the Chief Executive taking leadership responsibility with direct lines of reporting from operational facilities and the Supply Chain and IT Director, who is responsible for the management of Group Health & Safety.

Environmental policy
We are committed to managing our activities so as to provide proper levels of care and safety for the environment, and for our customers and employees. In particular, we seek to develop and manufacture products so as to minimise their environmental impact as far as practicable, to co-operate with industry, government bodies, suppliers and customers to develop and achieve improved standards of environmental care, and to conduct our operations in compliance with relevant statutory provisions concerning environmental matters.

In line with this policy, local management is responsible for ensuring that appropriate systems are implemented, maintained and monitored in the areas for which they are responsible. Each business has issued a local environmental statement which complies with Group policy and local legislation. The case studies below show the way in which local management has progressed environmental initiatives.

Case study 1

Jeffrey Chain LP (Morristown) put in place two energy saving initiatives in 2007
Office lighting was converted from old fluorescent light fixtures with magnetic ballast to new T-8 fluorescent fixtures. Each new four-bulb light fixture saves 117 watts. The annual energy saving resulting from this initiative equates to a cost of $10,268 per year.

The plant cooling tower required replacement in 2007. To incorporate energy reduction into the project, variable speed drives were purchased for the fan and pump motors. By slowing the fan and pumps down to match actual plant requirements, significant energy savings were realised. This initiative reduced the annual energy cost by $11,959.

The Directors' Report
continued

Case study 2

Renold Continental Limited (Belgium)

Our Belgian facility achieved the accolade of an "Ecodynamic Company in Brussels" from the Brussels Environmental Institute with a two-star grading for the second time. This is in recognition of its voluntary commitment to improve environmental performance and to set up environmental management systems.

The achievement was in recognition of the fact that it has reduced the use of heating oil by 14% and electricity by 8% since 2003 by optimising the thermostatic regulation of the heating system, through regular maintenance and by encouraging energy-saving behaviour.

Case study 3

Renold Power Transmission Limited (Bredbury, UK)

A centrifuge machine has recently been purchased that has allowed the Bredbury site to recycle water from an existing process. This has resulted in reduced water usage of around 20m3 per day and substantial cost savings on waste disposal and chemical usage.

In addition, the Bredbury site has commissioned an energy survey (funded by the Carbon Trust) which recommended various energy saving measures. The site is in the process of implementing a number of the recommendations.

Health & safety policy

As a global Group operating in 19 countries, we have a high level of concern for the health & safety of our employees, contractors, customers and neighbours. As a result, we actively work with local management to identify areas where improvements and efficiencies can be made.

The Board regularly reviews health and safety performance.

Research and development

Innovation is key to the future success of our Group and to the delivery of long term value for our shareholders. Our research and development activities continue to be principally directed towards the development of new products and manufacturing methods, together with the improvement of performance and cost effectiveness of our existing products.

Our contracts

Change of control provisions

The Company's main UK facilities agreement with the Royal Bank of Scotland and Fortis Bank S.A./N.V contains a change of control provision. This requires the Company to provide notification to the agent in the event of a change of control. The banks may then demand cancellation and repayment of the commitments and the loans.

No other material contracts contain change of control provisions. There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

By order of the Board

Lindsay Beardsell
Company Secretary
24 June 2008

Directors' remuneration report

This remuneration report has been prepared on behalf of the Board and is subject to the approval of shareholders at the Annual General Meeting (AGM) on 30 July 2008.

Remuneration Committee and advisers

The Company's Remuneration Committee determines on behalf of the Board and within agreed terms of reference set by the Board, the overall remuneration packages for the executive directors and the Chairman. The members of the Committee currently comprise the independent non-executive directors, Barbara Beckett (Chair), Matthew Peacock, Rod Powell and David Shearer, none of whom has any personal financial interest other than as a shareholder, in the matters to be decided.

The Chief Executive attends meetings of the Committee by invitation, but does not take part in the Committee's recommendations on his own remuneration. No director is involved in deciding his or her own remuneration, whether determined by the Committee or, in the case of the non-executives, by the Board.

During the year, the Remuneration Committee received specialist remuneration advice from Hewitt New Bridge Street, who are independent remuneration consultants, and the Hay Group.

The Committee meets as often as necessary to discharge its duties, which during 2007/08 was six times. The terms of reference of the Committee are available on the Company's website.

Executive directors

Policy

The Company's executive director remuneration policy is to provide compensation packages at market rates which reward successful performance and attract, retain and motivate the directors reflecting their individual contribution and value to the Company. The remuneration packages offered by the Company are comparable to other UK based companies of similar size and nature.

The remuneration policy places a lot of emphasis on ensuring that the executive directors' incentive arrangements have the potential to provide a greater reward than base salary. Combined with an approach that requires incentive arrangements to be linked directly to business specific measures, this ensures that rewards will be based on the continued creation of shareholder value and to ensure that the senior management team remain incentivised to remain with the Company and deliver outstanding returns to shareholders.

In fixing remuneration packages, the Committee has regard to the compensation commitments that would result in the event of early termination.

The remuneration policy is expected to be applied in respect of the forthcoming and subsequent years.

Remuneration package

Base salary

Base salaries are reviewed annually and reflect the level of responsibility of the executive director, his/her market value and individual performance. The Committee's objective is to offer base salaries around the market median level. Above median levels of pay may be agreed for outstanding performance or to attract executives of the right calibre. In reviewing base salaries, the Committee has regard to comparable jobs in manufacturing companies of a similar size and reach.

The Committee recently reviewed the base salaries of the executive directors. The current salary levels, effective from the date shown, are set out below (the figures in brackets reflect salary levels effective as at 25 June 2007):

Bob Davies £285,000 effective from 1 January 2008 (£265,000 in 2006/07[4])

Peter Bream £180,000 effective from 1 October 2007 (£152,252 in 2006/07)

Benefits in kind

Benefits consist of a fully expensed company car (or cash equivalent) and private medical insurance, in addition to life assurance. The value of benefits is not pensionable.

Pensions

The executive directors are not members of the Company pension scheme and they have their own pension arrangements into which the Company made contributions of £40,500 in 2007/08 (£26,400 in 2006/07) for Bob Davies and £24,919 in 2007/08 (£16,300 in 2006/07) for Peter Bream (being 15% of base salary). The Company has no pension liability beyond making these annual contributions. On death, a lump sum death-in-service benefit of four times base salary is payable.

4 Renold's Annual Report for 2006/07 incorrectly stated that Bob Davies' remuneration for 2006/07 was £278,000.

Directors' remuneration report
continued

Annual bonus

The maximum annual bonus potential for Peter Bream for 2007/08 was 60% of base salary with the approval of the Remuneration Committee. For Bob Davies, the maximum bonus opportunity for 2007/08 was 130%. For 2007/08 a bonus was awarded to Bob Davies of approximately 71.5% and to Peter Bream of approximately 25.7%. Bonus payments are based on Group financial targets and a personal objective for each executive director, set by the Chief Executive or in the case of the Chief Executive, the Chairman. Maximum bonus payments are made only upon the achievement of outstanding performance. Bonuses are not pensionable. The bonus policy set in 2007/08 will remain for 2008/09.

Long-term incentive arrangements

2004 Option Plans

In 2007, the Committee carried out a review of the Company's senior executive remuneration policy, with a particular focus on the long-term incentive provision afforded to the executive directors and other key personnel. The main conclusion of that review was that the Renold plc 2004 Inland Revenue Approved Company Share Option Plan and the Renold plc 2004 Non-Inland Revenue Approved Company Share Option Plan (together the "2004 Option Plans") would be the sole long-term incentive arrangements for executive directors and senior management.

In a General Meeting of the Company on 28 March 2008, shareholders approved various amendments to the 2004 Option Plans necessary to give effect to the conclusions contained within the aforementioned review. The key features of the 2004 Option Plans are therefore as follows:

- market value share options will become exercisable on the third anniversary of the grant date provided that: (a) the participant is still employed by the Company; and (b) the performance conditions (see below) have been satisfied over a fixed three-year performance period;
- the maximum annual option grant limit is 200% of base salary (with no scope to exceed this limit) and (in line with market practice) 'base salary' is base salary during a financial year of the Company;
- commitments to issue new shares under all share plans operated by the Company (including executive share plans) is 10% of the Company's issued share capital in any 10 year period.

To ensure that the amended 2004 Option Plans had an immediate and motivational impact, initial awards following the General Meeting were made to the Chief Executive, the Finance Director and the executive team. It is the Committee's intention that annual award levels will normally be no higher than 100% of base salary.

The performance conditions attaching to options granted under the Option Plans are considerably more challenging than those used by other comparable companies. In 2008/09 there will be two performance conditions and both will operate independently of each other. Approximately two-thirds of an option grant will be subject to an earnings per share (EPS) performance condition based on annualised compound growth in the Company's adjusted EPS[5] in excess of inflation (RPI) over a fixed three-year performance period (the "performance period"). The number of shares under option that vest in respect of this portion are as follows:

Annualised compound growth in adjusted EPS	Percentage of two-thirds of the shares under option that vest
Less than RPI + 5% p.a.	Nil
RPI + 5% p.a.	25%
Between RPI + 5% p.a. and RPI + 17% p.a.	On a straight line basis between 25% and 100%
RPI + 17% p.a. or more	100%

Adjusted EPS has been used because it is a key internal measure of long-term Company performance.

The remaining one-third will be subject to an absolute total shareholder return (TSR) performance condition measured over the performance period. No part of an option subject to the TSR performance condition will vest unless the Committee is satisfied that, over the performance period the Company's underlying financial position has been satisfactory.

To the extent that the performance conditions are not met, in whole or in part at the end of the performance period, the options lapse. The introduction of a TSR element to the Company's remuneration policy is a fundamental shift from the existing policy that was exclusively based on earnings per share. The number of shares under option that vest in respect of this portion is as follows:

Growth in the Company's TSR over the performance period	Percentage of one-third of the shares under option that vest
Less than 80%	Nil
80%	25%
Between 80% and 200%	On a straight line basis between 25% and 100%
200% or more	100%

The Committee will always review the performance conditions prior to options being granted to ensure that they remain appropriate given the Company's expectations of future performance.

5 being basic EPS from continuing operations less exceptional items after tax.

Other long term incentive plans

Executive directors have historically been eligible to participate in the Renold Performance Share Plan (the "PSP") and the Renold Deferred Annual Bonus Scheme (the "DABS"). No awards have ever been granted under these incentive arrangements. Executive directors have also historically been eligible to participate in the Renold 1995 Executive Share Option Scheme (the "1995 Scheme"). This was replaced by the 2004 Option Plans described above and is now closed.

In relation to the "DABS", in the event that the executive directors decide to defer all or part of any annual bonus they might receive in the acquisition of deferred shares, the Company may, at its discretion, grant a conditional award of matching shares up to a maximum matching ratio of 1.5:1 (matching shares to deferred shares). Matching shares only vest if certain performance conditions are met. The performance conditions require growth in the Company's adjusted earnings per share ("EPS") over a fixed three year performance period (from the commencement of the financial year in which a matching award is made) to exceed the percentage growth in the Consumer Price Index ("CPI") over the same period, by a minimum of 3% per annum compounded, which will trigger 40% of the matching shares comprised in the award to vest and increasing to 100% vesting (on a straight line basis) if the percentage growth in the CPI is exceeded by 6% per annum compounded. No matching awards have ever been made.

In addition, the Company operates a savings-related Share Option Scheme ("SAYE Scheme") in which the executive directors are eligible to participate on the same terms as all UK employees. Options granted under this scheme have been exercisable on completion of either a three-year or five-year savings contract. No options were granted during the year under the SAYE Scheme.

Details of the market price at the end of the year, and the highest and lowest market price, are set out in Note 21 to the financial statements.

Directors' service contracts

Each of the executive directors, in line with the Committee's policy, has a contract with a 12 month notice period. As a matter of policy, in the event of new external appointments, the length of service contracts would be determined by the Committee in light of the then prevailing market practice. Details of the directors' terms of appointment and notice periods are as follows:

	Date of Contract	Expiry date of current term/ Notice period
Bob Davies	2 March 2004	Terminable on 12 months notice
Peter Bream	29 June 2006	Terminable on 12 months notice

Other than normal payments due during the notice period, there are no express provisions for compensation payable upon early termination of the executive directors' contracts. In the event of early termination, the Company's policy is to act fairly in all circumstances and the duty to mitigate would be taken into account. The Remuneration Committee has noted the ABI/NAPF joint statement on Executive Contracts and Severance. Neither of the contracts provides for compensation to be paid in the event of a change of control of the Company. Copies of the two service contracts will be available for inspection by shareholders at the AGM.

The letters of appointment of the non-executive directors confirm that the appointment in each case is for a specified term and that reappointment is not automatic.

External non-executive directorships

The Board encourages executive directors to broaden their experience outside the Company by taking up non-executive appointments. Board permission is required before an executive director can accept any such appointment (with permission only to be given in appropriate circumstances) with fees normally paid to the Company unless otherwise approved by the Committee. During the year, no such appointments were made.

Non-executive directors

Policy

The Company's policy in respect of non-executive directors' remuneration is managed by the Board. Remuneration for non-executive directors' is confined to fees alone, without a performance related element. Each of the non-executive directors is entitled to reimbursement of reasonable expenses incurred in the course of their duties.

Chairman's and non-executive directors' fees

The fee levels paid to the Chairman and non-executive directors as at 25 June 2008 are set out below:

Matthew Peacock	£50,000
Barbara Beckett	£30,000
Rod Powell	£30,000
David Shearer	£35,000

Directors' remuneration report
continued

Appointment details

The dates of the Chairman's and current non-executive directors' appointments are as follows:

Non-executive	Date of appointment	Date of election/ last re-election
Matthew Peacock	21 September 2006	26 July 2007
John Allkins	17 April 2008	To be elected at the Annual General Meeting on 30 July 2008
Barbara Beckett	1 March 2005	21 July 2005
Rod Powell	21 September 2006	26 July 2007
David Shearer	1 May 2007	26 July 2007

When making a decision on reappointment, the Board reviews the non-executive director's attendance and performance at meetings and the composition and skill of the Board as a whole.

Each non-executive director is appointed for a specified term subject to re-election. Their letter of appointment contains no provision for payment or compensation on early termination. Copies of the individual contracts of appointment are available for inspection by shareholders at the AGM.

Individual director's remuneration (audited information)

The remuneration for each of the directors for the year ended 31 March 2008 is as set out below:

	2008					2007
	Salaries & fees £000	Annual bonus £000	Benefits cash £000	Benefits non-cash £000	Total £000	Total £000
Executive directors						
Bob Davies	**270**	**204**	**–**	**30**	**504**	497
Peter Bream (from 1.7.06)	**166**	**46**	**11**	**1**	**224**	176
Tony Brown (retired 19.9.06)	**–**	**–**	**–**	**–**	**–**	86
	436	**250**	**11**	**31**	**728**	759
Non-executive directors						
Matthew Peacock[6] – Chairman (from 21.9.06)	**25**	**–**	**–**	**–**	**25**	–
Barbara Beckett	**30**	**–**	**–**	**–**	**30**	30
Rod Powell[7] (from 21.9.06)	**55**	**–**	**–**	**–**	**55**	42
David Shearer (from 1.5.07)	**32**	**–**	**–**	**–**	**32**	–
Roger Leverton (retired 21.9.06)	**–**	**–**	**–**	**–**	**–**	43
Mark Smith (retired 21.9.06)	**–**	**–**	**–**	**–**	**–**	16
	578	**250**	**11**	**31**	**870**	890

The Company has provided pension contributions of £40,500 in 2007/08 (£26,400 in 2006/07) for Bob Davies and £24,919 in 2007/08 for Peter Bream (£16,300 in 2006/07).

Directors' beneficial interests in shares (unaudited information)

The beneficial interests of the directors, who held office at 31 March 2008, in the ordinary shares of the Company, as appearing in the register of directors' interests maintained under the Companies Act 2006, were as follows:

Director	31 March 2008 Shares	31 March 2007 Shares
Matthew Peacock	**12,937,500**[8]	11,032,500
Bob Davies	**194,000**	145,000
Barbara Beckett	**nil**	nil
Peter Bream	**27,500**	20,000
Rod Powell	**62,012**	62,012
David Shearer	**30,000**	nil[9]

6 Matthew Peacock waived his fees for a period of approximately one year.
7 Rod Powell was paid additional fees for the first year of his appointment, as he committed additional time to the role.
8 Matthew Peacock is indirectly interested in 12,937,500 shares of which: 3,481,729 through Hanover I Fund LP/Vidacos Nominees, and 9,455,771 through Hanover I Master Fund LP/Vidacos Nominees.
9 As at date of appointment on 1 May 2007.

No directors held non-beneficial interests in the ordinary shares of Renold plc at the end of the year or at the date of this report. As at 31 March 2008, the only interest of the directors in the share capital of the Company was in the ordinary shares as stated above.

There have been no other changes in the interests of directors in the share capital of the Company between the end of the financial year and the date of this report.

Directors' share options as at 31 March 2008 (audited information)
Bob Davies

Scheme	No. of share options At 31.03.07	Granted	Lapsed	At 31.03.08	Option price in pence	Date from which exercisable	Expiry date
Executive Scheme	125,000	–	–	125,000	76.50	11 March 2007	10 March 2014
	475,000	–	–	475,000	88.00	2 September 2007	1 September 2014
	100,000	–	–	100,000	61.60	26 July 2009	25 July 2016
	100,000	–	–	100,000	114.20	2 January 2010	1 January 2017
	–	150,000	–	150,000	92.55	27 November 2010	26 November 2017
	–	568,083	–	568,083	75.90	31 March 2011	30 March 2018
Total	800,000	718,083	–	1,518,083			
SAYE	10,744	–	–	10,744	54.30	1 March 2009	31 August 2009
Total	10,744	–	–	10,744			

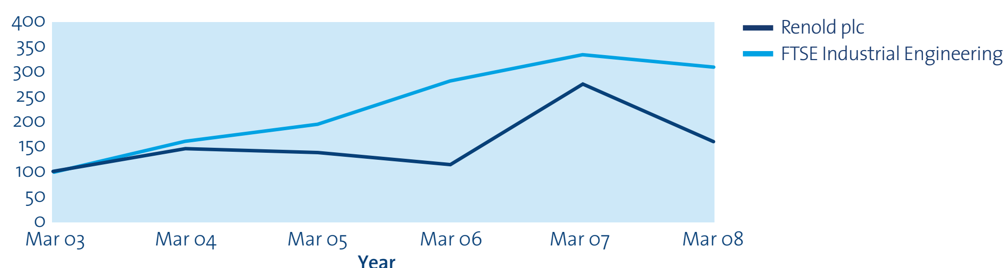
Note: Bob Davies was granted a further option of 180,292 shares at 77.00 pence on 1 April 2008 normally exercisable from 1 April 2011 until 31 March 2018.

Directors' share options as at 31 March 2008 (audited information)
Peter Bream

Scheme	No. of share options At 31.03.07	Granted	Lapsed	At 31.03.08	Option price in pence	Date from which exercisable	Expiry date
Executive Scheme	150,000	–	–	150,000	61.60	26 July 2009	25 July 2016
	60,000	–	–	60,000	114.20	2 January 2010	1 January 2017
	–	100,000	–	100,000	92.55	27 November 2010	26 November 2017
	–	237,154	–	237,154	75.90	31 March 2011	30 March 2018
Total	210,000	337,154	–	547,154			
SAYE	–	–	–	–	–	–	–
Total	–	–	–	–			

Performance graph
The graph below shows the Company's total shareholder return (share price growth plus dividends reinvested where applicable) for each of the last five financial years of a holding of Company shares against a hypothetical holding of shares in the FTSE Engineering and Machinery index. This index was selected because it is a broad equity index of which the Company is a constituent.

Rebased to 100 on 31 March 2003



Approved by the Board

Lindsay Beardsell
Company Secretary
24 June 2008

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Report of the independent auditors, shown on page 31, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements of both the Group and the Company.

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable UK law on those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare Group and Company financial statements for each financial year. The Group financial statements are required to be prepared in accordance with IFRSs as adopted by the European Union and also to present fairly the financial position and performance of the Group. The directors have elected to prepare the Company financial statements in accordance with UK Accounting Standards and, under the Companies Act 1985, these statements are required to give a true and fair view of the state of affairs of the Company.

In preparing the Group and Company financial statements, the directors are required to:

(1) select appropriate accounting policies and apply them consistently;

(2) make judgements and estimates that are reasonable and prudent;

(3) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

(4) provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Groups' financial position and financial performance;

(5) for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements; and

(6) for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for taking reasonable steps to safeguard the assets of the Company and the Group and, in that context, to have proper regard to the establishment of the appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The directors are required to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections the auditors consider to be appropriate for the purpose of enabling them to give their audit report on the financial statements.

The directors intend to publish the financial statements on the Group's website, www.renold.com. The directors are responsible for the maintenance and integrity of the website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

Each of the directors confirms that to the best of his or her knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- The Directors' Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Bob Davies
Chief Executive

Peter Bream
Finance Director

Corporate governance

Corporate Governance Statement

We are committed to high standards of corporate governance and our Board acknowledges its contribution to achieving management accountability, improving risk management and ultimately to creating shareholder value.

This statement describes how we have applied the principles of corporate governance, contained in the Combined Code issued by the Financial Reporting Council in June 2006 (the "Combined Code").

Compliance with the Combined Code

Our Board considers that the Company has complied with the provisions of section one of the Combined Code throughout the year ended 31 March 2008 except where highlighted below.

The Board

Composition

Our Board presently comprises a non-executive Chairman, four[10] non-executive directors (one of whom will be retiring at the forthcoming AGM and will not be offering herself for re-election) and two executive directors. The roles of Chairman and Chief Executive are separated with a clear division of responsibilities agreed by the Board. The Chairman's primary role is to ensure the effectiveness of the Board in setting the direction of the Company. The Chief Executive has the responsibility for managing the business and implementing the strategy agreed by the Board. Biographical details of the directors appear on page 15.

Board operation

The Board has approved a schedule of matters reserved for decision by the Board to ensure that the Board takes all major strategy, policy and investment decisions affecting the Group. In addition, it is responsible for business planning and risk management policies and the development of Group policies for areas such as safety, health and environmental policies, directors' and senior managers' remuneration and ethical issues. The executive directors have authority to deal with all other matters affecting the Group.

New directors are provided with an appropriate induction programme. This does not necessarily require the new director to meet the Company's major shareholders.

Board evaluation

Our Board is supportive of the principle of evaluation of the Board, as set out in the Combined Code. A formal process for evaluating the performance of the Board and its members, and its committees, is conducted annually. This process gives our directors the opportunity to identify areas for improvement both jointly and individually through the use of questionnaires and/or open discussion. An evaluation of the Chairman is also carried out annually, led by the Senior Independent Director. Both an evaluation of the Board and an evaluation of the Chairman were carried out in 2007/08.

Board independence

For the year to 31 March 2008, Matthew Peacock acted as the interim Chairman of the Audit Committee. As a result, the Company was not compliant with paragraph C.3.1 of the Combined Code, which states that all members of the Audit Committee should be independent non-executive directors. However, John Allkins was appointed to the Board and as Chairman of the Audit Committee on 17 April 2008 and has chaired all Audit Committee meetings since that date.

The Chairman, Matthew Peacock, is a principal of a significant shareholder, Hanover, which now holds 18.47% of the ordinary share capital of the Company. Our Board considers that, whilst the Company is not in compliance with paragraph A.2.2 of the Combined Code (which states that the Chairman should on appointment meet the independence criteria set out in paragraph A.3.1 of the Combined Code) nor with paragraph C.3.1 of the Combined Code (as stated above) Matthew Peacock acts with complete independence of character and judgement.

Rod Powell is associated with Hanover. We consider that, whilst Rod Powell does not meet the independence criteria set out in paragraph A.3.1 of the Combined Code, he also acts with complete independence of character and judgement.

David Shearer was appointed to the Board on 1 May 2007. For the month of April 2007, the Company was therefore not in compliance with paragraph A.3.2. of the Combined Code.

Our Board considers that each of the other non-executive directors is independent and free from any business or other relationship which could affect their judgement.

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

We initially appoint all new directors upon recommendation from the Nomination Committee. All directors are subject to election by shareholders at the first Annual General Meeting following their appointment and to re-election thereafter at intervals of no more than three years.

10 John Allkins was appointed to the Board on 17 April 2008.

Corporate governance
continued

Our Board meets on a regular basis with an agenda and necessary papers for discussion distributed in advance of each meeting. The following table shows the number of meetings of the Board and its committees during the year and individual attendance by Board and committee members at those meetings.

	Number attended				
	Board	Audit	Nomination	Remuneration	Risk
Number held	8	3	–	6	2
Matthew Peacock	8	3	–	5	–
Bob Davies	8	–	–	–	2
Barbara Beckett	8	3	–	6	–
Peter Bream	8	–	–	–	2
Rod Powell	7	2	–	5	–
David Shearer[11]	7	3	–	6	–

Board Committees

Our Board has delegated authority to a number of committees to deal with specific aspects of the management and control of the Group. The Company Secretary, Lindsay Beardsell, acts as secretary to all these committees and the terms of reference for each of these committees are available on the Company's website. The terms of reference for the Board and each of the committees are in the process of being reviewed and updated as part of a wider corporate governance review. Revised versions of the terms of reference will be made available on the Company's website when they have been approved by the Board.

Composition of Board Committees

Audit Committee	Nomination Committee	Remuneration Committee
Matthew Peacock (Chairperson)[12]	Matthew Peacock (Chairperson)	Barbara Beckett (Chairperson)[13]
David Shearer	David Shearer	Matthew Peacock
Rod Powell	Rod Powell	David Shearer
Barbara Beckett	Barbara Beckett	Rod Powell

Audit Committee

The Audit Committee is a committee of the Board which was, until 17 April 2008, comprised of Matthew Peacock, the Chairman of the Committee, together with the non-executive directors. On 17 April 2008, Matthew Peacock stepped down as Chairman of the Audit Committee and was replaced by John Allkins, an independent non-executive director. Bob Davies and Peter Bream attend meetings from time to time at the invitation of the Committee.

The Committee normally meets three times a year. Our Board is satisfied that, as well as the Chairman of the Committee, at least one other member of the Audit Committee has recent and relevant financial experience. Its terms of reference include the review of the Group's financial statements, internal financial control systems, the whistleblowing policy, internal audit reports and the conduct of the external audit.

The Chairman, Chief Executive, Finance Director and other managers (including the internal audit function) attend meetings from time to time at the invitation of the Committee. The external auditors, who attend by invitation, are invited by the Committee to advise them of any matters which they consider should be brought to the Committee's attention without the executive management present.

A formal process for evaluating the independence of the external auditors and the performance of the Committee and the internal audit function is conducted annually. The Board reviews the outcome. Additionally, to safeguard the independence and objectivity of the auditors, the Committee has approved a policy on non-audit services provided by the auditors in line with professional practice. This is in compliance with the Auditing Practices Board (APB)'s ethical standards.

The Committee has met three times during the year. In the course of these meetings, the Committee considered matters which included the following:

- Internal controls: Reports from the internal audit function summarising work planned and undertaken, recommending improvements and describing actions taken by management. The Committee also sought the views of the external auditors in making its assessment of the internal control environment including all material controls, including financial, operational and compliance controls and risk management systems.
- Internal audit function: The Committee evaluated the performance of the internal audit function and assessed the work planned and undertaken through the completion of a questionnaire provided by Ernst & Young, which was used to facilitate a discussion of the performance.
- Financial reporting: The Committee reviewed draft annual and interim reports before recommending their publication to the Board. The Committee discussed with the Chief Executive, Finance Director and external auditors the significant accounting policies, estimates and judgements applied in preparing these reports.

11 David Shearer was appointed to the Board on 1 May 2007 and attended all meetings from this date.
12 Matthew Peacock has now been replaced as Chairman of the Audit Committee by John Allkins who was appointed to the Board and as Chairman of the Audit Committee on 17 April 2008.
13 Barbara Beckett will be retiring with effect from the AGM to be held on 30 July 2008. Rod Powell will replace Barbara as Chairperson of the Remuneration Committee.

Nomination Committee

The Nomination Committee is a committee of the Board comprised of the Chairman of the Board, Matthew Peacock, who is Chairman of the Committee, and the non-executive directors. The Committee meets as required and its terms of reference are to select and recommend to the Board new appointments of executive and non-executive directors. No new appointments were made to the Board in the year other than David Shearer (who was appointed on 1 May 2007 as detailed in the 2007 Annual Report) and John Allkins (who was appointed to the Board on 17 April 2008). John Allkins was appointed following an evaluation of a number of candidates put forward to the Nomination Committee. No open advertising was used for his appointment.

Remuneration Committee

The Remuneration Committee is currently chaired by Barbara Beckett, who following her resignation from the Board at the AGM will be replaced by Rod Powell. In addition to Barbara Beckett, it comprises David Shearer and Rod Powell, both of whom are non-executive directors, and Matthew Peacock and John Allkins (with effect from 17 April 2008). Bob Davies and the Group Human Resources Director, Maggie Hurt, attend meetings from time to time at the invitation of the committee.

This committee determines the terms and conditions of employment including remuneration and benefits of the executive directors as well as performance related bonus schemes and pension rights. The main Board determines the remuneration of the non-executive directors and individual non-executive directors are not present when their own remuneration is being discussed.

Although the Company is not in compliance with paragraph B.2.1 of the Combined Code (which states that all members of the Remuneration Committee should be independent), the Board considers that the presence of Matthew Peacock brings valuable and independent judgement to all remuneration decisions.

The Directors' Remuneration Report is set out on pages 21 to 25.

Risk Monitoring Committee

The Risk Monitoring Committee is chaired by the Chief Executive and is comprised of the executive directors, the Company Secretary, the Group Human Resources Director, and the Supply Chain and IT Director. Its role is to oversee Group risk management and to ensure that appropriate internal controls are in place.

Internal controls

The directors have overall responsibility for the Group's system of internal control and for reviewing internal control effectiveness. The executive team is accountable to the directors for implementing Board policies on risk and control and for monitoring and reporting to the Board that it has done so. The ongoing process of review of the system of internal controls by the directors has been in place for the year ended 31 March 2008 and up to the date of approval of the Annual Report and financial statements. Internal controls are reviewed on a regular basis by the Risk Monitoring Committee.

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

The key features of our internal control system are:

- a Risk Monitoring Committee which ensures, on behalf of the Board, that appropriate policies are implemented to identify and evaluate risks, and to design, operate and monitor a suitable system of internal control;
- an Internal Audit Function which assists management and the Audit Committee in the fulfilment of the Board's responsibility of ensuring that the Group's financial and accounting systems provide accurate and up-to-date information about its current financial position;
- risk assessments completed by senior management at each operating unit as part of a continuous process and reporting of these which is reviewed by the Risk Monitoring Committee;
- an organisation structure which supports clear lines of communication and tiered levels of authority;
- a schedule of matters reserved for the Board's approval to ensure it maintains control over appropriate strategic, financial, organisational and compliance issues;
- the preparation of detailed annual financial plans covering profit and cash flow, which are approved by the Board; the review of detailed regular reports comparing actual performance with plans, and of updated financial forecasts;
- procedures for the appraisal, approval and control of capital investment proposals including acquisitions and disposals;
- monitoring procedures which include a system of key financial controls questionnaires supported by internal audit reviews. The results of this work are reported to the Audit Committee.

The Company is in the process of undertaking a full review of its corporate governance policies. As a result, the Board expects to approve a Corporate Compliance Governance Statement during the year, which contains revised terms of reference for the Board and each of the Board Committees. In addition, the Company is in the process of documenting its policy in relation to internal controls with a view to producing a Renold Internal Control Statement. This will be completed during the coming year.

The Risk Monitoring Committee reports to the Board, which is ultimately responsible for the Group's internal controls including financial, operational and compliance controls and risk management systems.

Corporate governance
continued

Communications with shareholders

Communications with our shareholders are given high priority. The Board is accountable to our shareholders and, as such, it is important for the Board to appreciate the requirements of shareholders and equally that shareholders understand how the actions of the Board and short-term financial performance relate to the achievement of our longer term goals.

Our reporting calendar is driven by the publication of interim and final results each year, in which the Board reports to shareholders on its stewardship of the Company. The Chief Executive's review on pages 5 to 8 and the Financial review on pages 11 to 14 comment on our financial performance in the context of the business risks faced and objectives and plans for the future. At other times during the year, we make presentations to analysts and provide updates to the London Stock Exchange and shareholders via the Company's website. In addition our Chairman, Chief Executive and Finance Director meet with major shareholders to discuss governance and Group strategy. Our largest shareholder has a representative on the Board.

The Chairman ensures that the Chief Executive and Finance Director provide feedback to the Board following presentations to investors and meetings with shareholders in order to ensure that Board members, and in particular non-executive directors, develop an understanding of the views of major shareholders about their company.

David Shearer was appointed to the Board on 1 May 2007. The Company was not in compliance with paragraph A.3.3 for the month of April 2007.

Our Annual General Meeting provides an opportunity for communication with our private and institutional investors and we encourage shareholders to attend and welcome their participation.

At our Annual General Meeting, the Chairman of the Board and the chairpersons of the Audit, Remuneration, Nomination and Risk Monitoring Committees, together with the executive directors, will be available to answer questions. Notice of our Annual General Meeting is sent to shareholders at least 20 working days before the meeting. Details of the proxy votes lodged on each resolution are made available to shareholders, who are invited to talk informally to the directors after the formal proceedings.

The Company's website at www.renold.com presents additional information about us, is regularly updated and includes the posting of the interim and final preliminary results and interim management statements, on the day they are announced.

If you wish to advise a change of name, address, or dividend mandate, please contact our registrar, Capita Registrars, whose contact details appear on page 77. Alternatively, you can view up to date information and manage your shareholding through the registrar's Share Portal where you will be able to access and maintain your holding at your own convenience. You will require your unique investor code, which can be found on your share certificate or dividend tax voucher. The URL for the portal is www.capitashareportal.com.

Report of the independent auditors

To the members of Renold plc

We have audited the Consolidated financial statements of Renold plc for the year ended 31 March 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related Notes 1 to 28. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Company financial statements of Renold plc for the year ended 31 March 2008, and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Chief Executive's Review and the Financial Review that is cross referred from the Group results section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Performance Summary, Chairman's Statement, Chief Executive's Review, the Financial Review, the Directors' Report, the Directors' Remuneration Report, the Corporate Governance Section, the Group Five Year Financial Review and Notice of the Annual General Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Ernst & Young LLP
Registered Auditor
Manchester
24 June 2008

Accounting policies

Basis of preparation – The consolidated financial statements for the year ended 31 March 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS), and International Financial Reporting Interpretations Committee (IFRIC) interpretations. These include standards and interpretations endorsed by the European Union (EU). In addition, the financial statements have been prepared in accordance with those parts of the Companies Act 1985 applicable to groups reporting under IFRS.

Basis of consolidation – The consolidated financial statements incorporate the financial statements of Renold plc (the "Company") and enterprises controlled by the Company (its subsidiaries). Its subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated. Under the transitional options of IFRS 1, business combinations that occurred prior to the transition date have not been restated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

Foreign currency translation – Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The consolidated financial statements are presented in sterling, which is the functional and presentation currency of the parent.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction or average rates where applicable. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except for monetary items that form part of the net investment in foreign operations which are taken to equity.

Assets and liabilities of overseas subsidiaries are translated into sterling at the exchange rates ruling at the end of the financial year. Income statements and cash flows are translated at the appropriate average rates of exchange for the year. Differences on exchange arising on the retranslation of net assets in overseas subsidiaries at the beginning of the year, borrowings used to finance or provide a hedge against those investments and from the translation of the results at average rates are taken directly to reserves. When a foreign entity is sold, related exchange differences previously taken to reserves are recognised in the income statement as part of the gain or loss on sale.

Changes in accounting policy and disclosures
The accounting policies adopted are consistent with those of the previous year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures:

IAS 1 – Amendment – Presentation of Financial Statements: Capital Disclosures
IFRS 7 – Financial Instruments: Disclosures
IFRIC 8 – Scope of IFRS 2
IFRIC 9 – Reassessment of Embedded Derivatives
IFRIC 10 – Interim Financial Reporting and Impairment
IFRIC 11 – IFRS 2 "Group and Treasury Share Transactions"

The Group has not adopted the following pronouncements, which have been issued by the IASB, but have not yet been endorsed for use in the EU:

IAS 1 – Revised Presentation of Financial Statements
IAS 23 – Borrowing Costs
IAS 27 – Revised Consolidated and separate financial statements
IFRS 2 – Amendment – Vesting conditions and cancellations
IFRS 3 – Revised Business Combinations
IFRS 8 – Operating Segments
IFRIC 12 – Service Concession Arrangements
IFRIC 13 – Customer Loyalty Programmes
IFRIC 14 – IAS19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IAS 32 & IAS 1 – Amendments on puttable instruments

Management does not expect that these standards and interpretations will have a material impact on the Group's results or financial position but IAS1, IAS 23 and IFRS 8 may give rise to additional or changes to disclosures in the Group's financial statements. Management is still assessing the impact of IFRIC 14.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquired entity over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Goodwill arising on the acquisition of an entity is included as an intangible asset. Goodwill is not amortised but is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment charge is recognised immediately in the income statement.

In circumstances where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the consideration paid ("negative goodwill"), the excess is recognised immediately as a gain in the income statement.

As permitted by IFRS 1, the Group elected not to apply IFRS 3 "Business Combinations" to business acquisitions that occurred before 4 April 2004. Therefore, the carrying amount of goodwill (being cost less accumulated amortisation) included under UK GAAP forms the "cost" of goodwill recognised under IFRS at the date of transition. Goodwill that was written-off directly to reserves under former UK GAAP will not be taken into account when determining the gain or loss on disposal of previously acquired businesses after 4 April 2004.

(b) Computer software

Computer software that is not integral to an item of plant and equipment is recognised separately as an intangible asset. Amortisation is charged on a straight line basis so as to charge the cost of software to the income statement over its expected useful life which is between three and five years. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

(c) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are only recognised as intangible assets in circumstances where certain strict criteria are satisfied. These include the expectation that it is probable that the project will be a success, considering its commercial and technological feasibility, and that all associated costs can be measured reliably. Otherwise development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

Property, plant and equipment – Property, plant and equipment are stated at cost, being purchase cost plus any incidental costs of acquisition, less accumulated depreciation.

Depreciation is calculated on a straight-line basis so as to charge the depreciable amount of the respective asset to the income statement over its expected useful life. The useful lives of assets are as follows:

Freehold buildings	– 50 years
Leasehold properties	– 50 years or the period of the lease if less
Plant and equipment	– various according to type of asset, the principal categories being:

	Years
General plant and equipment	10
Fixtures	10
Precision cutting and grinding machines	7
Motor vehicles	3

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

As permitted by IFRS 1, at 4 April 2004, the Group has measured its freehold properties on a fair value basis and used that value as deemed cost at the transition date.

Asset impairment – Intangible assets and property, plant and equipment are reviewed, at least annually, to ensure that assets are not carried above their recoverable amounts. Where some indication of impairment exists, calculations are made of the discounted cash flows resulting from continued use of the assets (value in use) or from their disposal (fair value less costs to sell). Where these values are less than the carrying amount of the assets, an impairment loss is charged to the income statement.

Leases – Tangible assets held under finance leases, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. The corresponding liability to the leasing company, net of finance charges, is included as an obligation under finance leases in creditors. The interest element of the lease payment is charged to the income statement on a basis which produces a constant rate of charge over the period of the liability.

Accounting policies
continued

Leases (continued)
Leases where a significant portion of the risk and reward of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Investment property – One of the Group's properties is classified as an investment property on the basis that it will be held for the long-term, earning a rental income. This is a contractual arrangement arising from the disposal of a former business segment.

The investment property was previously a manufacturing facility of the Group but owner-occupation ceased upon disposal of the Automotive business. On the date of disposal a transfer was made from property to investment property. The cost model has been applied since that date and depreciation charged at 2% straight line.

Inventories – Inventories are stated at the lower of cost and estimated net realisable value, after due allowance for obsolete or slow moving items. Cost includes all direct expenditure and attributable overhead expenditure incurred in bringing goods to their current state under normal operating conditions. The first in, first out or an average method of valuation is used. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. In the Group accounts, unrealised profit on sales within the Group is deducted from inventories.

Taxation – The tax charge comprises current tax payable and deferred tax.

The Group is subject to taxes in numerous jurisdictions. The current tax charge represents an estimate of the amounts payable to tax authorities in respect of taxable profits. It is based on tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Currently enacted, or substantively enacted, tax rates as at the balance sheet date are used in the determination of deferred income tax.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised or taxable profit will be available against which unused tax losses can be utilised before they expire.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable authority and taxable entity, or where deferred tax relates to different taxable entities, the tax authority permits the Group to make a single net payment.

Revenue – Revenue comprises the fair value of goods provided to external customers after deducting value added tax or other sales related taxes and trade discounts. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of goods are transferred to the buyer which is normally the point of despatch.

Trade receivables – Trade receivables are recognised and carried at the original invoice amount less an allowance for any identified impairment. The impairment allowance is established when there is objective evidence that the Group will not collect all amounts due under the original terms of the transaction. The impairment is charged to the income statement and represents the difference between the carrying amount and the recoverable amount. Balances are written off when the probability of recovery is assessed as remote.

Financial assets and liabilities
(a) Financial assets
Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through the income statement; loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, revaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through the income statement, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through the income statement and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

All standard purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Standard transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:

(i) Financial assets at fair value through the income statement – Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or as financial guarantee contracts. Assets are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Financial assets and liabilities (continued)

(a) Financial assets (continued)

Financial assets may be designated at initial recognition as at fair value through the income statement if the following criteria are met: **(i)** the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

(ii) Loans and receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through the income statement or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(b) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) Assets carried at amortised cost – If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, through the use of an allowance account. The amount of the loss shall be recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

(ii) Assets carried at cost – If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

(c) Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

(d) Financial liabilities at fair value through the income statement

Financial liabilities at fair value through the income statement includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Exceptional items – Exceptional items are items in the profit from operations which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's financial performance. These items are separately disclosed as memorandum information on the face of the income statement with additional information provided in the notes to the financial statements.

Employee benefits

(a) Pension obligations

Group companies have various pensions plan arrangements matching the local conditions and practices in the countries in which they operate.

The Group operates a number of defined benefit plans around the world. The cost is calculated by independent actuaries using the projected unit credit method. Any past service costs resulting from enhanced benefits are recognised immediately in income, unless the changes are conditional on the employees remaining in service for a specified period of time (the "vesting period"). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Actuarial gains and losses, which represent differences between the expected and actual returns on plan assets and the effect of changes in actuarial assumptions, are recognised in the Statement of Recognised Income and Expense in the period in which they occur.

Accounting policies
continued

Employee benefits (continued)

(a) Pension obligations (continued)

The defined benefit liability or asset recognised in the balance sheet represents the net total for each plan of the present value of the benefit obligation at the balance sheet date, less any past service costs not yet recognised, less the fair value of plan assets (for funded schemes) at the balance sheet date. If a plan records a surplus, the asset recognised is limited to the amount of any unrecognised past service cost and the present value of any amount expected to be recoverable by the Group by way of refunds or reduction in future contributions.

For defined contribution plans, the Group's contributions are charged to the income statement in the period in which they fall due. Once the contributions have been paid the Group has no further payment obligation.

(b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the income statement, with the corresponding amount being recognised in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions, using a Black-Scholes pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The model is adjusted as necessary for market-based vesting conditions.

As permitted by IFRS 1 the Group has applied IFRS 2 "Share-based Payment" only to equity-settled awards granted after 7 November 2002 and which vested on or after 1 January 2005.

Financial instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Since 1 April 2005, such derivative financial instruments have been initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. This documentation identifies the risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting period for which they were designated.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or
- hedges of a net investment in a foreign operation.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

(a) Fair value hedges

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both are taken to the income statement. For hedged items carried at amortised cost, the adjustment is amortised through the income statement such that it is fully amortised by maturity. When an unrecognised firm commitment is designated as a hedged item, this gives rise to an asset or liability in the balance sheet, representing the cumulative change in the fair value of the firm commitment attributable to the hedged risk.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

(b) Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when a forecast sale or purchase occurs.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above. If the related transaction is not expected to occur, the amount is taken to the income statement.

Financial instruments (continued)

(c) Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses relating to the effective portion are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the income statement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the income statement.

From 1 April 2005 the Group's Preference Shares have been classified as liabilities. Dividends payable on the Preference shares are included within net finance costs.

Cash and cash equivalents – Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet to the extent that there is no right of offset nor intention to settle net, with cash balances.

Borrowing costs – Borrowing costs are recognised in the income statement in the period in which they are incurred.

Provisions – Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Costs related to ongoing activities of the Group are not provided in advance.

Assets held for sale and discontinued operations – In accordance with IFRS 5, assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business and where the sale is highly probable. For this to be the case, the asset must be available for immediate sale in its present condition, management must be committed to and have initiated a plan to sell the asset which, when initiated, was expected to result in a completed sale within a year. Assets that are classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

A discontinued operation is a component of the business that has either been disposed of, or satisfies the criteria to be classified as held for sale, and represents a separate major line of business or geographical area of operations ("disposal group") or is part of a single co-ordinated plan to achieve such a disposal. The post-tax profit or loss on a discontinued operation is shown as a single amount on the face of the Group Income Statement, separate from the continuing results of the Group; prior year amounts are restated on a comparable basis. In the Balance Sheet the assets relevant to the "disposal group" are reported as a separate line item after current assets; liabilities associated with the disposal group are similarly disclosed as a line item below current liabilities. Comparative balance sheet amounts are not restated.

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are paid or approved by the Company's shareholders.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying value of the Group's assets or liabilities in the future.

The key sources of estimation uncertainty that have a potential risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(a) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the net present value of those cash flows. Further details are included in Note 8.

(b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management adjustment judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with the future tax planning strategies. Further details are contained in Note 18.

(c) Retirement benefit obligations

The cost of the Group's defined benefit plans are determined by using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 19.

Consolidated income statement
for the year ended 31 March 2008

	Note	2008 £m	2007 £m
Continuing operations:			
Revenue	1	**172.6**	159.3
Operating costs	2	**(160.4)**	(155.4)
Operating profit		**12.2**	3.9
Operating profit before exceptional items		**12.0**	9.8
Exceptional items	2	**0.2**	(5.9)
Operating profit		**12.2**	3.9
Financial costs		**(14.7)**	(13.9)
Financial revenue		**11.8**	11.4
Net financing costs	3	**(2.9)**	(2.5)
Profit before tax		**9.3**	1.4
Taxation	4	**(3.1)**	(0.6)
Profit for the financial year from continuing operations		**6.2**	0.8
Discontinued operations:			
Profit/(loss) for the financial year from discontinued operations	5	**1.5**	(13.5)
Profit/(loss) for the financial year		**7.7**	(12.7)
Earnings per share	6		
Basic earnings/(loss) per share		**11.0p**	(18.3)p
Diluted earnings/(loss) per share		**10.8p**	(18.1)p
Basic earnings per share from continuing operations		**8.9p**	1.2p
Diluted earnings per share from continuing operations		**8.7p**	1.2p
Adjusted earnings per share from continuing operations*		**8.5p**	8.4p
Diluted adjusted earnings per share from continuing operations*		**8.3p**	8.3p

* Adjusted for the after tax effects of exceptional items

Consolidated balance sheet
as at 31 March 2008

	Note	2008 £m	2007 £m
ASSETS			
Non-current assets			
Goodwill	8	**16.3**	15.2
Other intangible assets	8	**1.2**	0.6
Property, plant and equipment	9	**39.5**	34.0
Investment property	10	**1.9**	1.6
Other non-current assets	12	**0.3**	0.4
Deferred tax assets	18	**9.9**	17.4
		69.1	69.2
Current assets			
Inventories	11	**41.0**	33.1
Trade and other receivables	12	**35.2**	30.1
Derivative financial instruments	26	**0.1**	–
Current tax asset		**0.1**	–
Cash and cash equivalents	13	**15.5**	20.3
		91.9	83.5
Asset held for sale	14	**–**	3.4
		91.9	86.9
TOTAL ASSETS		**161.0**	156.1
LIABILITIES			
Current liabilities			
Borrowings	15	**(8.3)**	(7.8)
Trade and other payables	16	**(41.8)**	(36.1)
Derivative financial instruments	26	**(0.9)**	(0.1)
Provisions	17	**(3.9)**	(5.2)
Current tax liabilities		**–**	(0.6)
		(54.9)	(49.8)
NET CURRENT ASSETS		**37.0**	37.1
Non-current liabilities			
Borrowings	15	**(30.6)**	(31.4)
Provisions	17	**(0.5)**	–
Preference shares	15	**(0.5)**	(0.5)
Trade and other payables	16	**(0.7)**	(1.2)
Deferred tax liabilities	18	**(1.6)**	(1.3)
Retirement benefit obligations	19	**(31.2)**	(48.0)
		(65.1)	(82.4)
TOTAL LIABILITIES		**(120.0)**	(132.2)
NET ASSETS		**41.0**	23.9
EQUITY			
Issued share capital	20	**17.5**	17.4
Share premium account	22	**6.3**	6.1
Currency translation reserve	22	**(1.3)**	–
Other reserves	22	**(0.6)**	–
Retained earnings	22	**19.1**	1.6
TOTAL EQUITY		**41.0**	23.9

Approved by the Board on 24 June 2008 and signed on its behalf by:

Matthew Peacock
Chairman

Bob Davies
Director

Consolidated cash flow statement
for the year ended 31 March 2008

	2008 £m	2007 £m
Cash flows from operating activities (Note 25)		
Cash generated from operations – continuing	**4.5**	10.3
Cash generated/(absorbed) by operations – discontinued	**–**	(4.7)
	4.5	5.6
Income taxes paid	**(2.3)**	(1.4)
Net cash from operating activities	**2.2**	4.2
Cash flows from investing activities		
Acquisition of subsidiary undertaking (Note 27)	**(2.4)**	–
Proceeds from disposal of businesses (net of cash transferred)	**0.2**	5.4
Purchase of property, plant and equipment	**(7.5)**	(6.0)
Purchase of intangible assets	**(0.7)**	(0.6)
Proceeds on disposal of property, plant and equipment	**1.1**	0.2
Proceeds on disposal of assets held for sale	**6.0**	–
Interest received	**0.1**	0.2
Net cash from investing activities	**(3.2)**	(0.8)
Cash flows from financing activities		
Financing costs paid	**(2.8)**	(3.0)
Proceeds from borrowings	**7.1**	35.0
Repayment of borrowings	**(5.8)**	(28.9)
Issue of ordinary shares	**0.3**	0.1
Payment of finance lease liabilities	**(0.1)**	(0.4)
Net cash from financing activities	**(1.3)**	2.8
Net (decrease)/increase in cash and cash equivalents	**(2.3)**	6.2
Net cash and cash equivalents at beginning of year	**15.4**	9.6
Effects of exchange rate changes	**1.1**	(0.4)
Net cash and cash equivalents at end of year (Note 13)	**14.2**	15.4

Consolidated statement of recognised income and expense
for the year ended 31 March 2008

	2008 £m	2007 £m
Profit/(loss) for the year	**7.7**	(12.7)
Net income/(expense) recognised directly in equity:		
Recycling of losses on cash flow hedges to the income statement	**0.2**	–
Net losses on cash flow hedges taken to equity	**(0.8)**	–
Foreign exchange translation differences	**(0.7)**	(4.8)
Gains on fair value of hedging net investments in foreign operations	**0.6**	0.9
Actuarial gains on retirement benefit obligations	**16.0**	0.9
Tax on items taken directly to equity	**(6.3)**	(1.2)
Total income/(expense) recognised directly in equity	**9.0**	(4.2)
Total recognised income and (expense) for the year	**16.7**	(16.9)
Attributable to:		
Equity shareholders of the Company	**16.7**	(16.9)

Notes to the consolidated financial statements

1. Segmental information

Primary reporting format – business segment

The Group's continuing activities are in one class of business, Industrial Power Transmission. The consolidated income statement for continuing operations therefore relates wholly to the Industrial Power Transmission business.

Segment assets and liabilities

Shown below is a summary of the assets and liabilities of Industrial Power Transmission:

	2008 £m	2007 £m
Assets		
Industrial Power Transmission	**133.7**	113.4
Unallocated assets (see below)	**27.3**	39.3
Asset held for sale	**–**	3.4
Total assets	**161.0**	156.1
Liabilities		
Industrial Power Transmission	**(78.1)**	(90.5)
Borrowings (Note 15)	**(39.4)**	(39.7)
Derivative financial instruments	**(0.9)**	(0.1)
Current and deferred tax	**(1.6)**	(1.9)
Total liabilities	**(120.0)**	(132.2)

Secondary reporting format – geographical segments

The operations of the Group are based in five main geographical areas. The UK is the home country of the parent. The main operations in the principal territories are as follows:

- United Kingdom
- Rest of Europe
- United States and Canada
- China
- Other countries

The sales analysis in the table below is based on the location of the customer; the analysis of assets and capital expenditure is based on the location of the assets:

	Revenue (Continuing)		Assets		Capital expenditure	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
United Kingdom	**20.0**	19.6	**30.7**	26.6	**2.4**	2.0
Rest of Europe	**56.1**	52.4	**38.9**	33.2	**2.6**	1.2
North America	**57.6**	56.7	**40.1**	38.3	**0.8**	0.4
China	**9.6**	5.1	**9.2**	2.8	**2.1**	0.3
Other countries	**29.3**	25.5	**14.8**	12.5	**0.3**	0.4
	172.6	159.3	**133.7**	113.4	**8.2**	4.3
Unallocated assets	**–**	–	**27.3**	39.3	**–**	–
Asset held for sale	**–**	–	**–**	3.4	**–**	–
Discontinued operations	**–**	–	**–**	–	**–**	1.5
	172.6	159.3	**161.0**	156.1	**8.2**	5.8

Unallocated assets comprise:	2008 £m	2007 £m
Deferred tax asset	**9.9**	17.4
Cash and cash equivalents	**15.5**	20.3
Investment property	**1.9**	1.6
	27.3	39.3

All revenue relates to the sale of goods.

2. Operating costs and exceptional items (continuing operations)

(a) Operating profit is stated after charging/(crediting):

	2008 £m	2008 £m	2007 £m	2007 £m
Change in inventory of finished goods and work in progress		**(4.0)**		(1.8)
Own work capitalised		**(0.1)**		–
Other operating income		**(2.3)**		(1.3)
Raw materials and consumables		**72.3**		60.1
Other external charges		**24.1**		22.8
Employee costs				
Gross wages and salaries	**52.8**		51.4	
Social security costs	**8.0**		7.1	
Pension costs				
– Defined benefit	**1.8**		2.7	
– Defined contribution	**0.8**		0.7	
Cost of share-based incentive plans	**0.1**		0.1	
		63.5		62.0
Depreciation of property, plant and equipment				
– owned assets		**4.8**		4.6
– leased assets		**0.1**		0.1
Amortisation of intangible assets		**0.2**		0.2
Operating leases – minimum lease payments				
– plant and machinery	**0.4**		0.4	
– property	**1.7**		1.4	
		2.1		1.8
(Profit)/loss on disposal of property, plant and equipment		**(0.4)**		0.1
Research and development expenditure		**0.4**		0.4
Auditors remuneration (Note 2(b))		**0.3**		0.3
Trade receivables impairment charge		**0.1**		0.1
Foreign exchange		**(0.5)**		0.1
Exceptional items (Note 2(c))		**(0.2)**		5.9
		160.4		155.4

(b) Auditors' remuneration

	2008 £000 Total	2007 £000 PwC	2007 £000 E&Y	2007 £000 Total
Fees payable to the Company's auditors for the audit of the Group's annual financial statements (i)	**79**	45	56	101
Fees payable to the Company's auditors and their associates for other services:				
Audit of the Company's subsidiaries pursuant to legislation	**216**	22	193	215
	295	67	249	316
Taxation services	**161**	87	105	192
Recruitment and remuneration services	**–**	3	–	3
Corporate finance services	**72**	5	–	5
All other services	**12**	–	23	23
Total fees	**540**	162	377	539

In 2006/07 the Group auditor also received fees of £19,000 for audit services provided to Group pension schemes. In 2007/08 fees of £35,000 are also payable to the Group auditor for audit services to Group pension schemes. These were the only services provided to the pension schemes.

(i) The Group audit fee amount shown above for PwC in 2007 (£45,000) represents charges in respect of the audit for the year ended 31 March 2006.

Notes to the consolidated financial statements
continued

2. Operating costs and exceptional items (continuing operations) (continued)

(c) Exceptional items

	2008 £m	2007 £m
UK Burton conveyor chain factory restructuring	–	(0.3)
Profit on disposal of asset held for sale (Burton factory)	2.6	–
Profit and cash enhancement restructuring initiatives ("PACE"):		
Reorganisation and redundancy costs	(2.4)	(2.9)
Exceptional inventory provision	–	(2.7)
	0.2	(5.9)

The PACE strategic initiative has resulted in exceptional costs associated with the restructuring of the continuing Group's manufacturing and distribution facilities. The reorganisation and redundancy costs have originated in the UK £0.5 million (2007 – £1.5 million), Germany £1.6 million (2007 – £1.0 million) and other countries £0.3 million (2007 – £0.4 million). In 2006/07 exceptional inventory write-offs were charged in the UK (£1.4 million), Germany (£0.9 million), the Rest of Europe (£0.2 million) and other countries (£0.2 million).

(d) Employees and key management compensation

Employee costs, including directors, are set out in 2(a) above. Key management personnel are represented by the Board of Directors and their aggregate emoluments were as follows:

	2008 £000	2007 £000
Short term employee benefits	870	890
Post employment benefits	65	43
Termination benefits	–	–
Share-based payments	68	68
	1,003	1,001

Further details of the remuneration of directors are provided in the auditable part of the Directors' remuneration report on pages 21 to 25 under the heading "Remuneration Package".

The average monthly number of persons employed by the Group during the year was:

	2008		2007	
	Continuing	Discontinued	Continuing	Discontinued
United Kingdom	729	–	743	179
Germany	322	–	369	12
Rest of Europe	290	–	264	235
North America	408	–	395	9
China	478	–	37	–
Other countries	250	–	248	–
	2,477	–	2,056	435

3. Net financing costs

	2008		2007	
	£m	£m	£m	£m
Financial costs:				
Interest payable on bank loans and overdrafts	(2.7)		(2.6)	
Costs associated with refinancing	(0.2)		(0.2)	
Interest cost on financial liabilities not at fair value through the income statement		(2.9)		(2.8)
Interest cost on pension plan balances		(11.8)		(11.1)
Total financial costs		(14.7)		(13.9)
Financial revenue:				
Interest receivable on bank deposits and cash equivalents	0.1		0.2	
Interest income on financial assets not at fair value through the income statement		0.1		0.2
Expected return on pension plan assets		11.7		11.2
Total financial revenue		11.8		11.4
Net financing costs		(2.9)		(2.5)

4. Taxation

Analysis of tax charge in the year

	2008 £m	2007 £m
United Kingdom		
UK corporation tax at 30% (2007 – 30%)	**0.2**	1.0
Less: double taxation relief	**(0.2)**	(1.0)
	–	–
Overseas taxes		
Corporation taxes	**1.2**	1.3
Amount underprovided in previous years	**0.4**	–
Current income tax charge	**1.6**	1.3
Deferred tax		
United Kingdom – origination and reversal of temporary differences	**0.5**	–
Impact of change in tax rate on deferred tax	**0.4**	–
Overseas – origination and reversal of temporary differences	**0.6**	–
Total deferred tax	**1.5**	–
Tax charge on loss on ordinary activities	**3.1**	1.3
Analysed as:		
Continuing	**3.1**	0.6
Discontinued	**–**	0.7
	3.1	1.3

	2008 £m	2007 £m
Tax on items taken directly to equity		
Deferred tax on pension plan balances	**(5.7)**	(1.1)
Impact of change in tax rate on deferred tax on pension plan balances	**(0.6)**	–
Deferred tax on other direct movements on reserves	**–**	(0.1)
	(6.3)	(1.2)

Factors affecting the Group tax charge for the year

The Group's tax charge in future years will be affected by the profit mix, effective tax rates in the different countries where the Group operates and utilisation of tax losses. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries.

The tax assessed for the year is lower (2007 – higher) than the standard rate of corporation tax in the UK of 30% (2007 – 30%). The differences are explained below:

	2008 £m	2007 £m
Profit/(loss) on ordinary activities before tax		
Continuing operations	**9.3**	1.4
Discontinued operations	**1.5**	(2.0)
	10.8	(0.6)
Tax on ordinary activities at 30% (2007 – 30%)	**3.2**	(0.2)
Effects of:		
Permanent differences	**0.4**	0.9
Non-taxable gain on disposal of asset held for sale	**(0.8)**	–
Overseas tax rate differences	**0.2**	(0.3)
Unrelieved tax losses	**–**	3.4
Utilisation of brought forward unrecognised tax losses	**(0.5)**	(0.7)
Other temporary differences	**(0.2)**	(1.8)
Effects of changes in tax rates	**0.4**	–
Adjustments in respect of prior periods	**0.4**	–
Total tax charge	**3.1**	1.3

Notes to the consolidated financial statements continued

5. Discontinued operations

The results attributable to the discontinued operations are set out below.

	2008 Total discontinued £m	2007 Total discontinued £m
External revenue	–	29.1
Operating loss before exceptional items	–	(3.5)
Redundancy, restructuring and other exceptional items	–	1.7
Operating (loss)	–	(1.8)
Bank interest	–	(0.2)
(Loss) before tax	–	(2.0)
Taxation	–	–
(Loss) after tax	–	(2.0)
Adjustments to fair value less costs to sell and losses on disposal	**1.5**	(10.8)
Taxation (Note 4)	–	(0.7)
	–	(11.5)
Profit/(loss) for the year on discontinued operations	**1.5**	(13.5)

Discontinued exceptional items:

Within discontinued operations, the exceptional item of £1.5 million represents a £1.3 million net release of provisions in relation to claims on various disposals and £0.2 million of proceeds received from the purchaser of the Machine Tools business.

Discontinued employment costs comprise:

	2008 £m	2007 £m
Gross wages and salaries	–	8.8
Social security costs	–	2.2
Gain arising on pension curtailment	–	(0.7)
	–	10.3

The cash flows attributed to discontinued operations comprise:

	2008 £m	2007 £m
From operating activities	–	(4.7)
From investing activities	–	(1.7)
From financing activities	–	(1.6)

Deferred consideration of £1.35 million (2007 – £1.5 million) on the Machine Tools disposal has not been recognised in these financial statements and will only be recognised when there is greater certainty of recovery.

In 2007: (i) external revenue of £29.1 million was reported, of which £16.3 million related to Automotive operations and £12.8 million related to Machine Tools operations; (ii) operating loss before exceptional items of £3.5 million was reported, of which £2.2 million related to Automotive operations and £1.3 million related to Machine Tools operations; (iii) redundancy, restructuring and other exceptional items of £1.7 million was reported, of which £1.0 million related to Automotive operations and £0.7 million related to Machine Tools operations; (iv) operating loss of £1.8 million was reported, of which £1.2 million related to Automotive operations and £0.6 million related to Machine Tools operations; (v) bank interest cost of £0.2 million was reported, of which £0.1 million related to Automotive operations and £0.1 million related to Machine Tools operations; (vi) a loss before and after tax of £2.0 million was reported, of which £1.3 million related to Automotive operations and £0.7 million related to Machine Tools operations; (vii) adjustments to fair value less costs to sell and losses on disposal of £10.8 million was reported, of which £6.2 million related to Automotive operations and £4.6 million related to Machine Tools operations; (viii) a taxation charge on discontinued operations of £0.7 million was reported, which wholly related to Automotive operations; and (ix) a loss for the year on discontinued operations of £13.5 million was reported, of which £8.2 million related to Automotive operations and £5.3 million related to Machine Tools operations.

6. Earnings per share

Earnings per share are calculated by reference to the earnings for the year and the weighted average number of shares in issue during the year as follows:

	2008			2007		
	Earnings £m	**Weighted average number of shares Thousands**	**Per share amount Pence**	Earnings £m	Weighted average number of shares Thousands	Per share amount Pence
Basic EPS						
Earnings attributed to ordinary shareholders	**7.7**	**69,807**	**11.0**	(12.7)	69,501	(18.3)
Effect of dilutive securities:						
Employee share options	**–**	**1,589**	**(0.2)**	–	569	0.2
Diluted EPS	**7.7**	**71,396**	**10.8**	(12.7)	70,070	(18.1)
Earnings per share from continuing operations						
Basic EPS	**7.7**	**69,807**	**11.0**	(12.7)	69,501	(18.3)
Post tax (profit)/loss from discontinued operations (Note 5)	**–**		**–**	2.0		2.9
Adjustments to fair value less costs to sell and losses on disposal (Note 5)	**(1.5)**		**(2.1)**	11.5		16.6
Basic EPS from continuing operations	**6.2**	**69,807**	**8.9**	0.8	69,501	1.2

Inclusion of the dilutive securities, shown above, in the calculation of basic EPS from continuing operations changes the amount shown to 8.7p (2007 – 1.2p).

Earnings per share from discontinued operations						
Basic EPS						
Post tax profit/(loss) from discontinued operations (Note 5)	**1.5**	**69,807**	**2.1**	(2.0)	69,501	(2.9)
Adjustments to fair value less costs to sell and losses on disposal (Note 5)	**–**		**–**	(11.5)		(16.6)
Basic EPS from discontinued operations	**1.5**	**69,807**	**2.1**	(13.5)	69,501	(19.5)

Inclusion of the dilutive securities, shown above, changes the amounts shown for basic EPS for discontinued operations to 2.1p (2007 – (19.3p)).

Adjusted EPS for continuing activities						
Basic EPS from continuing operations	**6.2**	**69,807**	**8.9**	0.8	69,501	1.2
Effect of exceptional items, after tax	**(0.3)**		**(0.4)**	5.0		7.2
Adjusted EPS	**5.9**	**69,807**	**8.5**	5.8	69,501	8.4

Inclusion of the dilutive securities, shown above, in the calculation of adjusted EPS changes the amount shown to 8.3p (2007 – 8.3p).

The adjusted earnings per share numbers have been provided in order to give a useful indication of underlying performance by the exclusion of exceptional items.

7. Dividends

No ordinary dividend payments were paid or proposed in either the current or prior year.

Notes to the consolidated financial statements continued

8. Intangible assets

	Goodwill £m	Computer software £m	Total £m
Cost			
At 1 April 2007	15.2	2.2	17.4
Exchange adjustment	(0.1)	0.4	0.3
Additions	1.2	0.7	1.9
At 31 March 2008	**16.3**	**3.3**	**19.6**
Accumulated amortisation and impairment			
At 1 April 2007	–	1.6	1.6
Exchange adjustment	–	0.3	0.3
Amortisation charge	–	0.2	0.2
At 31 March 2008	**–**	**2.1**	**2.1**
Net book amount at 31 March 2008	**16.3**	**1.2**	**17.5**
Net book amount at 31 March 2007	15.2	0.6	15.8

	Goodwill £m	Computer software £m	Total £m
Cost			
At 1 April 2006	17.1	1.8	18.9
Exchange adjustment	(1.9)	(0.1)	(2.0)
Additions	–	0.5	0.5
At 31 March 2007	**15.2**	**2.2**	**17.4**
Accumulated amortisation and impairment			
At 1 April 2006	–	1.6	1.6
Exchange adjustment	–	(0.1)	(0.1)
Amortisation charge	–	0.1	0.1
At 31 March 2007	**–**	**1.6**	**1.6**
Net book amount at 31 March 2007	**15.2**	**0.6**	**15.8**
Net book amount at 31 March 2006	17.1	0.2	17.3

Goodwill is tested for impairment at least annually and following that exercise in 2007/08 no impairment charge has been recognised in the period (2007 – nil).

For the purposes of impairment testing of goodwill, these businesses are defined as cash generating units (CGU).

The recoverable amount of each CGU has been determined on a value in use basis. Value in use is calculated as the net present value of cash flows derived from detailed financial plans for the next financial period and strategic forecasts thereafter for a total period of five years. A terminal value is recognised based on a constant cash flow into perpetuity. The most significant assumptions relevant to the determination of the recoverable amount are the year one forecasts growth rate and discount rate. The cash flows are extrapolated from the approved plan which is the basis of the year one forecasted at a growth rate using the long-term growth rate published by the OECD or other reliable source for the territory in which the CGU is based. A growth rate of 3.1% (2007 – 3.1%) has been used for Jeffrey Chain USA, 3.6% (2007 – 3.6%) for Ace Chains, Australia, and 8.1% (2007 – n/a) for Renold Hangzhou, China.

A discount rate of 9% (2007 – 11.1%) has been used representing the Group's estimated weighted average cost of capital and is used by management to assess operating performance and to evaluate future investment proposals.

Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of each unit to materially exceed its recoverable amount.

The carrying amounts of goodwill allocated to cash-generating units are as follows:

	2008 £m	2007 £m
Jeffrey Chain, USA	**14.7**	14.8
Renold Hangzhou, China	**1.2**	–
Ace Chains, Australia	**0.4**	0.4
	16.3	15.2

9. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 April 2007	18.8	88.5	107.3
Exchange adjustment	1.5	5.8	7.3
Acquisitions	–	1.2	1.2
Additions	0.1	7.4	7.5
Disposals	(0.5)	(1.2)	(1.7)
At 31 March 2008	**19.9**	**101.7**	**121.6**
Aggregate depreciation			
At 1 April 2007	2.0	71.3	73.3
Exchange adjustment	0.1	4.6	4.7
Charge for the year	0.3	4.6	4.9
Disposals	–	(0.8)	(0.8)
At 31 March 2008	**2.4**	**79.7**	**82.1**
Net book amount at 31 March 2008	**17.5**	**22.0**	**39.5**
Net book amount at 31 March 2007	16.8	17.2	34.0

Property, plant and equipment	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 April 2006	21.0	89.2	110.2
Exchange adjustment	(0.7)	(2.7)	(3.4)
Additions	0.1	5.2	5.3
Transfer to investment property	(1.7)	–	(1.7)
Disposals[1]	–	(4.1)	(4.1)
Reclassification	0.1	(0.1)	–
Transfers[2]	–	1.0	1.0
At 31 March 2007	**18.8**	**88.5**	**107.3**
Aggregate depreciation			
At 1 April 2006	1.8	70.2	72.0
Exchange adjustment	–	(2.0)	(2.0)
Charge for the year	0.3	4.4	4.7
Transfer to investment property	(0.1)	–	(0.1)
Disposals	–	(2.3)	(2.3)
Transfers[2]	–	1.0	1.0
At 31 March 2007	**2.0**	**71.3**	**73.3**
Net book amount at 31 March 2007	**16.8**	**17.2**	**34.0**
Net book amount at 31 March 2006	19.2	19.0	38.2

1 Additions include £1.5 million in respect of discontinued operations. Following the sale of the discontinued businesses, this amount is also recorded as a component of disposals.
2 Prior to sale of discontinued businesses, plant and equipment with a net book amount of £nil (cost £1 million; depreciation £1 million) was transferred from amounts previously classified within assets of discontinued operations.

Net book amount for plant and equipment includes £0.3million (2007 – £0.4 million) in respect of assets acquired under finance leases.

Future capital expenditure

At 31 March 2008 capital expenditure contracted for but not provided for in these accounts amounted to £1.3million (2007 – £0.1 million).

Notes to the consolidated financial statements
continued

10. Investment property

	£m
Cost	
At 1 April 2007	1.7
Exchange adjustment	0.3
31 March 2008	**2.0**
Aggregate depreciation	
At 1 April 2007	0.1
Charge for the year	–
At 31 March 2008	**0.1**
Net book amount at 31 March 2008	**1.9**
Net book amount at 31 March 2007	1.6
Cost	
Transferred from property, plant and equipment (Note 9)	1.7
At 31 March 2007	**1.7**
Aggregate depreciation	
Transferred from property, plant and equipment (Note 9)	0.1
Charge for the year	–
At 31 March 2007	**0.1**
Net book amount at 31 March 2007	**1.6**

There are two relevant rental agreements, the first ran for one year from 3 August 2006 and the second commenced for a period of nine years from 3 August 2007. This later agreement is terminable by the tenant at the end of each three year period. The rental income recognised in the period was £0.3 million (2007 – £0.2 million). The total future minimum lease payments under the non-cancellable term amount to £0.5 million (2007 – £0.8 million) and of this £0.3 million (2007 – £0.2 million) is due in the next financial year and £0.2million (2007 – £0.6 million) is due in the period after one year but not later than five years from the balance sheet date.

The property has been accounted for on a cost model basis. The most recent valuation of the Calais property was conducted in June 2005 by Colliers CRE, Chartered Surveyors and International Property Consultants. At that date the fair value of the property was assessed at £1.7 million. The directors are not aware of any circumstances that have arisen to materially alter that external valuation.

11. Inventories

	2008 £m	2007 £m
Materials	**7.1**	5.2
Work in progress	**9.3**	6.8
Finished products	**24.6**	21.1
	41.0	33.1

Inventories pledged as security for liabilities amounted to £23.0 million (2007 – £17.0 million).

Write-offs taken to the income statement amount to £0.3 million (2007 – £1.1 million plus an exceptional charge of £2.7 million).

12. Trade and other receivables

	2008 Current £m	2008 Non-current £m	2007 Current £m	2007 Non-current £m
Trade receivables*	**31.4**	**–**	26.7	–
Less: provision for impairment of receivables	**(0.6)**	**–**	(0.5)	–
Trade receivables – net	**30.8**	**–**	26.2	–
Other receivables	**2.4**	**0.2**	2.5	0.2
Prepayments and accrued income	**2.0**	**0.1**	1.4	0.2
	35.2	**0.3**	30.1	0.4

* Financial assets

The Group has recognised a loss of £0.1 million (2007 – £0.1 million) for the impairment of its trade receivables during the year. The Group has no significant concentration of credit risk.

The Group has a concentration of translational and transactional foreign exchange risk in both US Dollars and Euros, however, the Group hedges against these risks.

Trade receivables are non-interest bearing and are generally on 30-90 days' terms. See Note 26(e) for credit risk policy.

As at 31 March, the ageing analysis of trade receivables is as follows:

	Total £m	Neither past due nor impaired £m	Past due but not impaired <30 days £m	30-60 days £m	60-90 days £m	>90 days £m
2008	**30.8**	**27.2**	**2.6**	**0.5**	**0.3**	**0.2**
2007	26.2	23.5	2.1	0.3	0.2	0.1

	2008 £m	2007 £m
Movement on impairment provision		
At 1 April 2007	**0.5**	0.6
Exchange adjustment	**0.1**	0.2
Net charge to income statement	**0.2**	0.1
Utilised in year through assets written off	**(0.2)**	(0.2)
Acquisitions and disposals	**–**	(0.2)
At 31 March 2008	**0.6**	0.5

13. Cash and cash equivalents

	2008 £m	2007 £m
Cash at bank and in hand	**8.1**	15.2
Short-term bank deposits	**7.4**	5.1
Cash and cash equivalents	**15.5**	20.3

In the Group cash flow statement, net cash and cash equivalents are shown after deducting bank overdrafts, as follows:

	2008 £m	2007 £m
Cash and cash equivalents (as shown above)	**15.5**	20.3
Less: Overdrafts (Note 15)	**(1.3)**	(4.9)
Net cash and cash equivalents	**14.2**	15.4

Notes to the consolidated financial statements
continued

14. Asset held for sale

	2008 £m	2007 £m
Property	–	3.4

On 4 January 2008 the former chain manufacturing facility located at Burton-upon-Trent was sold generating proceeds of £6.4 million and realising an exceptional gain in the income statement of £2.6 million after costs associated with the disposal of the property of £0.4 million.

15. Borrowings

	2008 £m	2007 £m
Amounts falling due within one year:		
Overdrafts	**1.3**	4.9
Bank loans	**6.9**	2.8
Obligations under finance leases	**0.1**	0.1
	8.3	7.8
Amounts falling due after more than one year:		
Bank loans	**30.5**	31.2
Obligations under finance leases	**0.1**	0.2
	30.6	31.4
Preference shares	**0.5**	0.5
	31.1	31.9
Total borrowings (Note 26(e))	**39.4**	39.7

All financial liabilities, excluding finance lease obligations above are carried at amortised cost.

Secured borrowings

Included in Group borrowings are secured borrowings of £34.7 million (2007 – £38.1 million). Security is provided by fixed and floating charges over UK assets (including certain property, plant and equipment) and the assets of certain overseas subsidiaries.

Finance leases

The Group has finance leases for various items of plant and machinery. These leases have terms of renewal but no purchase options or escalation clauses.

	2008 £m	2007 £m
Obligations under finance leases		
Minimum payments under finance leases are as follows:		
Amounts payable within one year	**0.1**	0.1
Amounts payable between two and five years	**0.1**	0.3
Total gross payments	**0.2**	0.4
Less: Finance charges allocated to future periods	**–**	(0.1)
	0.2	0.3
Allocated as:		
Current obligations	**0.1**	0.1
Non-current obligations	**0.1**	0.2
	0.2	0.3

Preference shares:

All payments of dividends on the 6% cumulative preference shares have been paid on the due dates. The preference shares have the following rights:

(i) a fixed cumulative preferential dividend at the rate of 6% per annum payable half yearly on 1 January and 1 July in each year;

(ii) they rank both with regard to dividend (including any arrears to the commencement of a winding up) and return of capital in priority to all other stock or shares of the Company but with no further right to participate in profits or assets;

(iii) there is no right to attend or vote, either in person or by proxy, at any General Meeting of the Company or to have notice of any such meeting, unless the dividend on the preference stock is in arrears for six calendar months;

(iv) there is no redemption entitlement.

There is no significant difference between the carrying value of financial liabilities and their equivalent fair value.

16. Trade and other payables

	2008 Current £m	2008 Non-current £m	2007 Current £m	2007 Non-current £m
Trade payables*	**23.2**	**–**	20.3	–
Other tax and social security	**3.7**	**–**	2.7	–
Other payables	**2.4**	**–**	3.6	–
Accruals and deferred income	**12.5**	**0.7**	9.5	1.2
	41.8	**0.7**	36.1	1.2

* Financial liabilities carried at cost.

Trade payables are non-interest bearing and are normally settled within 60-day terms. The Group does have a concentration of translational foreign exchange risk in both US Dollars and Euro's however the Group hedges against this risk.

17. Provisions

	PACE restructuring initiative £m	Business restructuring £m	Contingent consideration £m	Other provisions £m	Total provisions £m
At 1 April 2007	1.7	0.4	–	3.1	5.2
Arising during the year	2.1	0.8	0.5	–	3.4
Released in year	–	–	–	(1.3)	(1.3)
Utilised in year	(1.2)	(0.6)	–	(1.1)	(2.9)
At 31 March 2008	**2.6**	**0.6**	**0.5**	**0.7**	**4.4**

Allocated as:	2008 £m	2007 £m
Current provisions	**3.9**	5.2
Non-current provisions	**0.5**	–
	4.4	5.2

PACE restructuring initiatives

As explained in Note 2(c), the Group is reorganising its manufacturing and distribution facilities. This initiative includes significant changes in the manufacturing footprint through the migration to low cost countries and associated changes in the direct labour headcount. The process is under way and the substantial part of the provision remaining at 31 March 2008 will be expended in 2008/09.

Business restructuring

This provision relates to the reorganisation and restructuring of a UK based business and will be completed within the next financial year.

Contingent consideration

A provision has been established following the acquisition of 90% of the equity interest in Hangzhou Shanshui ("HZSS"). See Note 27 for details.

Other provisions

Provisions have been retained in respect of warranty claims in relation to former discontinued operations. Whilst it is anticipated that the provisions will be utilised within the following year, the actual timing remains uncertain pending agreement of remedial actions with the purchaser.

Notes to the consolidated financial statements
continued

18. Deferred tax

	Assets		Liabilities		Net	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Accelerated capital allowances	**3.0**	2.8	**(2.2)**	(1.8)	**0.8**	1.0
Pension plans	**4.7**	11.0	**0.1**	0.1	**4.8**	11.1
Tax losses	**2.5**	3.8	**0.3**	0.2	**2.8**	4.0
Other temporary differences	**(0.3)**	(0.2)	**0.2**	0.2	**(0.1)**	–
Tax asset/(liabilities)	**9.9**	17.4	**(1.6)**	(1.3)	**8.3**	16.1
Net off (liabilities)/assets	**(1.6)**	(1.3)	**1.6**	1.3	**–**	–
Net deferred tax assets	**8.3**	16.1	**–**	–	**8.3**	16.1

The net deferred tax asset recoverable after more than one year is £8.3million (2007 – £16.1 million).

The movement in the net deferred tax asset is as follows:

2008	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in equity £m	**Closing balance £m**
Accelerated capital allowances	2.8	(0.2)	0.4	–	**3.0**
Pension plans	11.0	0.2	(0.2)	(6.3)	**4.7**
Tax losses	3.8	0.1	(1.4)	–	**2.5**
Other temporary differences	(0.2)	–	(0.1)	–	**(0.3)**
	17.4	0.1	(1.3)	(6.3)	**9.9**

2007	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in equity £m	Closing balance £m
Accelerated capital allowances	2.3	–	0.5	–	2.8
Pension plans	12.6	(0.1)	(0.4)	(1.1)	11.0
Tax losses	3.2	(0.1)	0.7	–	3.8
Other temporary differences	0.3	–	(0.4)	(0.1)	(0.2)
	18.4	(0.2)	0.4	(1.2)	17.4

The movement in the net deferred tax liability in the year is as follows:

2008	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	**Closing balance £m**
Accelerated capital allowances	(1.8)	(0.1)	(0.3)	**(2.2)**
Pension plans	0.1	–	–	**0.1**
Tax losses	0.2	–	0.1	**0.3**
Other temporary differences	0.2	–	–	**0.2**
	(1.3)	(0.1)	(0.2)	**(1.6)**

2007	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Closing balance £m
Accelerated capital allowances	(0.9)	–	(0.9)	(1.8)
Pension plans	0.1	–	–	0.1
Tax losses	0.2	–	–	0.2
Other temporary differences	(0.3)	–	0.5	0.2
	(0.9)	–	(0.4)	(1.3)

During the year the Group has reported an operating profit of £12.0 million, before exceptional items, from continuing operations. The businesses in all jurisdictions where deferred tax assets have been recognised will, more likely than not, generate suitable profits based on approved management forecasts from which the future reversal of the underlying timing differences can be deducted.

18. Deferred tax (continued)

A deferred tax asset amounting to £13.0 million (2007 – £8.0 million) has not been recognised in respect of losses in certain subsidiaries where, based on available evidence, it is considered unlikely that the losses will be recovered within the foreseeable future.

19. Pensions

The Group operates a number of pension plans throughout the world covering many of its employees. The principal funds are those in the United Kingdom: (i) the Renold Group Pension Scheme ('RGPS'); (ii) the Jones & Shipman plc Retirement Benefits Plan (1971); and (iii) the Renold Supplementary Pension Scheme 1967 ('RSPS'). These three plans are funded plans of the defined benefit type with assets held in separate trustee administered funds. The Renold Group Money Purchase Pension Scheme is a defined contribution type plan and membership is available to all new employees, the main defined benefit plans having been closed to new employees in 2002. As a result of the plans' closure, the age profile of the active membership is increasing, and consequently current service cost is likely to increase as members of the plans approach retirement.

Overseas employees participate in a variety of different pension arrangements of the defined contribution or defined benefit type, funded in accordance with local practice.

The most recent actuarial valuations of the Renold Group Pension Scheme and the Renold Supplementary Pension Scheme 1967 were at 5 April 2004. The valuations of both plans used the projected unit method and were carried out by Barnett Waddingham, professionally qualified actuaries. The last valuation of the Jones & Shipman plc Retirement Benefits Plan (1971) was at April 2006, also carried out by Barnett Waddingham.

For all defined benefit plans operated by the Group the disclosures in the accounts are based on the most recent actuarial valuations. Where material, these have been updated to the balance sheet date by qualified independent actuaries. The disclosures provided below are presented on a weighted average basis where appropriate.

The principal financial assumptions used to calculate plan liabilities as at 31 March 2008 are presented below. The assumptions adopted by the plans' actuaries represent the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

	UK		Overseas	
	2008	2007	**2008**	2007
Rate of increase in pensionable salaries	**3.9%**	3.6%	**3.8%**	3.8%
Rate of increase in pensions in payment and deferred pensions	**3.3%**	3.0%	**2.5%**	2.4%
Discount rate	**6.6%**	5.4%	**6.1%**	5.8%
Inflation assumption	**3.4%**	3.1%	**2.7%**	2.7%
Expected return on plan assets	**6.5%**	6.5%	**8.0%**	8.0%

Plan assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of plan assets.

The predominant defined benefit obligation for funded plans within the Group resides in the UK (£168.0 million of the £185.1million Group obligation for funded plans). In addition to the assumptions shown above, mortality assumptions have a significant bearing on the calculated obligation. The assumed life expectations for the Renold Group Pension Scheme on retirement at age 65 are as follows (different rates apply for the Renold Supplementary Pension Scheme 1967 and the Jones & Shipman plc Retirement Benefit Plan.

	2008	2007
Retiring today		
Males	**19.5**	17.0
Females	**22.2**	20.5
Retiring in 20 years		
Males	**20.7**	19.1
Females	**23.3**	22.0

The post-retirement mortality tables used for the plan are the PA92 series tables published by the UK Actuarial Profession. The mortality rates for the Renold Group Pension Scheme (which represents approximately 2/3rds of the UK defined benefit obligation) are based on average year of birth for both non-pensioners and pensioners with an allowance for the medium cohort projection. An uplift of 40% has been applied to the standard rates. The effect of this adjustment is to reduce life expectancy. The assumed life expectancy is longer for the other two UK defined benefit plans.

Notes to the consolidated financial statements continued

19. Pensions

Sensitivity analysis:

Assumption	Change in assumption	Impact on plan liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 6.5%
Rate of inflation*	Increase/decrease by 0.5%	Increase/decrease by 4.0%
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by 1.0%
Rate of mortality	Increase by 1 year**	Increase by 3.5%

* Assuming assumption for real salary growth unchanged.
** Calculated using a reduction to assumed mortality rates of 12.5% at all ages. This is broadly equivalent to an increase in life expectancy of 1 year at age 65.

The expected long-term rates of return and market values of assets of the principal defined benefit plans of the Group, together with the present value of plan liabilities, are shown below. It should be noted that the market values of the plans' assets are stated as at the Group's year end. It is not intended to realise the assets in the short-term and the value may therefore be subject to significant change before being realised. The present values of the plans' liabilities are derived from cash flow projections over long periods and are thus inherently uncertain.

The fair values of plan assets were:

	UK		Overseas		Total	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Equities	**82.4**	78.6	**6.6**	7.5	**89.0**	86.1
Bonds	**74.4**	85.8	**3.6**	3.8	**78.0**	89.6
Other	**1.7**	–	**5.0**	3.8	**6.7**	3.8
Total market value of assets	**158.5**	164.4	**15.2**	15.1	**173.7**	179.5
Present value of plan liabilities	**(168.0)**	(192.5)	**(36.9)**	(35.0)	**(204.9)**	(227.5)
Deficits in plans	**(9.5)**	(28.1)	**(21.7)**	(19.9)	**(31.2)**	(48.0)

Pension commitments

Pension obligations:

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

	2008			2007		
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Opening obligation	**(192.5)**	**(35.0)**	**(227.5)**	(195.6)	(36.5)	(232.1)
Current service cost	**(1.6)**	**(0.7)**	**(2.3)**	(2.1)	(0.7)	(2.8)
Interest cost	**(10.2)**	**(1.6)**	**(11.8)**	(9.6)	(1.5)	(11.1)
Contributions by plan participants	**(0.5)**	**(0.2)**	**(0.7)**	(0.7)	(0.2)	(0.9)
Actuarial gains and losses	**26.8**	**1.1**	**27.9**	4.5	(0.9)	3.6
Gains on curtailments	**–**	**0.5**	**0.5**	0.7	0.1	0.8
Benefits paid	**10.0**	**1.8**	**11.8**	10.3	1.7	12.0
Exchange adjustment	**–**	**(2.8)**	**(2.8)**	–	3.0	3.0
Closing obligation	**(168.0)**	**(36.9)**	**(204.9)**	(192.5)	(35.0)	(227.5)
The total defined benefit obligation can be analysed as follows:						
Obligations related to funded pension plans	**(168.0)**	**(17.1)**	**(185.1)**	(192.5)	(17.0)	(209.5)
Obligations related to unfunded pension plans	**–**	**(19.8)**	**(19.8)**	–	(18.0)	(18.0)
	(168.0)	**(36.9)**	**(204.9)**	(192.5)	(35.0)	(227.5)

19. Pensions (continued)

Pension assets:

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

	2008 UK £m	2008 Overseas £m	2008 Total £m	2007 UK £m	2007 Overseas £m	2007 Total £m
Opening assets	**164.4**	**15.1**	**179.5**	162.7	15.5	178.2
Expected return on plan assets	**10.5**	**1.2**	**11.7**	10.1	1.1	11.2
Actuarial gains and losses	**(11.0)**	**(0.9)**	**(11.9)**	(3.5)	0.8	(2.7)
Contributions by the employer	**4.1**	**0.8**	**4.9**	4.7	0.7	5.4
Contributions by plan participants	**0.5**	**0.2**	**0.7**	0.7	0.2	0.9
Benefits paid	**(10.0)**	**(0.9)**	**(10.9)**	(10.3)	(0.8)	(11.1)
Exchange adjustment	**–**	**(0.3)**	**(0.3)**	–	(2.4)	(2.4)
Closing assets	**158.5**	**15.2**	**173.7**	164.4	15.1	179.5
Balance sheet reconciliation:						
Plan obligations	**(168.0)**	**(36.9)**	**(204.9)**	(192.5)	(35.0)	(227.5)
Plan assets	**158.5**	**15.2**	**173.7**	164.4	15.1	179.5
Retirement benefit obligation	**(9.5)**	**(21.7)**	**(31.2)**	(28.1)	(19.9)	(48.0)

The net amount of actuarial gains and losses taken to the statement of recognised income and expense is as follows:

	2008 £m	2007 £m
Actuarial gains and (losses) arising on plan obligations	**27.9**	3.6
Actuarial gains and (losses) arising on plan assets	**(11.9)**	(2.7)
Net actuarial gains and losses	**16.0**	0.9

The actual loss on plan assets was £0.2 million (2007 – gain £8.5 million).

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

	2008 £m	2007 £m
Operating costs – continuing		
Current service cost	**(2.3)**	(2.8)
Gains on curtailments	**0.5**	0.1
	(1.8)	(2.7)
Amounts relating to discontinued operations		
Gains on curtailments	**–**	0.7
Total cost of retirement benefits	**(1.8)**	(2.0)

History of experience gains and losses

	UK 2008	UK 2007	UK 2006	UK 2005
Experience adjustments arising on plan assets				
Amount (£m)	**(11.0)**	(3.5)	14.5	3.3
Percentage of plan assets	**6.9%**	2.1%	8.9%	2.3%
Experience adjustments arising on plan liabilities				
Amount (£m)	**26.8**	4.5	(15.2)	(20.4)
Percentage of present value of plan liabilities	**16.0%**	2.3%	7.8%	11.5%
Present value of plan liabilities (£m)	**(168.0)**	(192.5)	(195.6)	(177.2)
Fair value of plan assets (£m)	**158.5**	164.4	162.7	142.4
Deficit (£m)	**(9.5)**	(28.1)	(32.9)	(34.8)

Notes to the consolidated financial statements continued

19. Pensions (continued)

	Overseas			
	2008	2007	2006	2005
Experience adjustments arising on plan assets				
Amount (£m)	**(0.9)**	0.8	1.7	1.2
Percentage of plan assets	**5.9%**	5.3%	11.0%	9.7%
Experience adjustments arising on plan liabilities				
Amount (£m)	**1.1**	(0.9)	(6.3)	–
Percentage of present value of plan liabilities	**3.0%**	2.6%	17.3%	–
Present value of plan liabilities (£m)	**(36.9)**	(35.0)	(36.5)	(30.8)
Fair value of plan assets (£m)	**15.2**	15.1	15.5	12.4
Deficit (£m)	**(21.7)**	(19.9)	(21.0)	(18.4)

	Total			
	2008	2007	2006	2005
Experience adjustments arising on plan assets				
Amount (£m)	**(11.9)**	(2.7)	16.2	4.5
Percentage of plan assets	**6.9%**	1.5%	9.1%	2.9%
Experience adjustments arising on plan liabilities				
Amount (£m)	**27.9**	3.6	(21.5)	(20.4)
Percentage of present value of plan liabilities	**13.6%**	1.6%	9.3%	9.8%
Present value of plan liabilities (£m)	**(204.9)**	(227.5)	(232.1)	(208.0)
Fair value of plan assets (£m)	**173.7**	179.5	178.2	154.8
Deficit (£m)	**(31.2)**	(48.0)	(53.9)	(53.2)

The cumulative amount of actuarial losses recognised in equity since 4 April 2004 was £4.3 million (2007 – £20.3 million). The Group expects to contribute approximately £4.8million (2007 – £5.3 million) to defined benefit plans in the year to 31 March 2009.

As a result of the deficits in the main UK plans, it has been agreed with the actuaries and trustees that, under existing arrangements, annual lump sum payments of £2.2 million will be paid to the RGPS plan and £0.7million to the RSPS plan over the average remaining service lives of members, being fifteen and twelve years respectively.

The Group operates a number of defined contribution plans. The cost for the period was £0.8 million (2007 – £0.7 million). There were outstanding contributions in creditors of £nil (2007 – £nil) at the balance sheet date.

The assets and liabilities shown above include a net £nil (2007 – £nil) balance in respect of a closed South African defined benefit pension scheme. The Group has not recognised the pension surplus within that scheme of £1.1 million (2007 – £1.1 million), after expected additional payments to pensioner members are taken into account. The Company is undertaking a review of local regulations to clarify if the surplus can be repaid to the Group.

20. Called up share capital

	Authorised		Issued	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Equity interests				
Ordinary shares of 25p each	**23.1**	23.1	**17.5**	17.4

At 31 March 2008 the issued Ordinary Share Capital comprised 70,022,194 (2007 – 69,659,807) ordinary shares of 25p each. During the year the Company issued 362,387 (2007 – 230,587) ordinary shares of 25p each for a cash consideration of £246,570 (2007 – £138,192) by the exercise of options under the Executive and the Savings Related Share Option Schemes.

21. Share-based payments

Details of the share-based payment arrangements are provided in the Directors' Remuneration Report on pages 21 to 25.

Share options have been granted under the Executive Share Option Schemes and the Savings Related Share Option Schemes. At 31 March 2008 unexercised options for ordinary shares amounted to 5,224,805 (2007 – 3,698,762).

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

	2008 Executive Share Option Scheme		2007 Executive Share Option Scheme		
Grant date	**31.3.08**	**27.11.07**	26.7.06	30.11.06	2.1.07
Share price at date of grant	**79p**	**92.5p**	62p	106.5p	119p
Exercise price	**75.9p**	**92.55p**	61.6p	100.1p	114.2p
Number of employees	**9**	**11**	12	1	9
Shares under option	**1,576,690**	**660,000**	535,000	120,000	360,000
Vesting period (years)	**3**	**3**	3	3	3
Expected volatility	**32.1%**	**32.5%**	29.1%	29.5%	30.3%
Option life (years)	**10**	**10**	10	10	10
Expected life (years)	**6**	**6**	6	6	6
Risk free interest rate	**3.9%**	**4.5%**	4.7%	4.9%	5.2%
Assumed dividends expressed as a dividend yield	**zero**	**zero**	1.7%	0.9%	0.9%
Possibility of ceasing employment before vesting	**zero**	**zero**	8%	zero	zero
Fair value per option	**31.9p**	**37.5p**	19.4p	39.8p	44.9p
Probability of meeting market based vesting conditions	**60%**	**n/a**	n/a	n/a	n/a

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise based on historical data. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. Dividend yields indicated above are an expression of assumed dividends over the respective periods included in the calculation. These assumptions may not be borne out in practice. A reconciliation of option movements over the year to 31 March 2008 is shown below:

Executive share option schemes

	2008 Number	2008 Weighted average exercise price	2007 Number	2007 Weighted average exercise price
Outstanding at 1 April	**2,831,542**	**93.79p**	2,186,849	98.68p
Granted	**2,236,690**	**80.83p**	1,015,000	84.81p
Lapsed	**(174,042)**	**159.31p**	(127,307)	155.19p
Forfeited	**(91,000)**	**102.65p**	(98,000)	82.14p
Exercised	**(240,500)**	**74.68p**	(145,000)	63.07p
Outstanding at 31 March	**4,562,690**	**85.76p**	2,831,542	93.79p
Exercisable at 31 March	**1,009,000**	**82.09p**	223,202	128.71p

Savings related share option scheme

	2008 Number	2008 Weighted average exercise price	2007 Number	2007 Weighted average exercise price
Outstanding at 1 April	**867,220**	**54.43p**	1,404,450	54.53p
Granted	**–**	**–**	–	–
Lapsed	**(3,856)**	**54.30p**	(222,088)	55.06p
Forfeited	**(79,362)**	**54.34p**	(229,555)	54.35p
Exercised	**(121,887)**	**54.93p**	(85,587)	54.61p
Outstanding at 31 March	**662,115**	**54.34p**	867,220	54.43p
Exercisable at 31 March	**48,908**	**54.91p**	36,090	54.54p

Notes to the consolidated financial statements
continued

21. Share-based payments (continued)
Executive share option scheme

Range of exercise prices	2008 Weighted average exercise price	2008 Number of shares	2008 Weighted average remaining life Expected	2008 Weighted average remaining life Contractual	2007 Weighted average exercise price	2007 Number of shares	2007 Weighted average remaining life Expected	2007 Weighted average remaining life Contractual
58.5p to 74.3p	**63.61p**	**856,000**	**3.0**	**7.0**	63.34p	1,055,000	4.5	7.5
76.5p to 94.5p	**81.88p**	**3,011,690**	**5.0**	**9.0**	84.89p	890,000	4.1	7.1
100.1p to 120.0p	**111.41p**	**530,000**	**4.3**	**8.1**	112.0p	577,500	5.7	8.7
137.83p to 242.67p	**189.09p**	**165,000**	**–**	**0.7**	189.36p	309,042	–	1.7

Savings related share option scheme

Range of exercise prices	2008 Weighted average exercise price	2008 Number of shares	2008 Weighted average remaining life Expected	2008 Weighted average remaining life Contractual	2007 Weighted average exercise price	2007 Number of shares	2007 Weighted average remaining life Expected	2007 Weighted average remaining life Contractual
54.3p to 55.08p	**54.34p**	**662,115**	**0.9**	**1.2**	54.43p	867,220	2.8	3.1

The weighted average share price during the period for options exercised over the year was 104.74p (2007 – 111.07p). The total charge for the year relating to employee share based payment plans was £142,000 (2007 – £110,000), all of which related to equity-settled share-based transactions. After deferred tax, the total charge was £142,000 (2007 – £110,000).

The middle market price of ordinary shares at 31 March 2008 was 79.0 pence and the range of prices during the year was 66.5 pence to 140.5 pence.

22. Analysis of changes in shareholders' equity

	Share capital £m	Share premium account £m	Retained earnings £m	Currency translation reserve £m	Other reserves £m	Total equity £m
At 1 April 2006	17.4	6.0	14.5	2.7	–	40.6
Loss for the year	–	–	(12.7)	–	–	(12.7)
Foreign exchange translation difference	–	–	–	(4.8)	–	(4.8)
Actuarial gains and losses	–	–	0.9	–	–	0.9
Gains on fair value of hedging net investments in foreign operations	–	–	–	0.9	–	0.9
Tax on items recognised directly in equity	–	–	(1.2)	–	–	(1.2)
Share premium	–	0.1	–	–	–	0.1
Employee share options:						
– value of employee services	–	–	0.1	–	–	0.1
At 31 March 2007	17.4	6.1	1.6	(1.2)	–	23.9
Profit for the year	–	–	7.7	–	–	7.7
Recycling of losses on cash flow hedges to the income statement	–	–	–	–	0.2	0.2
Net losses on cash flow hedges taken to equity	–	–	–	–	(0.8)	(0.8)
Foreign exchange translation difference	–	–	–	(0.7)	–	(0.7)
Actuarial gains and losses	–	–	16.0	–	–	16.0
Gains on fair value of hedging net investments in foreign operations	–	–	–	0.6	–	0.6
Tax on items recognised directly in equity	–	–	(6.3)	–	–	(6.3)
Share premium	–	0.2	–	–	–	0.2
Employee share options:						
– value of employee services	–	–	0.1	–	–	0.1
– proceeds from shares issued	0.1	–	–	–	–	0.1
At 31 March 2008	17.5	6.3	19.1	(1.3)	(0.6)	41.0

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of foreign operations and the proportion of the gains or losses on hedging instruments used to hedge against movements in net investments in foreign operations that are determined to be effective.

Other reserves records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Cumulative goodwill written off directly to Group reserves at 31 March 2008, subsequent to the capital reorganisation in January 1985, amounted to £2.0million (2007 – £2.0 million).

Included in retained earnings is an amount of £6.0million (net of tax) (2007 – £10.3 million) relating to the revaluation of freehold property that was undertaken at the date of IFRS adoption. The amount is not distributable until it is realised.

23. Operating lease obligations

The Group has entered into commercial leases on commercial properties and plant and equipment.

At the end of the year there were the following minimum rental commitments under non-cancellable operating leases:

	2008		2007	
	Properties £m	**Equipment £m**	Properties £m	Equipment £m
Within one year	**2.1**	**0.4**	2.1	0.4
Between two and five years	**6.6**	**0.5**	6.5	0.7
Over five years	**15.7**	**–**	17.2	–
	24.4	**0.9**	25.8	1.1

Certain of the leased properties have been sublet and the future minimum sublease payments expected to be received under non-cancellable sublease agreements is £0.3 million (2007 – £0.8 million).

24. Contingent liabilities

Performance guarantees given to third parties in respect of Group companies were £3.7 million (2007 – £3.9 million).

25. Additional cash flow information

Reconciliation of profit before tax to net cash flows from operations:

	2008 £m	2007 £m
Cash generated from operations:		
Continuing operations:		
Profit before taxation	**9.3**	1.4
Depreciation and amortisation	**5.1**	4.9
(Profit)/loss on plant and equipment disposals	**(3.0)**	0.1
Equity share plans	**0.1**	0.1
Net finance costs	**2.9**	2.5
(Increase)/decrease in inventories	**(5.0)**	1.2
(Increase) in receivables	**(3.0)**	(2.3)
Offset of proceeds from disposal of business	**2.4**	4.1
(Decrease)/increase in provisions	**(0.3)**	1.7
Movement on pension plans	**(4.0)**	(3.5)
Movement in derivative financial instruments	**–**	0.1
Cash generated from continuing operations	**4.5**	10.3
Discontinued operations		
Profit/(loss) before taxation	**1.5**	(2.0)
Loss on plant and equipment disposals	**–**	0.2
Net finance costs	**–**	0.2
(Increase) in inventories	**–**	(0.3)
Decrease in receivables	**–**	2.2
(Decrease) in payables	**–**	(2.0)
(Decrease) in provisions	**(1.3)**	(1.2)
Offset of proceeds from disposal of businesses	**(0.2)**	–
Movement on pension plans	**–**	(1.8)
Cash generated/(absorbed) by discontinued operations	**–**	(4.7)
Cash generated from operations	**4.5**	5.6

Notes to the consolidated financial statements
continued

25. Additional cash flow information (continued)
Reconciliation of net increase in cash and cash equivalents to movement in net debt:

	2008 £m	2007 £m
(Decrease)/increase in cash and cash equivalents	**(2.3)**	6.2
Change in net debt resulting from cash flows	**(1.3)**	(6.1)
Finance lease inception	**–**	(0.2)
Foreign currency translation differences	**(0.9)**	1.4
Change in net debt during the period	**(4.5)**	1.3
Net debt at start of year	**(19.4)**	(20.7)
Net debt at end of year	**(23.9)**	(19.4)

	2008 £m	2007 £m
Net debt comprises:		
Cash and cash equivalents (Note 13)	**15.5**	20.3
Total borrowings (Note 15)	**(39.4)**	(39.7)
	(23.9)	(19.4)

26. Financial instruments
These notes should be read in conjunction with the narrative disclosures in the Financial Review on pages 11 to 14.

A sensitivity analysis of interest and foreign exchange movements has been performed. The results of this analysis have proven to be too immaterial to disclose.

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

	2008 £m	2007 £m
Current assets:		
Forward foreign currency contracts – cash flow hedge	**0.1**	–
Current liabilities:		
Forward foreign currency contracts – cash flow hedge	**(0.9)**	(0.1)
Non-current liabilities:		
Interest rate swaps	**–**	–

The cash flow hedges of the expected future transactions in Euro's and US Dollar's were assessed to be highly effective. A net unrealised loss of £0.5 million in respect of Euro contracts and a loss of £0.4 million in respect of US Dollar contracts was included in equity as at 31 March 2008. A loss of £0.2 million was transferred to operating costs in the income statement in the period. No deferred tax asset is recognised.

The current asset foreign exchange contract has been deemed ineffective. The resulting charge has been taken to the income statement.

(b) Short-term receivables and payables
The carrying amount of short-term receivables and payables (being those with a remaining life of less than one year) is deemed to approximate to their fair value.

(c) Interest rate swap
The notional principal amount of the outstanding interest rate swap contracts at 31 March 2008 was $4.4 million (1 April 2007 – $9.4 million).

At 31 March 2008 the fixed interest rate was 6.9% (1 April 2007 – 7.0%) and floating rate was 6.4% (US LIBOR plus 100 basis points).

The interest rate swap amount is less than £0.1 million and its carrying amount and the gain or loss in the year is therefore not material. The termination date is 30 March 2009.

(d) Hedge of net investment in foreign entity and foreign exchange contracts
The Group has US Dollar denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in the USA. The carrying value of the US Dollar borrowings at 31 March 2008 was £6.5 million (1 April 2007 – £6.4 million). A foreign exchange gain of £0.1million (2007 – gain of £0.9 million) on translation of the borrowings into sterling is included as a part of the hedging reserve movement. Gains or losses on the retranslation of this borrowing are transferred to equity to offset any gains or losses on translation of the net investment in the USA subsidiaries.

26. Financial instruments (continued)

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

Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Fixed rate £m	Floating rate £m	Total £m
2008					
Sterling					
– Financial liabilities	7.1	3.0	0.2	13.0	13.2
– Preference shares	6.0	*	0.5	–	0.5
US Dollar	6.9	1.8	6.5	2.7	9.2
Euro	–	–	–	10.8	10.8
Other	–	–	0.5	5.2	5.7
			7.7	31.7	39.4
2007					
Sterling					
– Financial liabilities	7.1	4.0	0.3	14.2	14.5
– Preference shares	6.0	*	0.5	–	0.5
US Dollar	7.0	2.8	6.6	3.6	10.2
Euro	–	–	–	12.6	12.6
Other	8.1	0.3	0.2	1.7	1.9
			7.6	32.1	39.7

* Preference shares have no fixed repayment date.

The Sterling and US Dollar fixed rate financial liabilities take into account interest rate swaps.

Floating rate financial liabilities bear interest at rates, based on relevant national base rate equivalents, which can fluctuate on a daily basis.

The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest risk.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relate primarily to the Group's US Dollar debt obligations.

Foreign currency risk

As a result of the significant investment operations in the United States of America and Europe, the Group's balance sheet can be affected significantly by movements in the US Dollar/£ Sterling and Euro/£ Sterling exchange rates.

Credit risk

The Group trades only with recognised, credit-worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 12. There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, the Group's exposure to credit risk has a maximum exposure equal to the carrying value of these instruments.

Notes to the consolidated financial statements
continued

26. Financial instruments (continued)

(f) Currency and interest rate profile of financial assets at 31 March 2008

Currency	2008 Cash at bank and in hand £m	2008 Short-term deposits £m	2008 Total £m	2007 Cash at bank and in hand £m	2007 Short-term deposits £m	2007 Total £m
Sterling	**1.0**	**5.0**	**6.0**	6.5	–	6.5
Euro	**1.9**	**2.1**	**4.0**	3.3	5.1	8.4
Other	**5.2**	**0.3**	**5.5**	5.4	–	5.4
	8.1	**7.4**	**15.5**	15.2	5.1	20.3

Cash balances and short-term deposits are held with the Group's bankers. These deposits are held largely in UK and Germany and earn interest at bank deposit interest rates for periods of up to three months.

(g) Maturity of financial liabilities

The maturity profile of the contracted amount of the Group's financial liabilities was as follows:

	1 year or less or on demand £m	1 to 2 years £m	2 to 5 years £m	More than 5 years £m	Total £m
2008					
Interest bearing loans and borrowings	8.7	30.5	0.9	0.7	40.8
Leases	0.1	0.1	–	–	0.2
Trade payables	23.2	–	–	–	23.2
Preference shares*	–	–	–	0.5	0.5
	32.0	30.6	0.9	1.2	64.7

The group has contracted forward contracts consisting of Euro forward contracts £7.9 million and US Dollar forward contracts £8.6 million due within one year.

	1 year or less or on demand £m	1 to 2 years £m	2 to 5 years £m	More than 5 years £m	Total £m
2007					
Interest bearing loans and borrowings	8.2	2.3	29.6	1.4	41.5
Leases	0.1	0.1	0.1	–	0.3
Trade payables	20.3	–	–	–	20.3
Preference shares*	–	–	–	0.5	0.5
	28.6	2.4	29.7	1.9	62.6

* No fixed repayment date.

(h) Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at the year end date in respect of which all conditions precedent had been met at that date:

	2008 £m	2007 £m
Expiring within one year or less, or on demand	**12.0**	8.4

The facilities expiring in one year or less, or on demand, are primarily annual facilities subject to review at various dates during the year ending 31 March 2009.

26. Financial instruments (continued)

(i) Fair values

Set out below is a comparison by category of the carrying amounts and fair values of the Group's financial instruments excluding derivatives, short term trade payables and short term trade receivables which are already carried at fair value:

	Carrying value		Fair value	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Financial assets				
Cash	**15.5**	20.3	**15.5**	20.3
Financial liabilities				
Bank overdraft	**1.3**	4.8	**1.3**	4.8
Interest bearing loans and borrowings				
Floating rate borrowing	**31.7**	32.1	**31.7**	32.1
Fixed rate borrowing	**7.2**	7.1	**7.2**	7.1
Preference shares	**0.5**	0.5	**0.5**	0.5

The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

(j) Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a satisfactory credit rating and capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to the shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2008 and 31 March 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

	2008 £m	2007 £m
Net debt (Note 25)	**23.9**	19.4
Preference shares	**0.5**	0.5
Equity	**41.0**	23.9
Total capital	**41.5**	24.4
Capital and net debt	**65.4**	43.8
Gearing ratio	**37%**	44%

Notes to the consolidated financial statements continued

27. Business combinations

On 16 June 2007, the Group acquired an interest in the plant, equipment, inventory and existing workforce of the chain manufacturing business of Hangzhou Shanshui Industrial Co Limited ("HZSS"), located in China.

Renold's interest is represented by a 90% equity interest in Renold (Hangzhou) Co Limited ("RHZ"), the vehicle used to acquire the respective trade and business assets of HZSS. The contract establishing RHZ contains both a put and call option allowing either party to enforce the right of Renold to acquire the remaining 10% equity interest from HZSS at a date 10 years after the acquisition (or by mutual agreement at any time between three and ten years from acquisition). As a consequence of this arrangement, the investment has been accounted for as a 100% subsidiary. The Group has recognised the fair value of the related contingent consideration to acquire the remaining 10% interest in RHZ as a provision in the Group's balance sheet and as part of the purchase consideration.

Book and fair values of net assets at the date of acquisition were as follows:

	Book value £m	Provisional fair value to the Group £m
Property, plant and equipment	1.1	1.1
Inventories	1.1	0.7
Onerous contracts	–	(0.1)
Net assets	2.2	1.7
Goodwill arising on acquisition		1.2
Consideration		2.9
Discharged by:		
Cash (£2.0 million paid; £0.5 million deferred)		2.5
Costs associated with the acquisition, settled in cash		0.4
Total consideration		2.9

From the date of acquisition of 16 June 2007, HZSS has generated a loss of £0.3 million.

Included in the £1.2 million of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the expected synergies expected to arise from combining HZSS within the Renold Group and the acquisition of an assembled workforce.

If HZSS had been consolidated from the start of the year, the effect on Group revenue and profit before tax would have been immaterial.

The onerous contracts provision was fully utilised by the year end.

28. Post balance sheet event

In June 2008, Renold Continental Limited committed to sell the freehold of an office building located in Brussels for proceeds expected to be approximately £1.5 million. The anticipated profit on this disposal is estimated to be approximately £0.7 million.

Group five year financial review (unaudited)

			Prepared under IFRS			Prepared under UK GAAP
		2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Group revenue			**172.6**	188.4	225.1	197.0	192.1
Less discontinued operations			**–**	(29.1)	(70.1)	(53.8)	–
Revenue from continuing operations			**172.6**	159.3	155.0	143.2	192.1
Operating profit before exceptional items (and goodwill amortisation under UK GAAP) – continuing			**12.0**	9.8	6.8	4.6	7.6
Operating profit			**12.2**	3.9	5.4	0.4	8.6
Profit/(loss) before tax			**9.3**	1.4	1.8	(1.8)	4.7
Taxation			**(3.1)**	(0.6)	(1.5)	1.5	–
			6.2	0.8	0.3	(0.3)	4.7
Discontinued operations:							
Profit/(loss) from discontinued operations			**1.5**	(13.5)	(13.9)	0.2	–
Profit/(loss) for the year			**7.7**	(12.7)	(13.6)	(0.1)	4.7
Net assets employed							
Property, plant and equipment, intangible software and investment property			**42.6**	36.2	38.4	64.7	47.0
Working capital and other net assets			**33.2**	26.2	30.7	43.0	41.2
Operating assets			**75.8**	62.4	69.1	107.7	88.2
Assets of discontinued operations			**–**	–	37.1	–	–
Liabilities of discontinued operations			**–**	–	(28.1)	–	–
Properties held for sale			**–**	3.4	3.4	–	–
Goodwill			**16.3**	15.2	17.1	15.7	18.8
Net debt			**(23.9)**	(19.4)	(20.7)	(17.0)	(19.2)
Dividends			**–**	–	–	–	(2.1)
Deferred and current taxation			**8.4**	15.5	17.0	14.6	12.8
Provisions			**(4.4)**	(5.2)	(0.4)	(11.7)	(1.2)
Net assets excluding pension obligations			**72.2**	71.9	94.5	109.3	97.3
Pension obligations			**(31.2)**	(48.0)	(53.9)	(53.2)	(39.4)
Total net assets			**41.0**	23.9	40.6	56.1	57.9
Other data and ratios							
Operating return on average operating assets	%		**17.4**	14.9	7.7	4.7	8.6
Operating profit on turnover	%	1	**7.0**	6.2	4.4	3.2	4.0
Capital expenditure	£m	1	**8.2**	5.8	6.6	7.6	7.2
Basic earnings/(loss) per share	p		**11.0**	(18.3)	(19.6)	(0.1)	6.8
Dividends per ordinary share	p		**–**	–	–	4.5	4.5
Employees at year end (continuing)			**2,536**	2,041	2,008	2,015	2,656

1 Based on operating profit before exceptional items (and goodwill amortisation under UK GAAP).

Figures presented for 2004 under UK GAAP include pension liabilities and associated deferred tax assets assessed in accordance with FRS 17 “Retirement Benefits”.

Had IFRS been adopted in 2004 the main adjustments to the UK GAAP figures as presented above would have been in respect of pension obligations, the revaluation of freehold properties and non-amortisation of goodwill.

Report of the independent auditors

To the members of Renold plc

We have audited the Company financial statements of Renold plc for the year ended 31 March 2008 which comprise the Company Balance Sheet, the Company Statement of Total Recognised Gains and Losses, and the related Notes (i) to (xi). These Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Renold plc for the year ended 31 March 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, including the Directors' Remuneration Report and the Company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Company financial statements give a true and fair view and whether the Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Chief Executive's Review and Financial Review that is cross referred from the Group results section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Company financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Review, the Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2008;
- the Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Company financial statements.

Ernst & Young LLP
Registered Auditor
Manchester
June 2008

Accounting policies

A summary of the principal Company accounting policies is set out below. These have been applied on a consistent basis unless otherwise indicated.

As permitted by Section 230 of the Companies Act 1985 the Company has not presented its own profit and loss account.

Basis of accounting – The accounts have been prepared in compliance with the Companies Act 1985 and in accordance with UK Generally Accepted Accounting Principles (UK GAAP). They have been prepared under the historical cost convention, as modified to include fixed asset investments at net asset value.

Foreign currencies – Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Financial instruments and risk management – The accounting policies of the Company in respect of financial instruments are consistent with those of the Group, and are detailed in the consolidated financial statements. In accordance with paragraph 3(c) of FRS 25, the Company is exempt from the disclosure requirements of paragraphs 51 to 95 of FRS 25. The Company's financial instruments are consolidated with those of the Group and are incorporated into the disclosures in Note 26.

Tangible fixed assets – Tangible fixed assets represented by properties and equipment are stated at cost, being purchase cost plus any incidental costs of acquisition, less accumulated depreciation. The book values of certain assets which were the subject of past revaluations have been retained as permitted by the transitional arrangements of FRS 15 'Tangible Fixed Assets'. Depreciation is calculated by reference to original cost at fixed percentages assuming effective useful lives as follows:

- Leasehold properties – the period of the lease
- Equipment and fixtures – 5 to 10 years
- Motor vehicles – 25% per annum for 3 years leaving 25% residual value

Where appropriate, adjustments are made to the remaining effective useful lives of assets to reflect changes in circumstances to those envisaged when the asset was brought into use.

Leases – Annual rentals in respect of operating leases are charged against the profit of the year on a straight line basis over the lease term.

Investments – Shares in subsidiary companies are stated at their net asset value at the end of the year. This basis has been adopted because it is considered that it more fairly represents the value of the investment to Renold plc.

Derivative financial instruments – The Company uses derivative financial instruments to hedge the Group's exposure to foreign exchange and interest rate risks arising from operating and financing activities. In accordance with its treasury policy, it does not hold or use derivative financial instruments for trading or speculative purposes.

Deferred tax – Deferred tax is recognised on all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- Provision is not made for tax that would arise on the remittance of retained earnings of overseas subsidiaries unless the dividends have been accrued as receivable at the balance sheet date.
- Deferred tax assets are recognised only to the extent that, based on all available evidence, it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted by the balance sheet date.

Pension costs – Employees of the Company participate in the pension plans operated by the Renold plc Group in the UK. These include pension plans of the defined benefit and defined contribution types. However, the contributions paid by the Company are accounted for as defined contribution plans in all cases. This is because the Company is unable to identify its share of the underlying assets and liabilities in the respective plans, as required by FRS 17 ('Retirement Benefits'). Therefore, contributions paid to the respective pension plans are charged to the profit and loss account as incurred. Disclosures associated with the Renold Group defined benefit plans are provided in the Group Financial Statements.

Accounting policies
continued

Share-based compensation – The Company operates equity-settled share-based compensation plans as detailed in the Group financial statements. The fair value of Company employee services received in exchange for the grant of the options is recognised as an expense in the income statement, with the corresponding amount being recognised in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions, using a Black-Scholes pricing model. The model is adjusted as necessary for market-based vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, an update is made of the estimates of the number of options that are expected to become exercisable. The impact of the revision of original estimates, if any, is recognised in the income statement, and a corresponding adjustment made to equity over the remaining vesting period. The model is adjusted as necessary for market-based vesting conditions.

As permitted under the transitional provisions of FRS 20, the Company has applied the standard only to equity-settled awards granted after 7 November 2002 and which vested on or after 1 January 2005.

Dividends – Final dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders, while interim dividend distributions are recognised in the period in which the dividends are declared and paid. Dividends receivable from subsidiary undertakings are similarly recognised on this basis.

Cash flow statement – As permitted by FRS 1 ('Cash Flow Statements (revised 1996)'), the financial statements do not contain a cash flow statement as the financial statements of the Group, which are publicly available, contain a cash flow statement.

Related party transactions – The Company has taken advantage of the exemption not to disclose related party transactions with other members of the Group under FRS 8 ('Related Party Disclosures') because the parent's financial statements are presented with its consolidated financial statements and because these transactions are fully eliminated on consolidation.

Accounting policy on Derivatives – Financial assets and financial liabilities are disclosed in the Group accounts.

Company balance sheet
as at 31 March 2008

	Note	2008 £m	2007 £m
Fixed assets			
Tangible assets	i	**0.3**	0.2
Investments in subsidiary undertakings	ii	**54.7**	44.3
		55.0	44.5
Current assets			
Debtors	iii	**2.9**	2.3
Cash and short-term deposits		**19.9**	11.8
		22.8	14.1
Creditors – amounts falling due within one year			
Other creditors	iv	**(4.0)**	(2.5)
Bank borrowings	v	**(3.0)**	(2.8)
Net current assets		**15.8**	8.8
Total assets less current liabilities		**70.8**	53.3
Creditors – amounts falling due after more than one year			
Bank borrowings	v	**(17.8)**	(15.8)
Preference shares	v	**(0.5)**	(0.5)
Derivative financial instruments	vi	**(0.9)**	–
Net assets		**51.6**	37.0
Capital and reserves			
Called up share capital	viii	**17.5**	17.4
Share premium account	ix	**6.3**	6.1
Profit and loss account	ix	**28.5**	13.5
Other reserves	ix	**(0.7)**	–
Shareholders' funds		**51.6**	37.0

Approved by the Board on 24 June 2008 and signed on its behalf by:

Matthew Peacock
Chairman

Bob Davies
Director

Company statement of total recognised gains and losses
for the year ended 31 March 2008

	2008 £m	2007 £m
Profit/(loss) for the year	**15.0**	(17.0)
Net gains/(losses) recognised directly in equity:		
Recycling of losses on cash flow hedges to the income statement	**0.2**	–
Net losses on cash flow hedges taken to equity	**(0.9)**	–
Total expense recognised directly in equity	**(0.7)**	–
Total recognised gains and (losses) for the year	**14.3**	(17.0)
Attributable to:		
Equity shareholders of the Company	**14.3**	(17.0)

Notes to the Company financial statements

(i) Tangible assets

	Properties £m	Equipment £m	Total £m
Cost			
At beginning of year	0.1	0.9	1.0
Additions at cost	0.1	0.1	0.2
At end of year	**0.2**	**1.0**	**1.2**
Depreciation			
At beginning of year	–	0.8	0.8
Depreciation for the year	0.1	–	0.1
At end of year	**0.1**	**0.8**	**0.9**
Net book value at end of year	**0.1**	**0.2**	**0.3**
Net book value at beginning of year	0.1	0.1	0.2

(ii) Investments in subsidiary undertakings

	Shares £m	Advances £m	Total £m
Subsidiary companies			
Cost or valuation			
At beginning of year	6.8	37.5	44.3
Repayment of advances	–	(5.4)	(5.4)
Disposals	(0.1)	–	(0.1)
Reversal of impairment	15.9	–	15.9
At end of year	22.6	32.1	54.7

The principal subsidiary companies of Renold plc at 31 March 2008 are set out on page 78.

(iii) Debtors

	2008 £m	2007 £m
Amounts owed by Group undertakings	**2.1**	1.4
Deferred tax asset	**0.2**	0.3
Other debtors	**0.4**	0.4
Prepayments and accrued income	**0.2**	0.2
	2.9	2.3

The analysis of the deferred tax asset is as follows:

	2008 £m	2007 £m
All amounts falling due after more than one year.		
Decelerated capital allowances	**0.1**	0.1
Other temporary differences	**0.1**	0.2
	0.2	0.3

(iv) Other creditors

	2008 £m	2007 £m
Amounts falling due within one year:		
Trade creditors	**0.9**	0.7
Amounts owed by Group undertakings	**0.2**	–
Other taxation and social security	**0.3**	0.1
Other creditors	**2.2**	1.3
Accruals	**0.4**	0.4
	4.0	2.5

Notes to the Company financial statements
continued

(v) Borrowings

	2008 £m	2007 £m
Amounts falling due within one year:		
Bank overdrafts	**1.2**	0.9
Bank loans	**1.8**	1.9
	3.0	2.8
Amounts falling due after one year:		
Bank loans	**17.8**	15.8
Repayable:		
In more than one year but not more than two years	**17.8**	1.9
In more than two years but not more than five years	**–**	13.9
	17.8	15.8
Summary of total borrowings:		
Bank overdrafts	**1.2**	0.9
Total bank loans	**19.6**	17.7
Preference shares	**0.5**	0.5
Total borrowings	**21.3**	19.1

Bank borrowings are secured by fixed and floating charges over the assets of UK subsidiaries.

All payments of dividends on the 6% cumulative preference shares have been paid on the due dates. The preference shares have the following rights:

(i) a fixed cumulative preferential dividend at the rate of 6% per annum payable half yearly on 1 January and 1 July in each year;

(ii) they rank both with regard to dividend (including any arrears to the commencement of a winding up) and return of capital in priority to all other stock or shares of the Company but with no further right to participate in profits or assets;

(iii) there is no right to attend or vote, either in person or by proxy, at any General Meeting of the Company or to have notice of any such meeting, unless the dividend on the preference stock is in arrears for six calendar months;

(iv) there is no redemption entitlement.

(vi) Derivative financial instrument

	2008 £m	2007 £m
Forward foreign currency contracts – cash flow hedge	**(0.9)**	–

The cash flow hedges of the expected future transactions in Euro's and US Dollar's were assessed to be highly effective. A net unrealised loss of £0.5 million in respect of Euro contracts and a loss of £0.4 million in respect of US Dollar contracts was included in equity as at 31 March 2008.

A loss of £0.2 million was transferred to operating costs in the income statement in the period. No deferred tax asset is recognised.

The Group has contracted forward contracts consisting of Euro forward contracts £7.9m and US Dollar forward contracts £8.6m due within one year.

(vii) Pensions

Employees of Renold plc include members of the principal UK defined benefit schemes. However, the contributions paid by the Company are accounted for as a defined contribution scheme, as the Company is unable to identify its share of the underlying assets and liabilities in the respective schemes. As a consequence, the deficit in the UK defined benefit schemes is only recognised as a liability in the Group Balance Sheet. No contributions are outstanding at the year end.

(viii) Called up share capital

	Authorised (nominal value)		Issued	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Ordinary shares of 25p each	**23.1**	23.1	**17.5**	17.4
6% Cumulative Preference Stock	**0.6**	0.6	**0.5**	0.5
Total	**23.7**	23.7	**18.0**	17.9

At 31 March 2008 the issued Ordinary Share Capital comprised 70,022,194 (2007 – 69,659,807) ordinary shares of 25p each. During the year the Company issued 362,387 (2007 – 230,587) ordinary shares of 25p each for a cash consideration of £246,570 (2007 – £138,192) by the exercise of options under the Executive and the Savings Related Share Option Schemes.

Details of the preference shares are set out in Note (v).

Share options have been granted under the Executive Share Option Schemes and the Savings Related Share Option Schemes. At 31 March 2008 unexercised options for ordinary shares amounted to 5,224,805 (2007 – 3,698,762) made up as follows:

	Option price (pence per share)	**Number of shares 2008**	Number of shares 2007
Date normally exercisable			
Executive Share Option Schemes			
Within seven years from:			
18 July 2000 (1995 Scheme)	242.67	**–**	19,042
17 July 2001 (1995 Scheme)	237.33	**85,000**	140,000
16 July 2002 (1995 Scheme)	137.83	**80,000**	150,000
19 July 2003 (1995 Scheme)	118.50	**50,000**	97,500
22 December 2003 (1995 Scheme)	94.50	**–**	10,000
28 November 2004 (1995 Scheme)	67.34	**127,000**	202,000
27 November 2005 (1995 Scheme)	58.50	**109,000**	213,000
28 July 2007 (1995 Scheme)	80.84	**50,000**	50,000
27 November 2007 (1995 Scheme)	83.50	**125,000**	230,000
11 March 2008 (1995 Scheme)	76.50	**125,000**	125,000
2 September 2008 (2004 Scheme)	88.00	**475,000**	475,000
22 November 2008 (2004 Scheme)	74.30	**105,000**	105,000
26 July 2009 (2004 Scheme)	61.60	**515,000**	535,000
30 November 2009 (2004 Scheme)	100.10	**120,000**	120,000
2 January 2010 (2004 Scheme)	114.20	**360,000**	360,000
27 November 2010 (2004 Scheme)	92.55	**660,000**	–
31 March 2011 (2004 Scheme)	75.90	**1,576,690**	–
		4,562,690	2,831,542

	Option price (pence per share)	**Number of shares 2008**	Number of shares 2007
Savings Related Share Option Schemes			
Within six months from:			
1 February 2008 (1995 Scheme)	55.08	**38,164**	141,204
1 March 2009 (2004 Scheme)	54.30	**623,951**	726,016
		662,115	867,220

Further details of share-based payment schemes operated by the Company are provided in the Directors' Remuneration Report and Note 21 of the consolidated financial statements.

Notes to the Company financial statements
continued

(ix) Reserves

	Profit and loss account £m	Share premium £m	Other reserves £m	Total reserves £m
At beginning of year	**13.5**	**6.1**	**–**	**19.6**
Profit for the year	15.0	–	–	15.0
Net losses on cashflow hedges taken to equity	–	–	(0.9)	(0.9)
Recycling of losses on cashflow hedges to the income statement	–	–	0.2	0.2
Employee share option schemes – value of employee services	–	0.1	–	0.1
Share premium	–	0.1	–	0.1
At end of year	**28.5**	**6.3**	**(0.7)**	**34.1**

As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented in these financial statements. The Company's profit for the financial year was £14.5 million (2007 – loss £17.0 million).

Total fees payable by the Company to Ernst & Young LLP for work in respect of the audit of the Company were £31,000 (2007 – £27,000). Fees paid to the Company Auditors for non audit services to the Company are not disclosed in these accounts because the Company's consolidated financial statements are required to disclose such fees on a consolidated basis.

(x) Operating lease obligations

At the end of the year there were annual commitments under non-cancellable operating leases in relation to a property as follows:

	2008 £m	2007 £m
Leases expiring:		
– within one year	**199**	199
– between two and five years	**199**	199
– over five years	**199**	199
	597	597

(xi) Contingent liabilities

The Company has guaranteed borrowings by subsidiary undertakings of £14.8million (2007 – £13.5 million). Performance guarantees given to third parties in respect of Group Companies were £3.4 million (2007 – £3.0 million).

Corporate details

Corporate calendar

Annual General Meeting	30 July 2008
Interim Management Statement (first)	Between 11 June 2008 – 17 August 2008
Half year end 2008/09	30 September 2008
Announcement of half year 2008/09 results	November 2008[13]
Interim Management Statement (second)	Between 11 December 2008 – 15 February 2009
Year end 2008/09	31 March 2009
Announcement of annual results 2008/09	June 2009
Payment of preference dividends	1 July 2008 and 1 January 2009

Company details

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Company Secretary
Lindsay Beardsell

Auditors
Ernst & Young LLP, Manchester

Broker and Financial Adviser
Kaupthing Singer & Friedlander Capital Markets Limited

Financial PR Consultants
College Hill Associates Limited

Registrar
Capita Registrars
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Email: shareholder.services@capitaregistrars.com
Website: www.capitaregistrars.com
Registrar's Share Portal: www.capitashareportal.com

13 Please note that, following changes in legislation, a copy of the interim results will no longer be sent to shareholders, but will be available on the Company's website.

Principal subsidiary companies
as at 31 March 2008

United Kingdom

Renold Power Transmission Limited

Europe (other than the United Kingdom)

Austria	Renold GmbH
Belgium	Renold Continental Limited (incorporated in the United Kingdom)
Denmark	Renold A/S
France	Brampton Renold SA
	Renold SAF SAS
Germany	Renold GmbH
Holland	Renold Continental Limited (incorporated in the United Kingdom)
Poland	Renold Polska sp. z o.o.
Russia	Renold Russia (Obshchestvo s Ogranichennoj Otvetstvennostu)
Sweden	Renold Transmission AB
Switzerland	Renold (Switzerland) GmbH

North America

Canada	Renold Canada Limited
USA	Renold Inc
	Jeffrey Chain LP

Other Countries

Australia	Renold Australia Proprietary Limited
China	Renold Transmission (Shanghai) Company Limited
	Renold Technologies (Shanghai) Company Limited
	Renold (Hangzhou) Co Ltd
Malaysia	Renold (Malaysia) Sdn Bhd
New Zealand	Renold New Zealand Limited
Singapore	Renold Transmission Limited (incorporated in the United Kingdom)
South Africa	Renold Crofts (Pty) Limited

The subsidiary companies listed above are those which, in our opinion, principally contributed to the results and assets of the Group. Companies of minor importance are omitted by virtue of Section 231 and Schedule 5 of the Companies Act 1985.

All of our companies are direct or indirect subsidiaries of Renold plc, a company incorporated in England and Wales, which ultimately holds a 100% interest in the equity shares and voting rights. Renold Power Transmission Limited and Renold Continental Limited are registered in England and Wales. Our overseas companies are incorporated in the countries in which they operate except where otherwise stated.

Notes

Notes

The paper used in this report is sourced from well managed and sustainable forests and is FSC certified.

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