RENOLD

Annual Report and
Accounts 2009

www.renold.com

In this very tough environment we have delivered a robust set of results for 2008/09 despite significant challenges. We are well prepared and focused on what needs to be delivered whilst proactively managing our costs to ensure Renold is fit for the environment today and tomorrow...

Financial highlights

Sales (£million)

Year	Value
08/09	194.7
07/08	172.6
06/07	159.3
05/06	155.0

Operating Profit (£million)

Year	Value
08/09	10.0
07/08	12.0
06/07	9.8
05/06	6.8

Return on Sales (%)

Year	Value
08/09	5.1
07/08	7.0
06/07	6.2
05/06	4.4

Return on Capital Employed (%)

Year	Value
08/09	11.6
07/08	17.4
06/07	14.9
05/06	7.7

	2009 £m	2008 £m
Continuing operations:		
Turnover	**194.7**	172.6
Operating profit	**7.6**	12.2
Operating profit before exceptional items	**10.0**	12.0
Profit before tax and exceptional items	**5.3**	9.1
Profit before tax	**2.9**	9.3
Discontinued operations:		
Profit for the year from discontinued operations	**–**	1.5
Other information:		
Basic profit per share – Group	**2.8p**	11.0p
Basic earnings per share – continuing operations	**2.8p**	8.9p
Adjusted earnings per share (adjusting for the after-tax effects of exceptional items) – continuing operations	**7.3p**	8.5p
Capital expenditure	**5.8**	8.2
Net debt	**37.2**	23.9

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Overview

This section provides an overview of our financial highlights and a summary of who we are and what we do. Our Chairman, Matthew Peacock, gives his views on the year and the progress made.

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Business review

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Governance

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Financial statements

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At a glance

Renold plc is an international engineering group, producing a wide range of high-quality engineering products and application solutions, operating in 20 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

Renold Chain

Renold manufactures chain for many applications. Heavy duty, high precision, indoor or outdoor, clean or contaminated, high or low temperature environments, these are all in a day's work.

The vast range of roller chains means that for most requirements there is a Renold solution. Our premier brand, Renold Synergy, offers unbeatable wear and fatigue performance, whilst 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 one in three fork lift trucks produced worldwide.

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

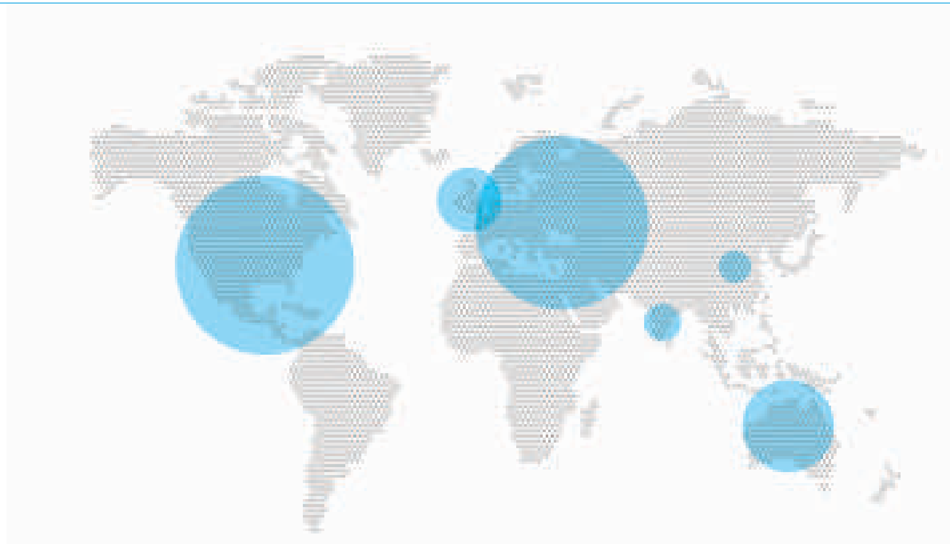
Sales – Geography

Renold has sales in 105 countries

→ Europe	43%
→ Americas	35%
→ China	3%
→ India*	2%
→ Rest of World	17%

* Six months' ownership

Turnover analysis – continuing operations



Renold Gears

Renold Gears, also at the leading edge of technology in the power transmission industry, is world renowned for its innovative products. A comprehensive range of right angle gear units offers 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 and 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 longstanding 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.

The supply of couplings for the mass transit subway systems market is now a core activity.

Chairman's letter

Overview

Matthew Peacock
Chairman

Renold re-positioned to take advantage of recovery

Overview
In this, my third year as Chairman of your Board, I am again pleased to report that Renold has delivered a good set of results in what, towards the end of the year, proved to be a very challenging environment. We have delivered revenue growth of 13% and an operating profit of £10.0 million before tax and exceptional items (2008 – £12.0 million).

The Group exceeded management expectations in the first half of the financial year with a 36% increase in the order book and a 33% increase in operating profit. This was a significant improvement over the first half of the year in 2007/08. The Group was in line to meet City expectations of operating profit for 2008/09, however, since the third quarter most parts of the Group have experienced major reductions in orders and sales as a result of the global economic climate. Whilst we appear to be fairing better than our competition and we have satisfied ourselves that current issues are as a result of the general economy, we are far from complacent or satisfied with where we find ourselves. Consequently, Renold has aggressively cut costs to ensure it can continue to develop profitably and take advantage of the global recovery, when it arrives.

At the period end, 59% of our direct labour was in low-cost countries compared to zero in 2005 and to the original target of 40% by March 2009. This deserves particular comment as a major development alongside improved profitability over the period.

Strategy
We have strengthened the business over the last year, primarily via delivering cost reductions according to plan and by improved access to low-cost manufacturing facilities. Cost savings, cash generation and capital expenditure targets have been achieved. Risk reduction actions on exchange rate exposure and energy prices were also concluded.

Continued good progress was made on tax efficiency, pension funding and unlocking freehold property value. Perhaps most significantly, the integration of our September 2008 acquisition of a 75% interest in the industrial chain business of L.G. Balakrishnan & Bros Ltd ("LGB") has been successful. This has enabled Renold to promote its existing product range within India's growing market place as well as exploit new product, market and export opportunities. Renold is now the market leader in India for industrial steel chain.

Following the acquisitions in China and India, we initiated the closure of our Polish facility, which will be completed in 2009/10. So, in terms of the execution of the targets we set ourselves and the improvement in profitability over the last few years, I am satisfied we accomplished most of what we had hoped. However, the current climate means we have a renewed challenge. We must reset a firm platform from which Renold can continue to grow profitably, despite the uncertainties of the interim and also take advantage of any recovery in the global economy. We as a Board are committed to this goal.

Looking forward, we will continue to focus on cost reduction and on expanding 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 circa £400 million[1] exists in new territories where we have a current market share of less than 1%.

Financing
In July 2009 we reached agreement (subject to full documentation) to enter into a facility with The Royal Bank of Scotland plc and Fortis Bank S.A./N.V. The credit and ancillary facilities provided are similar in size to the previous facility. The term is for three years expiring at the end of June 2012. Interest rates are in line with market rates with covenants set to reflect the volatile industrial environment with flexibility for currency movements. Warrants have been granted over 3,500,000 ordinary shares of the Company (circa 4.3% of existing ordinary share capital), reflecting the short-term outlook. This renewed facility provides a good base to implement our strategy, providing flexibility through this period of uncertainty.

Your Board
I would particularly like to thank the Board for their support and contribution this year. For the Non-Executive Directors, it has required a considerable commitment of time. For the Executive Directors, it has required a single-minded commitment to rapid and difficult changes. The Board members have been constant this year and are unanimous in their backing of the strategy. Rod Powell will retire from the Board at the Annual General Meeting and I thank him for all his efforts on behalf of Renold, in particular for his input into manufacturing strategy and as Chairman of the Remuneration Committee.

Outlook
The significant downturn in sales last year has continued into this financial year with the first quarter showing a 25% year on year decrease. We have entered our next financial year with caution regarding the outlook for the global economy, notwithstanding that we operate in many diverse geographies and sectors which are somewhat uncorrelated with each other. 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.

We are competitive in all segments of the price/performance pyramid which together with our manufacturing capability, the diverse geography and market sectors we serve, ensures that Renold is well placed for when the global economic climate recovers.

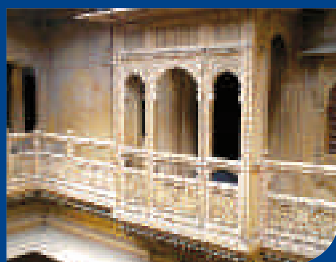
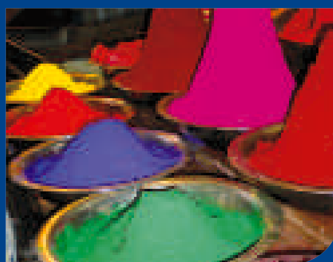
We recognise that the prime focus for 2009/10 is on financial stability and cash management. The Board and executive team are proactive in these areas as well as the continuing identification of cost reductions.

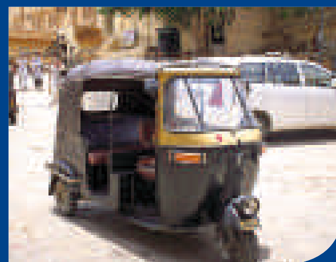
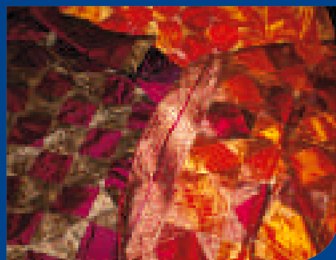
Matthew Peacock
Chairman

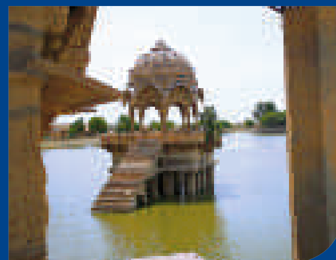
1 Source: management estimate.

Special feature INDIA

Investing for growth...



Special feature
INDIA

Major acquisition completed

On 29 September 2008, we completed the acquisition of a 75% interest in the industrial chain business of L.G. Balakrishnan & Bros. Ltd ("LGB").

£5m New revenue for Renold – sales in first six months

The business, based in Tamil Nadu, is already the market leader for the production and distribution of industrial chains in India, and will provide an established manufacturing base and sales distribution network. This network enables us to promote our existing product range into India's rapidly growing marketplace as well as to exploit new product, market and export opportunities.

Investing for growth and stability

Investing for growth is fundamental to our long-term strategy and our acquisition gives us entry into India, demonstrating our commitment to growth in emerging markets. It will also assist in the overall financial stabilisation of the Group. India has achieved substantial growth over the past decade and we are now well positioned to benefit from opportunities in this region.

We established a new entity called Renold Chain India Private Limited ("Renold Chain India"), which has acquired all of the manufacturing assets and the distribution channels of the industrial chain business of LGB. Renold Chain India is 75% owned by Renold, with 25% retained by LGB, which continues to provide benefit to Renold. The strong working relationship established during negotiations is already bearing fruit in our initial development of the business, which currently employs around 500 people in the manufacture of a broad range of transmission and conveyor engineered chain.

Tony Pace, who is Senior Vice President of Renold Chain India, was previously Sales Manager, Renold Australia.

"I am very pleased with our new operation in India. We are the market leader in the domestic transmission chain market and are very well respected for our quality. In conveyor chain, we have launched the Renold range of products, which is being widely welcomed. Process industries such as cement and fertilisers require high-quality, high-performance conveyor chain to keep their plants running efficiently 24/7 and so there is significant interest in the chain technology that Renold is bringing to India. I am confident that Renold will soon be the sought after conveyor chain supplier in India."

"To succeed in any business you need a good team. The Indian team has been running a successful business for some years. However, I have been particularly impressed with how our team have embraced all the new technology, product design and systems Renold has brought to the table. I am very excited at the growth opportunities for Renold in India."

Market leader in India

The acquired business, already the market leader for the production and distribution of industrial chains in India, has provided an established manufacturing base and sales distribution network. This network enables us to promote our existing product range into India's rapidly growing marketplace. The two big markets in this region include the textile and railway industries.

Indian Railways has one of the largest and busiest rail networks in the world, transporting over 18 million passengers and more than 2 million tonnes of freight daily. The Railway Wheel Factory ("RWF") is part of Indian Railways and currently produces 200,000 railway wheels per year, casting 650 tonnes of steel a day. RWF is one of our leading customers, purchasing both transmission and conveyor chains for use in its production line.

The textile industry is also one of our largest market segments for chain in India. Our chains are used extensively on textile machinery.

Growth and cost reduction opportunities

The successful completion of this transaction has also had an impact on our KPIs. 59% of the chain direct labour force is in low-cost countries. Our growth opportunities include:

- pulling existing products through newly acquired channels to market
- sourcing of low-cost products not currently in the portfolio
- transfer of products with demands for higher quality steel than that available in China.

Sales distribution network

Having effective channels to market is important for any business. In India, we are fortunate in having an established network of distributors and dealers, with some of these distributors being second-generation family members who have grown up "selling chain". These distributors are somewhat unique, with many of them working out of small local shop outlets with a computer and a telephone and an endless stream of customers calling into the shops to negotiate the best price deal.

Special feature INDIA

Opportunities for growth in India

1. Providing global market access to our new Indian facility

Renold has acquired a modern and sophisticated manufacturing capability which has successfully produced advanced industrial chains for many years. Integrating this capability into the Group's extensive sales channels has already started to generate significant growth opportunities. Specific opportunities to expand our presence in technically differentiated markets with price-competitive products are already progressing ahead of expectations.

2. Significant presence in the rapidly growing Indian market

Renold's market share in India has been transformed from minimal level to market leadership, via our inheritance of the sales branch structure and distribution network built up by LGB over several decades. We will continue to market the locally-made product under the Renold Rolon brand, which enjoys an excellent level of recognition and leadership status in this market consistent with the standing of the Renold brand in the major economies of the world.

3. Instant market access for Renold products

Renold's broader range of chain products complements and substantially extends the local scope of supply, providing our Indian sales channels with the ability to accelerate market share growth in a rapidly developing market. Renold's global leadership in advanced solutions chains is already generating an enthusiastic response from this market, which has not previously enjoyed widespread access to these products. Pull-through of the Group's non-chain products is also being rolled out into this market.

4. Exploiting strong links to Middle East

India has strong cultural and economic ties to important markets in the Middle East and Africa, and our new team in Gudalur brings a wealth of personal knowledge and relationships in these markets to the Group. Renold will leverage these commercial links to provide access to all of the Group's products to these rapidly developing markets.

Chief Executive's review

Robert Davies
Chief Executive

Renold has a 130-year history of organic and acquisitive growth in the industrial chain market and serves a wide range of markets and countries

Overview

This was a year of two distinct halves. During the first half we delivered on challenging targets and made good progress on our longer term strategic ambitions. Renold was set to achieve expectations for the year. However, the second half was characterised by a significant downturn in orders and sales, as a result of the global economic downturn as well as destocking by customers. During the third quarter, we took decisive action to resize the business to the anticipated new demand levels.

First half

A good set of results were delivered at the end of the first half of the year, which were in line with management expectations. The growth in sales of 16% and the implementation of our manufacturing strategy fed through to an operating profit increase of 33% and a doubling of profit after tax. The order book ended the half 36% higher than the same period of the previous year, which did not include the benefits brought by the Indian acquisition. We were consequently well positioned to meet our expectation of full-year sales and profit growth.

India

In September 2008, Renold acquired a 75% interest in the industrial chain business of an Indian quoted group, LGB. The acquisition gives Renold a market leading position in India and opportunities for further development and cost reduction. The primary strategy is to sell the current range of products manufactured in India through our existing global distribution network. Renold Chain India Private Limited is complementary to the manufacturing business in China both in terms of the product range and the markets served.

Second half

We believed some reduction in demand was likely during the second half and therefore started to reduce costs from October onwards. By the end of December, it became clear that there had been a dramatic change in demand from our customers with a significant reduction in orders from most markets and territories. This reduction continued for the remainder of the year and was particularly severe due to destocking by both the original equipment manufacturers and our distributors. Cost reduction became the prime focus of the second half.

Reduced hours of working were implemented in most facilities and agreement was reached to implement a 10% reduction in pay for all members of the Board, the senior management team and most staff with effect from 1 April 2009.

The reduction in demand resulted in surplus manufacturing capacity in the Group and, towards the end of the financial year, it was decided to close our manufacturing facility in Poland with production ceasing at the end of June 2009. This facility had played a part in reducing manufacturing costs, but following the recent acquisitions of businesses in China and India, it was no longer considered a low-cost location.

In Europe, the sales organisation's office in Brussels was sold and the business relocated to Ghent, Belgium. In North America, fixed costs will continue to be reduced through the appointment of an agent for part of our Canadian operation.

Capital expenditure was constrained during the second half of the year. This will continue except for essential maintenance, health and safety and environmental requirements.

These actions give us a significant reduction in our cost base, which together with an improved contribution margin, partially mitigates the impact of the reduced contribution resulting from lower sales revenues.

I am very proud that all at Renold understood the need to support these actions and responded positively. Our employees deserve recognition and thanks for so doing. I have every confidence that Renold is well positioned to take advantage of recovery when markets stabilise.

Going forward

The clear focus on industrial power transmission and the strategy to extend our manufacturing footprint to lower cost regions of the world remain. This has delivered cost reductions, but equally importantly, has allowed us access to a far wider range of markets.

Manufacturing footprint

The acquisition in China has allowed Renold to be cost-competitive with other manufacturers in the region. Subsequent investments have improved capabilities and raised quality standards to those expected of a Renold facility. These investments have also increased capacity to the extent that the tonnage of chain that can be delivered from our Chinese facility is in line with the output from our two major European facilities. Customer reaction to the new facility has been positive, with a number of formal approvals being granted. In addition, there are products which we had ceased producing, some in prior periods, that can now be re-introduced into the Renold portfolio at a competitive cost. The full benefits of this facility have yet to be realised.

Chief Executive's review
continued

Market Penetration
The acquisition in India has extended the scope of products that can now be produced in low-cost countries. As with China, good progress has been made, but much more benefit will come as the cycle of development, customer approval and testing completes. Renold's manufacturing footprint has improved significantly in the last three years to become a leader in the field of transmission chain.

Technical differentiation
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 technological leadership, which is well recognised by customers. In the current economic climate, it is more important than ever to have technical leadership and solutions that add value. The desire and energy to be at the forefront in this area has built strong relationships with both original equipment manufacturers and end users.

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 more utility products, for less exacting applications, at the other. The goals of effectively managing on-time delivery, quality and cost continue to be key objectives. Our organisation has been changed to meet not only our growth ambitions, but also to improve our service level.

Our customer service organisation in the USA has again been recognised by a major customer. Renold was announced as "Supplier of the Year" by the IDC based in Indianapolis, Indiana. This award is recognition of the strength of all the elements of the Renold team including engineering, manufacturing, quality, sales and customer service. This award follows a similar recent recognition by AIT, one of the largest distributors in the USA.

Gears and Couplings
The Gears and Couplings product lines delivered good sales and profit growth. The award of another major contract for a mass transit application was particularly welcomed. This $18 million contract will be delivered over the next two years. These multi-year contracts, with local governments as the end users, have made these product lines more resilient to the recession than Chain. Similarly, the operation in South Africa was not adversely impacted as the major mining customers held up well throughout the year. The capabilities and range of products produced in the Gears and Couplings facility in Beicai, near Shanghai, was increased during the year.

Gears and Couplings are not totally immune to the recession, with a number of large infrastructure projects, particularly in China, being delayed. These projects have not been lost to competition, however, and are expected to return as government stimulus money works it way through the system.

2009/10
The results of the changes made to our business model in recent years allow us to better weather the current storm. The financial year 2009/10 will be one of focusing on cost reduction, financial stability and cash management which we are well placed to do.

Renold in action

Solutions campaign

Renold successfully launched a campaign to raise awareness of selecting the right chain for the right job. This campaign focused on the comprehensive range of Solution Chains available only from Renold. These products represent the greatest weapon for maintenance engineers tackling the challenges of lubrication, corrosion, abrasion, wear and fatigue, demonstrating that industry can partner with Renold to solve their chain and power transmission problems.

Following an initial launch in the UK, this promotion and its associated direct marketing campaign was rolled out across continental Europe.

Cloned wormwheel is British firm's largest

Renold Gears has manufactured the largest wormwheel in the company's history. The phosphor-bronze wheel is 2.4 metres in diameter and weighs in at just over four tonnes.

It's an example of British engineering at its best and shows that the world's blue chip companies are still turning to the UK when they require high degrees of engineering skill and accuracy.

New drive solution enables high-efficiency wind power

Renold Couplings, of Cardiff, has helped to design a revolutionary new transmission system for wind power turbines that makes them lighter and more efficient in operation. Renold's team modified an overrunning sprag clutch and vee pulley assembly connected to a gearbox via a Renoldflex torsionally rigid coupling. The gearbox is able to change the pitch angle of the turbine's rotors in different wind conditions.

Finance Director's review

Peter Bream
Finance Director

Our performance

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 75.

Revenue

Revenue increased by 13% to £194.7 million. Sales in the second half-year, at £99.5 million, were 5% higher than in the first half-year. At constant exchange rates, sales for the full year were up 1% and sales in the second half-year were down 6% on the same period last year.

Operating profit

Operating profit before exceptional items was £10.0 million, down 17% on 2007/08. Return on sales[2] for continuing operations for the year before exceptionals was 5.1% compared with 7.0% for last year. This deterioration was the result of lower sales.

Exceptional items resulted in a £2.4 million charge, compared with a £0.2 million credit in 2007/08. £2.4 million redundancy and restructuring costs were incurred to accommodate the lower activity levels resulting from the global recession. Further details of the exceptional items are given in Note 2(c) to the financial statements.

Financing costs

Total net financing costs increased to £4.7 million (2008 – £2.9 million). Net bank interest cost rose to £2.7 million (2008 – £2.6 million) due to the increased levels of net debt in the period. Amortisation of costs associated with the re-banking in February 2007 was £0.2 million (2008 – £0.2 million). The net interest cost on pension plan balances and the expected return on pension plan assets was a charge of £1.8 million (2008 – £0.1 million).

Profit before tax

Profit before tax and before exceptional items was £5.3 million compared with £9.1 million last year. Profit before tax after exceptional items was £2.9 million compared to £9.3 million in 2007/08.

Taxation

The tax charge on continuing operations of £0.8 million (2008 – £3.1 million) represented an effective rate of approximately 28%, 5% less than that reported in 2007/08 and a continuation of the downward trend.

Group results for the financial period

The profit for the financial year was £2.1 million compared with £7.7 million last year; the basic earnings per share was 2.8p (2008 – 11.0p) and the diluted earnings per share was 2.8p (2008 – 10.8p). The basic adjusted earnings per share (from continuing operations before exceptional items) was 7.3p (2008 – 8.5p).

Balance sheet

Net assets at 31 March 2009 were £40.1 million (2008 – £41.0 million). The liability for retirement benefit obligations was £55.1 million (2008 – £31.2 million) before allowing for a net deferred tax asset of £11.0 million (2008 – £4.8 million). Of the £55.1 million obligation, £22.0 million arises in respect of non-UK unfunded schemes, which are not required to be prefunded (see pensions on page 12).

Cash flow and borrowings

Operating cash inflow from continuing operations was £1.1 million (2008 – £4.5 million). Payment for purchase of property, plant and equipment was £5.5 million (2008 – £7.5 million). Group net borrowings at 31 March 2009 were £37.2 million (2008 – £23.9 million) comprising cash and cash equivalents of £11.3 million (2008 – £15.5 million) and borrowings, including preference shares, of £48.5 million (2008 – £39.4 million).

Net borrowings at 31 March 2009 were impacted by the weaker value of sterling, increasing the translated value of foreign currency borrowings by £5.6 million compared to 31 March 2008. Working capital balances at 31 March 2009 were also higher by £1.2 million as a result of the increased steel prices experienced during the period.

Acquisition

On 29 September 2008, the Group acquired a 75% interest in the industrial chains business of LGB, in India. Initial consideration was £5.0 million with a further £1.7 million (£0.9 million contingent and £0.8 million deferred), to be paid in the financial year 2009/10 (see Note 26). The assets acquired comprised goodwill of £2.1 million, property, plant and equipment of £4.5 million, and inventories of £1.7 million.

Renold Chain India is now a market leader for the production of industrial chains in India and provides an established manufacturing base and sales distribution network which will enable Renold to promote its existing product range into India's rapidly growing marketplace.

Treasury and financial instruments

The Group treasury policy, approved by the directors, is to manage its funding requirements and treasury risks without undertaking any speculative risks. Note 25 to the financial statements provides details of financial instruments. Note 27 sets out details of the agreement of the new bank facility (subject to the completion of full documentation) after the balance sheet date. 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

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

Finance Director's review
continued

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 USA acquisitions have been designated as a hedge of the net investment in USA subsidiaries.

The carrying value of these borrowings at 31 March 2009 was £9.1 million (2008 – £6.5 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, during the year, had interest rate swaps to manage part of this exposure.

At 31 March 2009, the Group had 3% (2008 – 20%) 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.

New bank facility

On 13 July 2009 the Group reached agreement (subject to the completion of full documentation) to enter into a three year bank facility with the existing syndicate members led by The Royal Bank of Scotland plc, with Fortis Bank S.A./N.V. as a participant. This agreement is in the form of agreed heads of terms together with a letter of commitment and has received credit committee approval from the banks. It is expected that full documentation will be agreed and signed during July 2009. This facility, described more fully in Note 27, 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.

Renold in action

Smartlink

Renold worked with agricultural machinery manufacturer Vermeer to monitor the chain drive system on their latest hay baler, the 605 Super M, using Renold's innovative chain sensor, Smartlink. This sensor system, available only from Renold, reads load characteristics of chain in operation to provide information to the user on chain performance. This test provided information to Vermeer that the chain drive system was operating as expected and that the optimum size and type of chain was being used. Smartlink provided data that will be used by Vermeer's designers for the development of new equipment in the future.

New couplings stop the hunt

A change from gear couplings to rubber-in-compression couplings has completely cured a problem with motor hunting on a huge inclined conveyor at a drift mine in Wollongong, Australia. The metre-wide conveyor is nearly half a mile long and transports coal downhill at a rate of approximately 900 tonnes an hour.

To solve the problem, Renold Hi-Tec Couplings, of Halifax, supplied a rubber-in-compression coupling with pre-compressed rubber blocks. This type of coupling offers zero backlash operation and in this application was fitted to the head shaft of the conveyor and driven by the motor through a reduction gearbox. The new coupling has completely cured the problem of hunting and the motor control system is able to drive and stop the conveyor smoothly.

Pensions

The management of Renold's UK pension schemes continued to be a focus and action was taken. All schemes were closed to new entrants in 2002. However, the continued growth of the deficit due to longevity and the performance of the financial markets required action to limit our future anticipated risk. Pensions will continue to be an area of pro-active management.

Accordingly, we closed the Renold Supplementary Pension Scheme and the Jones and Shipman Scheme to future accrual from 1 August 2008. After a full consultation process, the main pension scheme, the Renold Group Pension Scheme, was also closed to future accrual on 1 June 2009. The new arrangement is the Renold Personal Pension Plan, a defined contribution plan which is administered by Fidelity International.

Information on the Group's pension schemes is set out in Note 18 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 gross and net deficits are as follows:

	2009			2008		
	Assets £m	**Liabilities £m**	**Deficit £m**	Assets £m	Liabilities £m	Deficit £m
UK schemes						
– funded	**130.7**	**(157.8)**	**(27.1)**	158.5	(168.0)	(9.5)
Overseas schemes						
– funded	**15.6**	**(21.6)**	**(6.0)**	15.2	(17.1)	(1.9)
– unfunded	**–**	**(22.0)**	**(22.0)**	–	(19.8)	(19.8)
	146.3	**(201.4)**	**(55.1)**	173.7	(204.9)	(31.2)
Deferred tax asset			**11.0**			4.8
Net			**(44.1)**			(26.4)

During the year, the assets of the funded schemes fell by £27.4 million, which was only partly offset by a reduction in funded liabilities of £5.7 million, resulting in an increased deficit in the funded schemes of £21.7 million.

The overseas deficit comprises £6.0 million (2008 – £1.9 million) in respect of funded defined benefit schemes, and £22.0 million (2008 – £19.8 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 prefunded. There is no obligation for deficit funding payments for this type of scheme. The increase in the deficit is largely caused by exchange rate movements.

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 2009 is summarised below:

As at 31 March 2009	RGPS £m	RSPS £m	J&S £m	**Total £m**
IAS 19 liabilities	(103.8)	(27.2)	(26.8)	**(157.8)**
Market value of assets	80.7	20.2	29.8	**130.7**
Deficit/surplus on IAS 19 basis	(23.1)	(7.0)	3.0	**(27.1)**
Annual deficit reduction payment (based on funding valuations)	1.5	0.5	–	**2.0**
Total members (approx)	4,975	115	1,014	**6,104**

The assets and liabilities in the balance sheet include a net £nil (2008 – £nil) balance in respect of a closed South African defined benefit pension scheme. The Group has not recognised that element of the pension surplus within that scheme of £1.1 million (2008 – £1.1 million), which it expects to remain surplus 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. Further details on the Group's pension schemes are given in Note 18 to the financial statements.

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 20 countries and sell to customers in many more. 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.

In particular, the present risk from global recession is significant. The recession has resulted in both lower orders and less forward visibility of, and greater volatility in, future orders as industries react to the global downturn by destocking and reducing output. We take actions with the objective of reducing costs and cash outflow whilst maintaining flexibility. Like many other companies despite these actions the financial performance and position of the Group will be adversely affected. The severity of the impact will depend upon the depth and duration of the downturn.

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.

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. The Group has recently entered into a new facility with its main lenders which is described elsewhere in this report. Cash deposits are placed short term with banks where security and liquidity are the primary objectives.

Foreign exchange risk

The Group has operations in 20 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 or cash flow hedges. 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 USA acquisitions have been designated as a hedge of the net investment in USA 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 them 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.

Key performance indicators

The Group's key performance indicators are set out in the Statutory Information section of the Directors' report on page 26.

Responsibilities

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 and health and safety matters, with the Chief Executive taking leadership responsibility with direct lines of reporting from operational heads and the Director of Global Supply Chain,[3] who is responsible for the management of Group health and safety.

Ethics

Within the dynamic global business environment, we expect our employees and business operations to conduct themselves ethically, and to be honest, fair and courteous in their dealings. We expect staff to be treated equally regardless of age, race, religion, sex or sexuality.

It is our policy not to engage in unethical conduct, bribery or corrupt practices. Renold will respect the culture of the countries within which it operates and will operate in accordance with the best practice of those countries.

In conducting its business, integrity underlies all Company relationships, including those with customers, suppliers and communities and among employees.

The highest standards of ethical business conduct are required of our employees in the performance of their company responsibilities. Employees may not engage in conduct or activity that may raise questions as to the Company's honesty, impartiality, reputation or otherwise cause embarrassment to the Company.

Our employees are required neither to offer nor to accept improper gifts, hospitality or payments.

Every Renold employee has the responsibility to ask questions, seek guidance and report suspected violations of this ethics statement.

Employees

We rely on the motivation and dynamism of our employees to drive forward our business. Talent is key to our success and we therefore aim to attract and retain motivated, effective people.

This year has been a tough year for the global economy. Against this backdrop, however, the following activities have been progressed across the Group:

Developing capability

Although we have cut back on formal training, we still believe it essential to maintain our skill pool. A good example of this in the UK is apprentice training. At our Milnrow factory we have an apprentice training school with a range of plant and equipment for practical training. At the time of this report, we had 25 individuals in the UK at various stages of apprentice training. We also participate in other youth programmes, such as work experience and work shadowing, and liaise closely with various universities which conduct relevant research.

Developing our people

We have a formal process of succession and talent planning which operates across the Group. This is not only time and cost-effective, but also motivational for our people. In addition, it helps with employee retention. A good example of this working in practice is the appointment and promotion of our Australian Sales Manager to Senior Vice President of our acquired Indian business.

3 Prior to 1 April 2009, the Group Supply Chain and IT Director was responsible for the management of Group health and safety.

Our investment in people

Chris Booth, Apprentice at the Bredbury site, has achieved the award of "Maintenance Apprentice of the Year" from Stockport Engineering Training Association (SETA).

Chris started his apprenticeship as a Maintenance Engineer with Renold in September 2008. He has been carrying out his basic training at SETA and will start work and further training at the Bredbury site from early summer 2009.

Working for Renold runs in the Booth family as Chris' grandfather, Geoff Booth, used to work in the Renold Research & Development Department.

Engaging our people

We have placed a strong emphasis on employee communications and two-way feedback and have developed our intranet system internally. To support the principle of two-way feedback, we have launched on online appraisal system which has both an employee and a manager focus.

In addition, to ensure a Group dynamic and to aid internal communications across the Group, we produce a newsletter for our employees, Renold LINK, and have bulletin boards for the electronic sharing of knowledge and information across the world.

Environment

We are committed to managing our activities 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 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 study below shows one way in which local management has progressed environmental initiatives.

Health and safety

As a global group operating in 20 countries, we have a high level of concern for the health and 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 and ensures that, where any issues are identified, they are promptly addressed.

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.

Community

We seek to be a part of the communities in which we work and, as such, seek to assist projects and provide support where no financial aid is required. We encourage volunteering and working with local educational institutions in the promotion and raising of awareness of engineering and manufacturing.

Our commitment to reducing energy consumption

Renold is committed to reducing energy consumption.

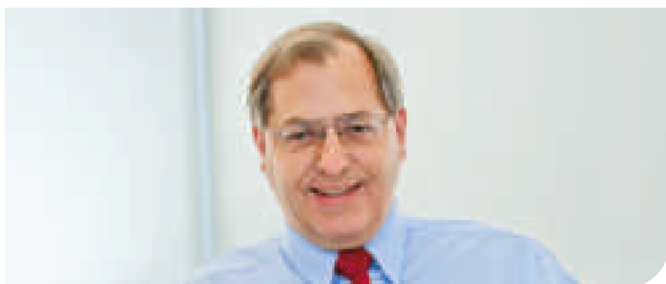
In South Africa, Renold has installed a meter which monitors the power used at half-hourly intervals and gives vital feedback information about the site's energy use and waste. This will allow us to target areas of high use and look for ways to reduce energy usage.

In Cardiff, our people have undertaken training on the control of the lighting, heating and ventilation systems, which now use light sensors and timers. This has resulted in a more efficient and cost-effective use of energy.

Renold is not stopping here and plans to complete the roll-out of a Group energy saving database in the coming year, which will allow sites to share best practice with a view to reducing energy usage and therefore operating costs.

Board of directors

Matthew Peacock
Chairman
Matthew, aged 47, was appointed to the Board and became Chairman in September 2006. He is the founding partner of Hanover Investors, a specialist turnaround investment firm based in London. Matthew has led investments for over 18 years in, amongst other sectors, manufacturing, outsourced business services, chemicals, financial services, textiles and logistics. Prior to this, he ran the International M&A team in London at BZW, having started his career at Credit Suisse First Boston, in New York. He holds a Masters degree in Law from Cambridge University. Matthew is also Chairman of Fairpoint plc and Singer Capital Markets, a London stockbroking and corporate advisory firm, and a non-executive director of STV Group plc.



Robert Davies
Chief Executive
Robert, aged 55, joined the Group in March 2004 and was appointed Chief Executive in April 2004. A Member of the Institute of Electronic Engineers and a non-executive director of Economic Solutions Limited, he was previously Chief Executive of GE Druck Holdings Limited, formerly known as Druck Holdings plc. Prior to that, he held a number of senior management positions in the Lucas Group and at General Electric, in both the UK and USA.

Peter Bream
Finance Director
Peter, aged 42, 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.

Governance

Rod Powell
Non-Executive Director
Rod, aged 61, 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 Hanover I Fund (a Cayman Islands-based fund) and Dust Networks Inc. (a privately held USA company).

David Shearer
Senior Independent Non-Executive Director
A corporate financier and a former senior partner in Deloitte LLP where he was a UK Executive Board member, David, aged 50, was appointed to the Board in May 2007 as the Senior Independent Non-Executive Director. He recently stood down as Chairman of Crest Nicholson plc having led the successful debt reconstruction of that business. He is Deputy Chairman of Aberdeen New Dawn Investment Trust plc, Senior Independent Director of STV Group plc and Superglass Holdings plc, a non-executive director of Mithras Investment Trust plc, Martin Currie Holdings Limited and Scottish Financial Enterprise and a Governor of The Glasgow School of Art. He was until early 2007 a non-executive director of HBOS plc.

John Allkins
Non-Executive Director
John, aged 59, 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, Fairpoint Group plc and Molins plc and was previously Group Finance Director of MyTravel Group plc. Prior to that, he held a number of finance director roles in BT.

Corporate governance

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 2009 except where highlighted below.

The Board

Composition

Our Board presently comprises a Non-Executive Chairman, three Non-Executive Directors 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 16.

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 health, safety and environmental issues, 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 2008/09.

Board independence

Matthew Peacock acted as the interim Chairman of the Audit Committee until 17 April 2008, when he was replaced by John Allkins. As a result, for a limited time, 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.

The Chairman, Matthew Peacock, is a principal of a significant shareholder, Hanover, which as at 10 July 2009 holds 16.79% 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.

Matthew Peacock is the Chairman of the Company's broker and financial adviser, Singer Capital Markets Limited. The Board has discussed and approved this appointment and has agreed that he will not be involved in any discussions relating to the evaluation of Singer's performance, fee negotiations, termination of the relationship with Singer, or where Singer acts as a broker and there is an offer to acquire all or part of Renold plc.

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.

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.

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	13	3	–	2	2
Matthew Peacock	13	2	–	2	–
Robert Davies	13	3	–	–	2
John Allkins	13	3	–	1	–
Barbara Beckett[4]	4	1	–	1	–
Peter Bream	13	3	–	–	2
Rod Powell	13	3	–	2	–
David Shearer	11	3	–	1	–

4 Barbara Beckett resigned on 30 July 2008.

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 of these committees except the Remuneration Committee, for which Maggie Hurt (the Group Human Resources Director) acts as secretary. 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 have been reviewed and updated during the year as part of a wider corporate governance review.

Corporate governance continued

	Composition[5]	Role	Activities
Audit Committee	John Allkins[6] (Chairman) Rod Powell[7] David Shearer	The review of the Group's financial statements, internal financial control systems, the whistleblowing policy, internal audit reports and the appointment/reappointment of the external auditors and conduct of the external audit.	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 Committee and was replaced by John Allkins, an independent non-executive director. Robert 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. 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 it 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 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 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.
Nomination Committee	Matthew Peacock (Chairman) John Allkins Rod Powell David Shearer	To select and recommend to the Board new appointments of executive and non-executive directors. The Committee meets as required.	No new appointments were made to the Board in the year other than John Allkins (who was appointed to the Board on 17 April 2008). He did not meet with all major shareholders as part of his induction, as this was not appropriate at the time. During the year, one member of the Board, John Allkins, was appointed following an evaluation of a number of candidates. No open advertising was used for his appointment. The Company is not fully compliant with paragraph A.4.1 of the Combined Code, which requires that a majority of the members should be independent, as two of the four members are not considered to be fully independent non-executive directors.
Remuneration Committee	Rod Powell[8] (Chairman) John Allkins David Shearer	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.	The Remuneration Committee is currently chaired by Rod Powell. In addition to Rod Powell, it comprises John Allkins and David Shearer, both of whom are non-executive directors. Robert Davies and Matthew Peacock attend meetings from time to time at the invitation of the Committee. The Directors' Remuneration Report is set out on pages 20 to 24.
Risk Monitoring Committee	Robert Davies (Chairman) Lindsay Beardsell Peter Bream Colin Gibson[9] Maggie Hurt	To evaluate and manage the risks to the Group.	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 Director of Global Supply Chain. It meets and reports to the Board at least twice each year.

5 Barbara Beckett was also a member of the Audit Committee, Nomination Committee and Remuneration Committee until her resignation on 30 July 2008.
6 John Allkins was appointed to the Board as Chairman of the Audit Committee on 17 April 2008. Prior to this, Matthew Peacock acted as interim Chairman.
7 Para C.3.1 of the Combined Code provides that all members of the Audit Committee should be independent non-executive directors. Whilst the appropriate number of independent non-executive directors has been appointed, the third member, Rod Powell, does not meet the independence criteria set out in para A.3.1 of the Combined Code, but is considered to act with complete independence of character and judgement.
8 Rod Powell replaced Barbara Beckett as Chair of the Remuneration Committee following her resignation on 30 July 2008.
9 Colin Gibson replaced Peter Logue as a member of the Risk Monitoring Committee following the Risk Monitoring Committee meeting held on 15 April 2009.

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 2009 and up to the date of approval of the Annual Report and financial statements. This process complies with the FRC's "Internal Control: Revised Guidance for Directors on the Combined Code (revised October 2005)". 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 for 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 organisational structure which supports clear lines of communication and tiered levels of authority;
- a schedule of matters reserved for the Board's approval to ensure it maintains control over appropriate strategic, financial, organisational and compliance issues;
- the preparation of detailed annual financial plans covering profit and cash flow, 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 has carried out a full review of its corporate governance policies. As a result, the Board has approved a Corporate Governance Compliance Statement which contains revised terms of reference for the Board and each of the Board committees. Internal controls are in place at both a local and Group level. In addition, the Company is in the process of consolidating its Group policy in relation to internal controls with a view to producing a Renold Internal Control Statement. This has been significantly progressed and several sections have been implemented. It is expected that full implementation will be completed in the coming year.

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

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 management of the Company. Comments on our financial performance in the context of the business risks faced and objectives and plans for the future are set out in the Business Review on pages 9 to 15.

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 Senior Independent Director does not generally attend meetings with shareholders.

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.

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 Chairmen 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 76. 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. The URL for the portal is www.capitashareportal.com.

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 on 21 September 2009.

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 non-executive directors, Rod Powell (Chairman), John Allkins 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 and the Chairman attend meetings of the Committee by invitation, but do not take part in the Committee's recommendations on their own remuneration. No director is involved in deciding his 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 the Hay Group and PricewaterhouseCoopers.

The Committee meets as often as necessary to discharge its duties, which during 2008/09 was on two occasions. 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 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 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 contractual salary levels as at 10 July 2009 are set out below (the figures in brackets reflect salary levels effective as at 25 June 2008):

Robert Davies	£285,000 (£285,000 in 2007/08)
Peter Bream	£180,000 (£180,000 in 2007/08).

However, with effect from 1 April 2009, both Robert Davies and Peter Bream agreed to temporarily reduce their salaries by 10% in recognition of the difficult economic trading environment.

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 £42,750 in 2008/09 (£40,500 in 2007/08) for Robert Davies and £27,000 in 2008/09 (£24,919 in 2007/08) for Peter Bream (being 15% of base salary for both). 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.

Annual bonus

The maximum annual bonus potential for Peter Bream for 2008/09 was 60% (£108,000) of base salary with the approval of the Remuneration Committee. For Robert Davies, the maximum bonus opportunity for 2008/09 was 130% (£370,500). For 2008/09, whilst a bonus was triggered under the scheme rules due to the good first half-year results, the executive directors elected not to take a bonus award given the current economic climate. 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.

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 27 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) are subject to a maximum of 10% of the Company's issued share capital in any ten 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 2004 Option Plans are considerably more challenging than those used by other comparable companies. In 2008/09 there were two performance conditions, operating independently of each other. Approximately two-thirds of an option grant was subject to an earnings per share ("EPS") performance condition based on annualised compound growth in the Company's adjusted EPS[10] 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 were 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 was 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 vested unless the Committee was satisfied that, over the performance period, the Company's underlying financial position was satisfactory.

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

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.

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 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.

10 Being basic EPS from continuing operations less exceptional items after tax.

Directors' remuneration report
continued

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 20 to the Financial Statements.

Participants in employee share schemes have no voting or other rights in respect of the shares subject to those awards until the allocations are exercised, at which time the shares rank pari passu in all respects with shares already in issue. No such schemes have any rights with regard to control of the Company.

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
Robert 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. 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 Annual General Meeting.

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. During the year, Robert Davies was appointed as non-executive director of Manchester Solutions (Economic Solutions Limited). This role is not remunerated.

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 contractual fee levels paid to the Chairman and non-executive directors as at 31 March 2009 are set out below.

Matthew Peacock	£50,000
John Allkins	£35,000
Rod Powell	£30,000
David Shearer	£35,000

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	30 July 2008
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 an initial period of three years, subject to earlier termination by either party. Thereafter, their appointment may be renewed, provided that both the non-executive director and the Board agree. 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 Annual General Meeting.

Individual directors' remuneration (audited information)

The remuneration for each of the directors for the year ended 31 March 2009 is as set out below:

	2009					2008
	Salaries and fees £000	Annual bonus £000	Benefits Cash £000	Benefits Non-cash £000	Total £000	Total £000
Executive directors						
Robert Davies	**285**	**–**	**–**	**33**	**318**	504
Peter Bream	**180**	**–**	**11**	**1**	**192**	224
	465	**–**	**11**	**34**	**510**	728
Non-executive directors						
Matthew Peacock	**50**	**–**	**–**	**–**	**50**	25
Barbara Beckett[11]	**10**	**–**	**–**	**–**	**10**	30
Rod Powell [12]	**30**	**–**	**–**	**–**	**30**	55
David Shearer	**35**	**–**	**–**	**–**	**35**	32
John Allkins[13]	**33**	**–**	**–**	**–**	**33**	–
	623	**–**	**11**	**34**	**668**	870

11 Barbara Beckett resigned from the Board on 30 July 2008.
12 Rod Powell was paid additional fees for the first year of his appointment, as he committed additional time to the role.
13 John Allkins was appointed to the Board on 17 April 2008 and therefore did not receive fees for the full year.

The Company has provided pension contributions of £42,750 in 2008/09 (£40,500 in 2007/08) for Robert Davies and £27,000 in 2008/09 (£24,919 in 2007/08) for Peter Bream.

Robert Davies received a non-cash benefit of £33,000 for his company car and private healthcare. Peter Bream received a cash benefit of £11,000 for his company car and a non-cash benefit of £1,000 for private healthcare.

Directors' beneficial interests in shares (unaudited information)

The beneficial interests of the directors who held office at 31 March 2009 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 2009 Shares	31 March 2008 Shares
Matthew Peacock	**12,937,500**[14]	12,937,500
Robert Davies	**254,000**	194,000
John Allkins	**nil**	nil
Peter Bream	**27,500**	27,500
Rod Powell	**62,012**	62,012
David Shearer	**30,000**	30,000

14 Matthew Peacock was indirectly interested in all of these shares through Hanover I Master Fund LP/Vidacos Nominees Limited.

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 2009, 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 2009 (audited information)

Robert Davies

Scheme	No. of share options At 31.03.08	Granted	Lapsed	At 31.03.09	Option price in pence	Date from which exercisable	Expiry date
Executive Scheme	125,000	–	–	125,000	76.5	11.03.07	10.03.14
	475,000	–	–	475,000	88.0	02.09.07	01.09.14
	100,000	–	–	100,000	61.6	26.07.09	25.07.16
	100,000	–	–	100,000	114.2	02.01.10	01.01.17
	150,000	–	–	150,000	92.55	27.11.10	26.11.17
	568,083	–	–	568,083	75.9	31.03.11	30.03.18
	–	180,292	–	180,292	77.0	01.04.11	31.03.18
Total	1,518,083	180,292	–	1,698,375			
SAYE	10,744	–	–	10,744	54.3	01.03.09	31.08.09
Total	10,744	–	–	10,744			

Governance

Directors' remuneration report
continued

Peter Bream

Scheme	No. of share options At 31.03.08	Granted	Lapsed	At 31.03.09	Option price in pence	Date from which exercisable	Expiry date
	150,000	–	–	150,000	61.6	26.07.09	25.07.16
	60,000	–	–	60,000	114.2	02.01.10	01.01.17
	100,000	–	–	100,000	92.55	27.11.10	26.11.17
	237,154	–	–	237,154	75.9	31.03.11	30.03.18
Total	547,154	–	–	547,154			
SAYE	–	–	–	–	–	–	–
Total	–	–	–	–			

The performance conditions disclosed on page 21 are included in this audited information section by reference.

The market value of shares at 31 March 2009, and the highest and lowest values, have been disclosed in Note 20 to the financial statements.

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.

Governance

Approved by the Board

Lindsay Beardsell
Company Secretary
13 July 2009

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the Report of the Independent Auditors, shown on page 29 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 and 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 Group's 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.

Those directors who were members of the Board at the time of approving the Directors' Report are listed on page 16. Having made enquiries of the Company's auditors, each of the 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
- they have taken all the steps that a director might reasonably be expected to have taken to be aware of the relevant audit information and to establish that the auditors are aware of that information.

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.

On behalf of the Board:

Robert Davies
Chief Executive

Peter Bream
Finance Director

Statutory information

Group

Renold plc (the "Company") and its subsidiaries (together the "Group") is an international engineering group, producing a wide range of high-quality engineering products, operating in 20 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 Business Review contained in the Directors' Report on pages 9 to 15.

Results

Our profit for the year before tax from continuing operations was £2.9 million compared with a profit of £9.3 million for the previous year. The profit for the year, taking into account discontinued operations, is £2.1 million (2008 – a profit of £7.7 million).

KPIs

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

	2009	2008
Operating profit before exceptional items	£10.0m	£12.0m
Return on sales	5.1%	7.0%
Average working capital as a percentage of sales[15]	20%	17%
Low-cost countries' direct labour	59%	46%
Adjusted EPS[16]	7.3p	8.5p

15 Working capital being the sum of inventories, trade and other receivables and trade and other payables.
16 This is basic EPS from continuing operations before exceptional items after tax.

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.

Directors

The directors' biographical details can be found on page 16. All directors were directors throughout the year.[17]

The Company's Articles of Association give power to the Board to appoint directors to fill a vacancy or as additional directors, but also require directors to retire and submit themselves for election at the first Annual General Meeting following their appointment.

17 With the exception of John Allkins, who was appointed to the Board and to the Audit Committee on 17 April 2008.

Under the terms of reference of the Nomination Committee, appointments to the Board of the Company are recommended by the Nomination Committee for approval by the Board.

Shareholders may also appoint a director by ordinary resolution. Further information on the Company's internal procedures for the appointment and replacement of directors is given in the Corporate Governance section on pages 17 to 19.

The Company's Articles of Association require that one-third of directors retire by rotation each year and that each director must retire where he or she has not been elected or re-elected at either of the two preceding annual general meetings. At the 2009 Annual General Meeting, Rod Powell will retire, and Matthew Peacock and David Shearer will retire and offer themselves for re-election by shareholders 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 23 to 24. 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.

The basis on which this conclusion has been reached is set out on page 30.

Directors' statement as to disclosure of information to auditors

Please refer to page 25 for the statement as to disclosure of information to auditors.

Employees

As at 31 March 2009, the Group employed 2,301 people, including 650 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.

Renold has reviewed its UK pension position, along with its other pension provisions around the world. Following consultation in the UK, the defined benefit schemes were closed to future accrual from 1 June 2009 and the Renold Personal Pension Plan, a defined contribution plan, which is not trust-based and is contracted in, has been offered to employees.

Shares

Share capital

As at 31 March 2009, the authorised share capital of the Company was £23,715,373.75 divided into 92,539,567 ordinary shares of 25p each, of which 77,064,703 were in issue (representing 97.08% of the Company's issued share capital) and 580,482 units of 6% cumulative preference stock of £1 each, of which 580,482 were in issue (representing 2.92% of the Company's issued share capital).

The Company obtained shareholder authority at the last Annual General Meeting held on 30 July 2008 to make market purchases of up to 7,004,296 ordinary shares, which remains outstanding until the conclusion of the next Annual General Meeting on 21 September 2009. The minimum price which must be paid for such shares is 25p and the maximum price payable is an amount equal to 105% of the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the share is contracted to be purchased. As at 10 July 2009 (being the latest practicable date prior to publication of this report), the Company had not purchased any of its own ordinary shares in the market pursuant to such authority. The directors will seek authority from shareholders at the forthcoming Annual General Meeting for the Company to purchase, in the market, up to 7,706,470 of its own ordinary shares either to be cancelled or retained as treasury shares.

Details of our share capital and any changes during the year are set out in Note 19 to the financial statements on page 56.

The rights and obligations attaching to the Company's shares are contained in the Articles of Association, a copy of which is available at www.renold.com or can be obtained upon request to the Company Secretary. The Articles of Association may only be changed by a special resolution passed at a general meeting of the Company.

Voting rights

The directors confirm that no person has any special rights of control over the Company's share capital and that no shares have been issued that carry any special rights with regard to control of the Company.

No member shall, unless the directors otherwise determine, be entitled to vote at a general meeting either personally or by proxy, or to exercise any other right conferred by membership in relation to meetings of the Company, if any call or other sum presently payable by him to the Company in respect of such shares remains unpaid. The directors also have powers to suspend voting rights in certain limited circumstances when a shareholder has failed to comply with a Section 793 notice.

Full details of the deadlines for exercising voting rights and appointing a proxy or proxies in respect of the resolutions to be considered at the Annual General Meeting to be held on 21 September 2009 are set out in the Notice of Annual General Meeting.

Major shareholdings

As at 10 July 2009 (being the latest practicable date prior to the publication of this report), the Company's register of major shareholdings showed the following interests in the voting rights attached to shares or financial instruments under Disclosure and Transparency Rule 5:

Shareholder	Number of voting rights	% of total number of voting rights
Hanover I Master Fund LP	12,937,500	16.79
Prudential plc	11,345,240	14.72
SVG Investment Managers Limited	7,090,511	9.20
Henderson Global Investors	5,050,000	6.55
Lowland Investment Company plc	4,650,000	6.03
Paul Anthony Bell	2,315,000	3.00

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.

Dividends

Details about our dividend policy are set out on page 35.

Preference dividend payments were made on 1 July 2008 and 1 January 2009.

Statutory information
continued

Directors' rights in respect of shares

The Board, which is responsible for the management of the business, may exercise all the powers of the Company subject to the provisions of relevant legislation and the Company's Memorandum and Articles of Association. The powers of the directors set out in the Articles of Association include those in relation to the issue and buyback of shares.

Issue of shares

The directors are authorised to issue equity securities 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 share and share option schemes of the Company, be limited to shares with a nominal value of £875,537, 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 Annual General Meeting on 21 September 2009.

In addition, the directors have authority to allot shares up to a maximum nominal amount of £5,624,151.75 representing approximately one-third of the issued share capital at the date of passing of the relevant resolution. This authority will expire on 21 September 2009. The directors will seek authority from shareholders at the forthcoming Annual General Meeting to allot shares up to a maximum nominal amount of £12,831,273 representing approximately 66.6% of the issued share capital at the date of passing of the relevant resolution.

Transfer of shares

The registration of transfers may be suspended at such times and for such periods as the directors may determine. The directors may refuse to register the transfer of any share which is not a fully-paid-up share and may refuse to register any transfer in favour of more than four persons jointly. The directors may also refuse to recognise any instrument of transfer unless it is in respect of any one class of share, is lodged at the requisite place and, where appropriate, is accompanied by any relevant share certificates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer.

The directors may suspend transfers where a shareholder has failed to comply with a Section 793 notice, or where the shareholder is precluded from exercising voting rights by the FSA's listing rules, the City Code on Takeovers and Mergers or other applicable legislation.

The directors are not aware of any agreements between holders of securities which may result in restrictions on the transfer of securities or voting rights.

Finance

Financial instruments

Our financial risk management objectives and policies, and our exposure to risk (including credit risk) are discussed in the Performance section of the Business Review on page 13, in the Directors' Report and in the Notes to the financial statements on pages 60 and 63. Information on the post balance sheet agreement of a new three year syndicated bank facility is set out in Note 27.

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 undertaken, 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 2009, trade creditors of our businesses in the UK and overseas represented 97 days' purchases, compared with 117 last year.

Donations

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

Post-balance sheet events

Post-balance sheet events regarding the closure of the Polish facility, the closure of pension plans and the agreement of the Group's new banking facility (subject to the completion of full documentation) are detailed in Note 27.

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.

The Share Subscription and Shareholders' Agreement between LGB, Renold International Holdings Limited and Renold Chain India dated 24 June 2008 contains certain change of control provisions. On the change of control of a shareholder (being one of the parties to the agreement), the other shareholders have a right to terminate the agreement and/or to require the shareholder suffering the change of control to sell, at a fair price, all of its equity shares to the terminating shareholder or a nominee of such shareholder.

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

Contractual or other arrangements essential to the business

There are no contractual or other arrangements essential to the business that require disclosure under the enhanced Business Review requirements of the Companies Act 2006.

By order of the Board

Lindsay Beardsell
Company Secretary
13 July 2009

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 2009 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Accounting Policies, the Consolidated Statement of Recognised Income and Expense and the related Notes 1 to 27. 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 2009, 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 United Kingdom law and "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 Business 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 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 Overview, the Business Review, the Responsibilities and Governance sections of the Directors' Report, the Directors' Remuneration Report and the Group Five-Year Financial Review. 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 judgements 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 2009 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
13 July 2009

Accounting policies

Basis of preparation

The consolidated financial statements for the year ended 31 March 2009 have been prepared in accordance with IFRS, and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union. In addition, the financial statements have been prepared in accordance with those parts of the Companies Act 1985 applicable to groups reporting under IFRS.

Going concern

The consolidated financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

Further information in relation to the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Directors Report – Business Review on pages 9 to 15.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Operational and Business Review. In addition Note 25 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to foreign exchange, credit and interest rate risk. Further details of the Group's cash balances and borrowings are included in Notes 13, 14 and 25 of the financial statements.

On 13 July 2009, the Group reached agreement (subject to the completion of full documentation) to enter into a three year bank facility with the existing syndicate members led by The Royal Bank of Scotland plc, with Fortis Bank S.A./N.V. as a participant. Key terms for the new facility are described in Note 27. The agreement is in the form of agreed heads of terms together with a letter of commitment and has received credit committee approval from the banks. It is expected that full documentation based on these heads of terms will be agreed and signed during July 2009.

In the event that full banking documentation is not completed on the terms currently agreed the Group will continue discussion with its bank lenders with a view to agreeing alternative banking terms, but the directors cannot determine at this stage whether, or on what basis, alternative terms would be agreed.

In the event that the full banking documentation is not completed on the terms currently agreed the Group's ability to continue operating as a going concern would be dependent, therefore, on the outcome of these discussions with its lending banks.

The directors have assessed the future funding requirements of the Group and the Company and compared them to the level of available borrowing facilities including the proposed facility referred to above. The assessment included a detailed review of financial forecasts, financial instruments, financial covenants and hedging arrangements for at least the twelve month period from the date of signing the accounts and a review of cash flow projections. Recognising the impact of the global recession, the directors considered a range of potential scenarios within the key markets the Group serves and how these might impact on the Group's cash flow, facility headroom and banking covenants. The directors also considered what mitigating actions the Group could take to limit any adverse consequences. The Group's forecasts and projections, taking account of reasonably possible scenarios shows that the Group should be able to operate within the level of its borrowing facilities and covenants.

Having undertaken this work, the directors are of the opinion that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

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.

IFRIC 14 – IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

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 – Presentation of Financial Statements (revised)

IAS 23 – Borrowing Costs (revised)

IAS 27 – Consolidated and Separate Financial Statements (revised)

IAS 32 & IAS 1 – Financial Instruments Puttable at Fair Value and Obligations arising on Liquidation (amendment)

IAS 39 – Recognition and Measurement – Eligible Hedged Items

IFRS 1 & IAS 27 – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (amended)

IFRS 2 – Share-based Payments (amended)

IFRS 3 – Revised Business Combinations

IFRS 7 – Financial Instruments: Disclosures (amendment)

IFRS 8 – Operating Segments

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

IFRIC 17 – Distributions of Non-Cash Assets to Owners

IFRIC 18 – Transfers of Assets from Customers

– Improvements to IFRS.

Management does not expect that these standards and interpretations will have a material impact on the Group's results or financial position but IAS 1, IAS 23 and IFRS 8 may give rise to additional disclosures or changes to disclosures in the Group's financial statements.

Basis of consolidation – The consolidated financial statements incorporate the financial statements of 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.

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	15
Fixtures	15
Precision cutting and grinding machines	10
Motor vehicles	3

Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

During the year ended 31 March 2009, the Group has revised the useful lives of assets as follows: General plant and equipment are depreciated over 15 years (2008 – 10 years), Fixtures over 15 years (2008 – 10 years) and Precision cutting and grinding machines over 10 years (2008 – 7 years).

Accounting policies
continued

The change in the useful lives reduced the depreciation charge recorded in the income statement for the year ended 31 March 2009 by £1.0 million.

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.

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% on a straight-line basis.

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 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 the 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 they are classified as financial assets at fair value through the income statement or loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates 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 marketplace. 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 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 include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through the income statement.

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

Accounting policies
continued

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.

Material administrative costs of running the plans including the Pension Protection Fund levy are treated as a deduction in the expected return on plan assets.

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.

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 Black-Scholes pricing 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:

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

There are no fair value hedges.

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

(a) Cash flow hedges
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in 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.

(b) Hedges of a net investment
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses relating to the effective portion are recognised 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: (i) has a present legal or constructive obligation as a result of past events; (ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

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, and management must be committed to and have initiated a plan to sell the asset which, when initiated, is 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. No depreciation is charged on items of property, plant and equipment held for sale.

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 – 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. Actual outcomes may vary and could require a material adjustment to the carrying amounts. Further details are contained in Note 17.

c) Retirement benefit obligations
The costs 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 18.

Consolidated income statement
for the year ended 31 March 2009

	Note	2009 £m	2008 £m
Continuing operations:			
Revenue	1	**194.7**	172.6
Operating costs	2	**(187.1)**	(160.4)
Operating profit		**7.6**	12.2
Operating profit before exceptional items		**10.0**	12.0
Exceptional items	2	**(2.4)**	0.2
Operating profit		**7.6**	12.2
Financial costs		**(16.0)**	(14.7)
Financial revenue		**11.3**	11.8
Net financing costs	3	**(4.7)**	(2.9)
Profit before tax		**2.9**	9.3
Taxation	4	**(0.8)**	(3.1)
Profit for the financial year from continuing operations		**2.1**	6.2
Discontinued operations:			
Profit for the financial year from discontinued operations	5	**–**	1.5
Profit for the financial year		**2.1**	7.7
Attributable to:			
Equity holders of the parent		**2.1**	7.7
Minority interests		**–**	–
		2.1	7.7
Earnings per share	6		
Basic earnings per share		**2.8p**	11.0p
Diluted earnings per share		**2.8p**	10.8p
Basic earnings per share from continuing operations		**2.8p**	8.9p
Diluted earnings per share from continuing operations		**2.8p**	8.7p
Adjusted earnings per share from continuing operations[19]		**7.3p**	8.5p
Diluted adjusted earnings per share from continuing operations[19]		**7.3p**	8.3p

19 Adjusted for the after tax effects of exceptional items and the IAS 19 finance charge.

Consolidated balance sheet
as at 31 March 2009

	Note	2009 £m	2008 £m
ASSETS			
Non-current assets			
Goodwill	8	**24.5**	16.3
Other intangible assets	8	**1.1**	1.2
Property, plant and equipment	9	**51.1**	39.5
Investment property	10	**2.2**	1.9
Other non-current assets	12	**0.4**	0.3
Deferred tax assets	17	**14.2**	9.9
		93.5	69.1
Current assets			
Inventories	11	**46.4**	41.0
Trade and other receivables	12	**37.1**	35.2
Derivative financial instruments	25	**–**	0.1
Current tax asset		**0.7**	0.1
Cash and cash equivalents	13	**11.3**	15.5
		95.5	91.9
TOTAL ASSETS		**189.0**	161.0
LIABILITIES			
Current liabilities			
Borrowings	14	**(44.4)**	(8.3)
Trade and other payables	15	**(37.6)**	(41.8)
Derivative financial instruments	25	**(2.9)**	(0.9)
Provisions	16	**(2.9)**	(3.9)
		(87.8)	(54.9)
NET CURRENT ASSETS		**7.7**	37.0
Non-current liabilities			
Borrowings	14	**(3.6)**	(30.6)
Provisions	16	**(0.5)**	(0.5)
Preference shares	14	**(0.5)**	(0.5)
Trade and other payables	15	**(0.5)**	(0.7)
Deferred tax liabilities	17	**(0.9)**	(1.6)
Retirement benefit obligations	18	**(55.1)**	(31.2)
		(61.1)	(65.1)
TOTAL LIABILITIES		**(148.9)**	(120.0)
NET ASSETS		**40.1**	41.0
EQUITY			
Issued share capital	19	**19.3**	17.5
Share premium account	21	**9.6**	6.3
Currency translation reserve	21	**7.6**	(1.3)
Other reserves	21	**(1.9)**	(0.6)
Retained earnings	21	**3.9**	19.1
Equity attributable to equity holders of the parent		**38.5**	41.0
Minority interests		**1.6**	–
TOTAL SHAREHOLDERS' EQUITY		**40.1**	41.0

Approved by the Board on 13 July 2009 and signed on its behalf by:

Matthew Peacock
Chairman

Robert Davies
Director

Consolidated cash flow statement
for the year ended 31 March 2009

	2009 £m	2008 £m
Cash flows from operating activities (Note 24)		
Cash generated from operations – continuing	1.1	4.5
Cash generated/(absorbed) by operations – discontinued	–	–
	1.1	4.5
Income taxes paid	(1.7)	(2.3)
Net cash from operating activities	(0.6)	2.2
Cash flows from investing activities		
Acquisition of subsidiary undertaking (Note 26)	(5.6)	(2.4)
Proceeds from disposal of businesses (net of cash transferred)	–	0.2
Purchase of property, plant and equipment	(5.5)	(7.5)
Purchase of intangible assets	(0.3)	(0.7)
Proceeds on disposal of property, plant and equipment	1.7	1.1
Proceeds on disposal of assets held for sale	–	6.0
Interest received	0.1	0.1
Net cash from investing activities	(9.6)	(3.2)
Cash flows from financing activities		
Financing costs paid	(2.5)	(2.8)
Proceeds from borrowings	4.8	7.1
Repayment of borrowings	(4.6)	(5.8)
Issue of ordinary shares	5.1	0.3
Payment of finance lease liabilities	(0.1)	(0.1)
Net cash from financing activities	2.7	(1.3)
Net decrease in cash and cash equivalents	(7.5)	(2.3)
Net cash and cash equivalents at beginning of year	14.2	15.4
Effects of exchange rate changes	1.9	1.1
Net cash and cash equivalents at end of year (Note 13)	8.6	14.2

Consolidated statement of recognised income and expense
for the year ended 31 March 2009

	2009 £m	2008 £m
Profit for the year	**2.1**	7.7
Net income/(expense) recognised directly in equity:		
Recycling of losses on cash flow hedges to the income statement	**0.5**	0.2
Net losses on cash flow hedges taken to equity	**(1.8)**	(0.8)
Foreign exchange translation differences	**3.4**	(0.7)
Gains on fair value of hedging net investments in foreign operations	**5.5**	0.6
Actuarial (losses)/gains on retirement benefit obligations	**(22.3)**	16.0
Tax on items taken directly to equity	**4.6**	(6.3)
Total (expense)/income recognised directly in equity	**(10.1)**	9.0
Total recognised income and (expense) for the year	**(8.0)**	16.7
Attributable to:		
Equity shareholders of the Company	**(8.0)**	16.7
Minority interest	**–**	–
	(8.0)	16.7

Financial statements

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:

	2009 £m	2008 £m
Assets		
Industrial Power Transmission	**160.6**	133.6
Unallocated assets (see below)	**28.4**	27.4
Total assets	**189.0**	161.0
Liabilities		
Industrial Power Transmission	**(96.6)**	(78.1)
Borrowings (Note 14)	**(48.5)**	(39.4)
Derivative financial instruments	**(2.9)**	(0.9)
Current and deferred tax	**(0.9)**	(1.6)
Total liabilities	**(148.9)**	(120.0)

Secondary reporting format – geographical segments
The operations of the Group are based in four main geographical areas. The UK is the home country of the parent company, Renold plc. The main operations in the principal territories are as follows:

- United Kingdom
- Rest of Europe
- United States and Canada
- 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	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
United Kingdom	**19.9**	20.0	**29.1**	30.7	**1.7**	2.4
Rest of Europe	**63.9**	56.1	**37.0**	38.8	**0.7**	2.6
North America	**67.8**	57.6	**53.6**	40.1	**1.2**	0.8
Other countries	**43.1**	38.9	**40.9**	24.0	**2.2**	2.4
	194.7	172.6	**160.6**	133.6	**5.8**	8.2
Unallocated assets	**–**	–	**28.4**	27.4	**–**	–
	194.7	172.6	**189.0**	161.0	**5.8**	8.2
Unallocated assets comprise:						
Current and deferred tax assets			**14.9**	10.0		
Cash and cash equivalents			**11.3**	15.5		
Investment property			**2.2**	1.9		
			28.4	27.4		

All revenue relates to the sale of goods.

Financial statements

2. Operating costs and exceptional items (continuing operations)

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

	2009		2008	
	£m	£m	£m	£m
Change in inventory of finished goods and work in progress		0.6		(4.0)
Own work capitalised		–		(0.1)
Other operating income		(2.3)		(2.3)
Raw materials and consumables		86.5		72.3
Other external charges		25.8		24.1
Employee costs				
Gross wages and salaries	54.1		52.8	
Social security costs	8.6		8.0	
Pension costs – Defined benefit	1.1		1.8	
– Defined contribution	0.7		0.8	
Cost of share-based incentive plans	0.4		0.1	
		64.9		63.5
Depreciation of property, plant and equipment				
– owned assets		4.3		4.8
– leased assets		0.1		0.1
Amortisation of intangible assets		0.3		0.2
Operating leases – minimum lease payments				
– plant and machinery	0.4		0.4	
– property	1.9		1.7	
		2.3		2.1
Profit on disposal of property, plant and equipment		(0.7)		(0.4)
Research and development expenditure		0.4		0.4
Auditors' remuneration (Note 2(b))		0.6		0.3
Trade receivables impairment charge		0.2		0.1
Foreign exchange		1.7		(0.5)
Exceptional items (Note 2(c))		2.4		(0.2)
		187.1		160.4

(b) Auditors' remuneration

	2009 £000 Total	2008 £000 Total
Fees payable to the Company's auditors for the audit of the Group's annual financial statements	68	79
Fees payable to the Company's auditors and their associates for other services:		
Audit of the Company's subsidiaries pursuant to legislation	253	216
	321	295
Taxation services	96	161
Corporate finance services	29	72
All other services	142	12
Total fees	588	540

In 2008/09, the Group auditor also received fees of £30,000 for audit services provided to Group pension schemes (2008 – £35,000). These were the only services provided to the pension schemes.

(c) Exceptional items

	2009 £m	2008 £m
Profit on disposal of asset held for sale (Burton factory)	–	(2.6)
Reorganisation and redundancy costs	2.4	2.4
	2.4	(0.2)

Exceptional costs associated with the restructuring of the continuing Group's manufacturing and distribution facilities have originated as follows: UK £0.5 million (2008 – £0.5 million), Germany £0.6 million (2008 – £1.6 million), Poland £0.6 million (2008 – £nil) and other countries £0.7 million (2008 – £0.3 million).

Notes to the consolidated financial statements
continued

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

(d) Employees and key management compensation

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

	2009 £000	2008 £000
Short-term employee benefits	668	870
Post-employment benefits	70	65
Share-based payments	162	68
	900	1,003

Further details of the remuneration of directors are provided in the auditable part of the Directors' Remuneration Report on page 20 under the heading "Remuneration Package".

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

	2009	2008
United Kingdom	700	729
Rest of Europe	604	612
North America	381	408
Other countries	945	728
	2,630	2,477

3. Net financing costs

	2009		2008	
	£m	£m	£m	£m
Financial costs:				
Interest payable on bank loans and overdrafts	(2.8)		(2.7)	
Costs associated with refinancing	(0.2)		(0.2)	
Interest cost on financial liabilities not at fair value through the income statement		(3.0)		(2.9)
Interest cost on pension plan balances		(13.0)		(11.8)
Total financial costs		(16.0)		(14.7)
Financial revenue:				
Interest receivable on bank deposits and cash equivalents	0.1		0.1	
Interest income on financial assets not at fair value through the income statement		0.1		0.1
Expected return on pension plan assets		11.2		11.7
Total financial revenue		11.3		11.8
Net financing costs		(4.7)		(2.9)

4. Taxation

Analysis of tax charge in the year

	2009 £m	2008 £m
United Kingdom		
UK corporation tax at 28% (2008 – 30%)	0.2	0.2
Less: double taxation relief	(0.2)	(0.2)
	–	–
Overseas taxes		
Corporation taxes	0.9	1.2
Amount underprovided in previous years	–	0.4
Current income tax charge	0.9	1.6
Deferred tax		
United Kingdom – origination and reversal of temporary differences	0.2	0.5
Impact of change in tax rate on deferred tax	–	0.4
Overseas – origination and reversal of temporary differences	(0.3)	0.6
Total deferred tax	(0.1)	1.5
Tax charge on profit on ordinary activities	0.8	3.1
Analysed as:		
Continuing	0.8	3.1
Discontinued	–	–
	0.8	3.1

	2009 £m	2008 £m
Tax on items taken directly to equity		
Deferred tax on pension plan balances	5.5	(5.7)
Impact of change in tax rate on deferred tax on pension plan balances	–	(0.6)
Deferred tax on other direct movements on reserves	(0.9)	–
	4.6	(6.3)

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 the same as (2008 – lower than) the standard rate of corporation tax in the UK of 28% (2008 – 30%). The differences are explained below:

	2009 £m	2008 £m
Profit on ordinary activities before tax		
Continuing operations	2.9	9.3
Discontinued operations	–	1.5
	2.9	10.8
Tax on ordinary activities at 28% (2008 – 30%)	0.8	3.2
Effects of:		
Permanent differences	0.2	0.4
Non-taxable gain on disposal of asset held for sale	–	(0.8)
Overseas tax rate differences	0.4	0.2
Utilisation of brought-forward unrecognised tax losses	(0.6)	(0.5)
Other temporary differences	0.2	(0.2)
Effects of changes in tax rates	–	0.4
Adjustments in respect of prior periods	(0.2)	0.4
Total tax charge	0.8	3.1

Notes to the consolidated financial statements
continued

5. Discontinued operations

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

	2009 Total discontinued £m	2008 Total discontinued £m
Adjustments to fair value less costs to sell and losses on disposal	–	1.5
Profit for the year on discontinued operations	–	1.5

The sale and purchase agreement for the divestment of the Machine Tools business in December 2006 included £1.5 million of deferred consideration, the payment of which was contingent on certain conditions. Following a period of extended negotiations, agreement was reached with the purchaser to replace the deferred consideration with loan notes to the value of £0.7 million. This asset has not been recognised in these financial statements and will only be recognised when there is greater certainty of recovery.

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:

	2009 Earnings £m	**2009 Weighted average number of shares Thousands**	**2009 Per-share amount Pence**	2008 Earnings £m	2008 Weighted average number of shares Thousands	2008 Per-share amount Pence
Basic EPS						
Earnings attributed to ordinary shareholders	2.1	74,363	2.8	7.7	69,807	11.0
Effect of dilutive securities:						
Employee share options	–	17	–	–	1,589	(0.2)
Diluted EPS	2.1	74,380	2.8	7.7	71,396	10.8
Earnings per share from continuing operations						
Basic EPS	2.1	74,363	2.8	7.7	69,807	11.0
Adjustments to fair value less costs to sell and losses on disposal (Note 5)	–		–	(1.5)		(2.1)
Basic EPS from continuing operations	2.1	74,363	2.8	6.2	69,807	8.9

Inclusion of the dilutive securities, shown above, in the calculation of basic EPS from continuing operations changes the amount shown to 2.8p (2008 – 8.7p).

	2009 Earnings £m	**2009 Weighted average number of shares Thousands**	**2009 Per-share amount Pence**	2008 Earnings £m	2008 Weighted average number of shares Thousands	2008 Per-share amount Pence
Earnings per share from discontinued operations						
Basic EPS						
Post-tax profit from discontinued operations (Note 5)	–	74,363	–	1.5	69,807	2.1
Basic EPS from discontinued operations	–	74,363	–	1.5	69,807	2.1

Inclusion of the dilutive securities changes the amount shown for basic EPS for discontinued operations to nil (2008 – 2.1p).

	2009 Earnings £m	**2009 Weighted average number of shares Thousands**	**2009 Per-share amount Pence**	2008 Earnings £m	2008 Weighted average number of shares Thousands	2008 Per-share amount Pence
Adjusted EPS for continuing activities						
Basic EPS from continuing operations	2.1	74,363	2.8	6.2	69,807	8.9
Effect of exceptional items, after tax:						
Redundancy and restructuring	2.0		2.7	(0.3)		(0.4)
Net finance costs arising on pension plan assets	1.3		1.8	–		–
Adjusted EPS	5.4	74,363	7.3	5.9	69,807	8.5

Inclusion of the dilutive securities, shown above, in the calculation of adjusted EPS changes the amount shown to 7.3p (2008 – 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.

8. Intangible assets

	Goodwill £m	Computer software £m	Total £m
Cost			
At 1 April 2008	16.3	3.3	19.6
Exchange adjustment	6.1	0.1	6.2
Additions	2.1	0.3	2.4
At 31 March 2009	**24.5**	**3.7**	**28.2**
Accumulated amortisation and impairment			
At 1 April 2008	–	2.1	2.1
Exchange adjustment	–	0.2	0.2
Amortisation charge	–	0.3	0.3
At 31 March 2009	**–**	**2.6**	**2.6**
Net book amount at 31 March 2009	**24.5**	**1.1**	**25.6**
Net book amount at 31 March 2008	16.3	1.2	17.5

	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 is tested for impairment at least annually and following that exercise in 2009 no impairment charge has been recognised in the period (2008 – £nil).

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

The carrying amounts of goodwill allocated to CGUs are as follows:

	2009 £m	2008 £m
Jeffrey Chain, USA	**20.4**	14.7
Renold Hangzhou, China	**1.5**	1.2
Ace Chains, Australia	**0.4**	0.4
Renold Chain India	**2.2**	–
	24.5	16.3

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 two financial periods as approved by the Board. Cash flows beyond the two-year plans are extrapolated using the long-term country growth rates disclosed below.

Key assumptions used in the value-in-use calculations:
Sales volume, selling prices and cost changes
The Group prepares cash flow forecasts based on the latest management estimates for the next two financial years. The expected sales prices and volumes reflect management's experience of how sales will develop at this point of the economic cycle. The expected profit margin reflects management's experience of each CGU's profitability at the level of sales and incorporates the impact of restructuring that took place during the year ended 31 March 2009.

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8. Intangible assets (continued)

Growth rates

Cash flows beyond the period of projections are extrapolated using the long-term growth rate published by the OECD for the territory in which the CGU is based.

Growth rate	2009 %	2008 %
Jeffrey Chain, USA	**3.1**	3.1
Renold Hangzhou, China	**8.1**	8.1
Ace Chains, Australia	**3.7**	3.6
Renold Chain India	**7.0**	–

Discount rates

Discount rates applied to the cash flow forecasts reflect the current market assessment of the risks specific to each CGU. The discount rates used are as follows:

Discount rate	2009 %
Jeffrey Chain, USA	**13.4**
Renold Hangzhou, China	**14.6**
Ace Chains, Australia	**11.4**
Renold Chain India	**23.5**

In 2008, a blended Group discount rate of 9% was used to represent the Group's estimated weighted average cost of capital.

The discount rates applied to the cash flows of each of the CGUs is based on the risk-free rate for long-term bonds (typically ten years) issued by the government in the respective market, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific CGU. In making this adjustment, inputs required are the equity market risk premium (that is the required increased return over and above a risk-free rate by an investor who is investing in the market as a whole) and the risk adjustment ("beta") applied to reflect the risk of the CGU relative to the market as a whole.

In determining the risk-adjusted discount rate, management has applied an adjustment for the systematic risk to each of the CGUs determined using an average of the betas of comparable companies.

Sensitivity to the changes in assumptions

Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of Renold Hangzhou, Ace Chains and Renold Chain India to materially exceed each CGU's recoverable amount.

With regard to Jeffrey Chain it is reasonably possible that a change to one of the key assumptions could cause the carrying value of the CGU to exceed its recoverable amount. The actual recoverable amount for Jeffrey Chain exceeds its carrying value by US$5.6 million. Management has considered the possibility of a greater than budgeted discount rate. The effect of a one percentage point increase in the discount rate would give a value in use equal to the carrying value of the CGU.

9. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 April 2008	19.9	101.7	121.6
Exchange adjustment	2.4	14.0	16.4
Acquisitions	0.5	4.0	4.5
Additions	0.3	5.2	5.5
Disposals	(0.9)	(1.4)	(2.3)
At 31 March 2009	**22.2**	**123.5**	**145.7**
Aggregate depreciation			
At 1 April 2008	2.4	79.7	82.1
Exchange adjustment	0.1	9.3	9.4
Charge for the year	0.3	4.1	4.4
Disposals	–	(1.3)	(1.3)
At 31 March 2009	**2.8**	**91.8**	**94.6**
Net book amount at 31 March 2009	**19.4**	**31.7**	**51.1**
Net book amount at 31 March 2008	17.5	22.0	39.5

9. Property, plant and equipment (continued)

	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

Net book amount for plant and equipment includes £0.3 million (2008 – £0.3 million) in respect of assets acquired under finance leases.

Future capital expenditure
At 31 March 2009 capital expenditure contracted for but not provided for in these accounts amounted to £0.8 million (2008 – £1.3 million).

10. Investment property

	£m
Cost	
At 1 April 2008	2.0
Exchange adjustment	0.3
As at 31 March 2009	**2.3**
Aggregate depreciation	
At 1 April 2008	0.1
Charge for the year	–
At 31 March 2009	**0.1**
Net book amount at 31 March 2009	**2.2**
Net book amount at 31 March 2008	1.9
Cost	
At 1 April 2007	1.7
Exchange adjustment	0.3
At 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

The present lease of the Calais property commenced on 3 August 2007 for a period of nine years. This 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 (2008 – £0.3 million). The total future minimum lease payments under the non-cancellable term amount to £0.3 million (2008 – £0.5 million) and of this £0.2 million (2008 – £0.3 million) is due in the next financial year and £0.1 million (2008 – £0.2 million) is due in the period after one year but not later than five years from the balance sheet date.

Notes to the consolidated financial statements
continued

10. Investment property (continued)

The property has been accounted for on a cost model basis. The most recent valuation of the Calais property was conducted in November 2008 by Foncier Expertise, French Chartered Surveyors and Property Consultants. At that date, the fair value of the property was assessed at £2.2 million. The fair value of the property was determined from the market value based upon transactions of similar properties in the area at that time. The directors are not aware of any circumstances that have arisen to materially alter that external valuation.

11. Inventories

	2009 £m	2008 £m
Materials	**7.6**	7.1
Work in progress	**9.1**	9.3
Finished products	**29.7**	24.6
	46.4	41.0

Inventories pledged as security for liabilities amounted to £22.7 million (2008 – £23.0 million).

Write-offs taken to the income statement amount to £0.7 million (2008 – £0.3 million).

12. Trade and other receivables

	2009 Current £m	2009 Non-current £m	2008 Current £m	2008 Non-current £m
Trade receivables[20]	**33.8**	**–**	31.4	–
Less: provision for impairment of receivables	**(0.7)**	**–**	(0.6)	–
Trade receivables – net	**33.1**	**–**	30.8	–
Other receivables	**2.0**	**0.3**	2.4	0.2
Prepayments and accrued income	**2.0**	**0.1**	2.0	0.1
	37.1	**0.4**	35.2	0.3

20 Financial assets.

The Group has recognised a loss of £0.2 million (2008 – loss of £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 25(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
2009	**33.1**	**28.4**	**3.1**	**0.9**	**0.3**	**0.4**
2008	30.8	27.2	2.6	0.5	0.3	0.2

	2009 £m	2008 £m
Movement on impairment provision		
Opening provision	**0.6**	0.5
Exchange adjustment	**0.1**	0.1
Net charge to income statement	**0.2**	0.2
Utilised in year through assets written off	**(0.2)**	(0.2)
Closing provision	**0.7**	0.6

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13. Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand	9.3	8.1
Short-term bank deposits	2.0	7.4
Cash and cash equivalents	11.3	15.5

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

	2009 £m	2008 £m
Cash and cash equivalents (as shown above)	11.3	15.5
Less: Overdrafts (Note 14)	(2.7)	(1.3)
Net cash and cash equivalents	8.6	14.2

14. Borrowings

	2009 £m	2008 £m
Amounts falling due within one year:		
Overdrafts	2.7	1.3
Bank loans	41.6	6.9
Obligations under finance leases	0.1	0.1
	44.4	8.3
Amounts falling due after more than one year:		
Bank loans	3.5	30.5
Obligations under finance leases	0.1	0.1
	3.6	30.6
Preference shares	0.5	0.5
	4.1	31.1
Total borrowings (Note 25(e))	48.5	39.4

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

Secured borrowings
Included in Group borrowings are secured borrowings of £40.5 million (2008 – £34.7 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.

	2009 £m	2008 £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	0.1
Total gross payments	0.2	0.2
Less: Finance charges allocated to future periods	–	–
	0.2	0.2
Allocated as:		
Current obligations	0.1	0.1
Non-current obligations	0.1	0.1
	0.2	0.2

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

Notes to the consolidated financial statements continued

14. Borrowings (continued)

(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 6% cumulative preference stock is in arrears for six calendar months; and

(iv) there is no redemption entitlement.

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

15. Trade and other payables

	2009 Current £m	2009 Non-current £m	2008 Current £m	2008 Non-current £m
Trade payables[21]	**22.9**	**–**	23.2	–
Other tax and social security	**2.3**	**–**	3.7	–
Other payables	**1.4**	**–**	2.4	–
Accruals and deferred income	**11.0**	**0.5**	12.5	0.7
	37.6	**0.5**	41.8	0.7

21 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 Euros. However, the Group hedges against this risk.

16. Provisions

	PACE restructuring initiative £m	Business restructuring £m	Contingent consideration £m	Other provisions £m	Total provisions £m
At 1 April 2008	2.6	0.6	0.5	0.7	4.4
Exchange adjustment	0.2	0.2	0.1	0.1	0.6
Arising during the year	–	1.0	0.9	–	1.9
Utilised in year	(2.8)	(0.1)	–	(0.6)	(3.5)
At 31 March 2009	**–**	**1.7**	**1.5**	**0.2**	**3.4**

Allocated as:	2009 £m	2008 £m
Current provisions	**2.9**	3.9
Non-current provisions	**0.5**	0.5
	3.4	4.4

Business restructuring
This provision relates to the reorganisation and restructuring of European-based businesses and will be completed within the next financial year.

Contingent consideration
Renold Chain India Private Limited – India
A provision has been established following the 75% equity investment in Renold Chain India. See Note 26 for details.

Renold Hangzhou – China
A provision was established following the acquisition of 90% of the equity interest in Hangzhou Shanshui Industrial Co Limited ("HZSS") in the period ended 31 March 2008. See Note 26 for details.

Other provisions
Provisions have been retained in respect of former discontinued operations. It is anticipated that the provisions will be utilised within the following year.

17. Deferred tax

	Assets		Liabilities		Net	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Accelerated capital allowances	**1.4**	3.0	**(1.5)**	(2.2)	**(0.1)**	0.8
Pension plans	**10.7**	4.7	**0.3**	0.1	**11.0**	4.8
Tax losses	**4.6**	2.5	**–**	0.3	**4.6**	2.8
Other temporary differences	**(2.5)**	(0.3)	**0.3**	0.2	**(2.2)**	(0.1)
Tax asset/(liabilities)	**14.2**	9.9	**(0.9)**	(1.6)	**13.3**	8.3
Net off (liabilities)/assets	**(0.9)**	(1.6)	**0.9**	1.6	**–**	–
Net deferred tax assets	**13.3**	8.3	**–**	–	**13.3**	8.3

The net deferred tax asset recoverable after more than one year is £13.3 million (2008 – £8.3 million).

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

2009	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in equity £m	**Closing balance £m**
Accelerated capital allowances	3.0	(0.5)	(1.1)	–	**1.4**
Pension plans	4.7	0.5	–	5.5	**10.7**
Tax losses	2.5	0.6	1.5	–	**4.6**
Other temporary differences	(0.3)	(0.5)	(0.5)	(1.2)	**(2.5)**
	9.9	0.1	(0.1)	4.3	**14.2**

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

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

2009	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in equity £m	**Closing balance £m**
Accelerated capital allowances	(2.2)	0.2	0.5	–	**(1.5)**
Pension plans	0.1	–	0.2	–	**0.3**
Tax losses	0.3	–	(0.3)	–	**–**
Other temporary differences	0.2	–	(0.2)	0.3	**0.3**
	(1.6)	0.2	0.2	0.3	**(0.9)**

2008	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in equity £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)

Notes to the consolidated financial statements
continued

17. Deferred tax (continued)

During the year the Group has reported an operating profit of £10.0 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.

A deferred tax asset amounting to £17.0 million (2008 – £13.0 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. Materially all of these losses are not subject to time limits.

18. 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) ("J&S RBP"); 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. Future accrual to the J&S RBP and RSPS ceased in August 2008 and ceased for RGPS in June 2009.

The Renold Group Money Purchase Pension Scheme ("RGMPS") is a defined-contribution-type plan. Future contributions to the RGMPS ceased in April 2009. All current and future UK employees have the opportunity to join the Renold Personal Pension Plan which is a contract-based defined contribution scheme.

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 RGPS and the RSPS were at 5 April 2007. 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 J&S RBP was at April 2006, also carried out by Barnett Waddingham. These valuations are updated as of the balance sheet date for financial reporting purposes.

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 2009 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	
	2009	2008	**2009**	2008
Rate of increase in pensionable salaries	**3.5%**	3.9%	**2.8%**	3.8%
Rate of increase in pensions in payment and deferred pensions	**3.0%**	3.3%	**2.8%**	2.5%
Discount rate	**6.9%**	6.6%	**6.2%**	6.1%
Inflation assumption	**3.0%**	3.4%	**2.8%**	2.7%
Expected return on plan assets	**6.8%**	6.5%	**7.6%**	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 (£157.8 million of the £179.4 million 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 RGPS on retirement at age 65 are as follows (different rates apply for the RSPS and the J&S RBP).

	2009	2008
Retiring today		
Males	**19.5**	19.5
Females	**22.3**	22.2
Retiring in 20 years		
Males	**20.7**	20.7
Females	**23.4**	23.3

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 RGPS (which represents approximately two-thirds 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.

18. Pensions (continued)

Sensitivity analysis:

Assumption

	Change in assumption	Impact on plan liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 6.0%
Rate of inflation[22]	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[23]	Increase by 3.0%

22 Assuming assumption for real salary growth unchanged.
23 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 one 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	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Equities	**67.8**	82.4	**5.3**	6.6	**73.1**	89.0
Bonds	**62.0**	74.4	**4.3**	3.6	**66.3**	78.0
Other	**0.9**	1.7	**6.0**	5.0	**6.9**	6.7
Total market value of assets	**130.7**	158.5	**15.6**	15.2	**146.3**	173.7
Present value of plan liabilities	**(157.8)**	(168.0)	**(43.6)**	(36.9)	**(201.4)**	(204.9)
Deficits in plans	**(27.1)**	(9.5)	**(28.0)**	(21.7)	**(55.1)**	(31.2)

"Equities" includes investments in quoted equities, funds of hedge funds and property investment vehicles.

Pension commitments

Pension obligations

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

	2009			2008		
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Opening obligation	**(168.0)**	**(36.9)**	**(204.9)**	(192.5)	(35.0)	(227.5)
Current service cost	**(1.0)**	**(0.5)**	**(1.5)**	(1.6)	(0.7)	(2.3)
Interest cost	**(10.8)**	**(2.2)**	**(13.0)**	(10.2)	(1.6)	(11.8)
Contributions by plan participants	**(0.5)**	**–**	**(0.5)**	(0.5)	(0.2)	(0.7)
Actuarial gains and losses	**12.5**	**0.4**	**12.9**	26.8	1.1	27.9
Gains on curtailments	**0.4**	**–**	**0.4**	–	0.5	0.5
Benefits paid	**9.6**	**2.3**	**11.9**	10.0	1.8	11.8
Exchange adjustment	**–**	**(6.7)**	**(6.7)**	–	(2.8)	(2.8)
Closing obligation	**(157.8)**	**(43.6)**	**(201.4)**	(168.0)	(36.9)	(204.9)
The total defined benefit obligation can be analysed as follows:						
Obligations related to funded pension plans	**(157.8)**	**(21.6)**	**(179.4)**	(168.0)	(17.1)	(185.1)
Obligations related to unfunded pension plans	**–**	**(22.0)**	**(22.0)**	–	(19.8)	(19.8)
	(157.8)	**(43.6)**	**(201.4)**	(168.0)	(36.9)	(204.9)

Notes to the consolidated financial statements continued

18. Pensions (continued)

Pension assets

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

	2009 UK £m	2009 Overseas £m	2009 Total £m	2008 UK £m	2008 Overseas £m	2008 Total £m
Opening assets	**158.5**	**15.2**	**173.7**	164.4	15.1	179.5
Expected return on plan assets	**9.9**	**1.3**	**11.2**	10.5	1.2	11.7
Actuarial gains and losses	**(31.5)**	**(3.7)**	**(35.2)**	(11.0)	(0.9)	(11.9)
Contributions by the employer	**2.9**	**1.1**	**4.0**	4.1	0.8	4.9
Contributions by plan participants	**0.5**	**–**	**0.5**	0.5	0.2	0.7
Benefits paid	**(9.6)**	**(1.1)**	**(10.7)**	(10.0)	(0.9)	(10.9)
Exchange adjustment	**–**	**2.8**	**2.8**	–	(0.3)	(0.3)
Closing assets	**130.7**	**15.6**	**146.3**	158.5	15.2	173.7
Balance sheet reconciliation:						
Plan obligations	**(157.8)**	**(43.6)**	**(201.4)**	(168.0)	(36.9)	(204.9)
Plan assets	**130.7**	**15.6**	**146.3**	158.5	15.2	173.7
Retirement benefit obligation	**(27.1)**	**(28.0)**	**(55.1)**	(9.5)	(21.7)	(31.2)

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

	2009 £m	2008 £m
Actuarial gains arising on plan obligations	**12.9**	27.9
Actuarial losses arising on plan assets	**(35.2)**	(11.9)
Net actuarial gains and losses	**(22.3)**	16.0

The actual loss on plan assets was £24.0 million (2008 – loss of £0.2 million).

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

	2009 £m	2008 £m
Operating costs – continuing		
Current service cost	**(1.5)**	(2.3)
Gains on curtailments	**0.4**	0.5
	(1.1)	(1.8)

18. Pensions (continued)

History of experience gains and losses

	UK				
	2009	2008	2007	2006	2005
Experience adjustments arising on plan assets					
Amount (£m)	**(31.5)**	(11.0)	(3.5)	14.5	3.3
Percentage of plan assets	**24.1%**	6.9%	2.1%	8.9%	2.3%
Experience adjustments arising on plan liabilities					
Amount (£m)	**12.5**	26.8	4.5	(15.2)	(20.4)
Percentage of present value of plan liabilities	**7.9%**	16.0%	2.3%	7.8%	11.5%
Present value of plan liabilities (£m)	**(157.8)**	(168.0)	(192.5)	(195.6)	(177.2)
Fair value of plan assets (£m)	**130.7**	158.5	164.4	162.7	142.4
Deficit (£m)	**(27.1)**	(9.5)	(28.1)	(32.9)	(34.8)

	Overseas				
	2009	2008	2007	2006	2005
Experience adjustments arising on plan assets					
Amount (£m)	**(3.7)**	(0.9)	0.8	1.7	1.2
Percentage of plan assets	**23.7%**	5.9%	5.3%	11.0%	9.7%
Experience adjustments arising on plan liabilities					
Amount (£m)	**0.4**	1.1	(0.9)	(6.3)	–
Percentage of present value of plan liabilities	**0.9%**	3.0%	2.6%	17.3%	–
Present value of plan liabilities (£m)	**(43.6)**	(36.9)	(35.0)	(36.5)	(30.8)
Fair value of plan assets (£m)	**15.6**	15.2	15.1	15.5	12.4
Deficit (£m)	**(28.0)**	(21.7)	(19.9)	(21.0)	(18.4)

	Total				
	2009	2008	2007	2006	2005
Experience adjustments arising on plan assets					
Amount (£m)	**(35.2)**	(11.9)	(2.7)	16.2	4.5
Percentage of plan assets	**24.1%**	6.9%	1.5%	9.1%	2.9%
Experience adjustments arising on plan liabilities					
Amount (£m)	**12.9**	27.9	3.6	(21.5)	(20.4)
Percentage of present value of plan liabilities	**6.4%**	13.6%	1.6%	9.3%	9.8%
Present value of plan liabilities (£m)	**(201.4)**	(204.9)	(227.5)	(232.1)	(208.0)
Fair value of plan assets (£m)	**146.3**	173.7	179.5	178.2	154.8
Deficit (£m)	**(55.1)**	(31.2)	(48.0)	(53.9)	(53.2)

The cumulative amount of actuarial losses recognised in equity since 4 April 2004 was £26.6 million (2008 – £4.3 million). The Group expects to contribute approximately £3.5 million (2008 – £4.8 million) to defined benefit plans in the year to 31 March 2010.

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 commencing at £1.5 million will be paid to the RGPS plan and £0.5 million to the RSPS plan over a 12 year period.

The Group operates a number of defined contribution plans. The cost for the period was £0.7 million (2008 – £0.8 million). There were outstanding contributions in creditors of £nil (2008 – £nil) at the balance sheet date.

The assets and liabilities shown above include a net £nil (2008 – £nil) balance in respect of a closed South African defined benefit pension scheme. The Group has not recognised that element of the pension surplus within that scheme of £1.1 million (2008 – £1.1 million), which it expects to remain surplus after expected additional payments to pensioner members are taken into account. The Company is undertaking a review of local regulations to clarify whether the surplus can be repaid to the Group.

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19. Called-up share capital

	Authorised		Issued	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Equity interests				
Ordinary shares of 25p each	**23.1**	23.1	**19.3**	17.5

At 31 March 2009, the issued ordinary share capital comprised 77,064,703 (2008 – 70,022,194) ordinary shares of 25p each.

In August 2008, 7,000,000 new ordinary shares were placed at 76p each, raising £5.3 million gross (£5.1 million after transaction expenses). The new shares rank pari passu with the existing ordinary shares.

During the year the Company issued 42,509 (2008 – 362,387) ordinary shares of 25p each for a cash consideration of £23,319 (2008 – £246,570) by the exercise of options under the Savings Related Share Option Schemes.

20. Share-based payments

Details of the share-based payment arrangements are provided in the Directors' Remuneration Report on pages 20 to 24.

Share options have been granted under the Executive Share Option Schemes and the Savings Related Share Option Scheme. At 31 March 2009, unexercised options for ordinary shares amounted to 5,197,809 (2008 – 5,224,805).

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

	2009 Executive Share Option Scheme		2008 Executive Share Option Scheme	
Grant date	**25.11.08**	**1.4.08**	31.3.08	27.11.07
Share price at date of grant	**36.5p**	**79p**	79p	92.5p
Exercise price	**37p**	**77p**	75.9p	92.55p
Number of employees	**1**	**1**	9	11
Shares under option	**54,054**	**180,292**	1,576,690	660,000
Vesting period (years)	**3**	**3**	3	3
Expected volatility	**33.6%**	**30.8%**	32.1%	32.5%
Option life (years)	**10**	**10**	10	10
Expected life (years)	**6**	**6**	6	6
Risk-free interest rate	**2.3%**	**3.9%**	3.9%	4.5%
Assumed dividends expressed as a dividend yield	**Zero**	**Zero**	Zero	Zero
Possibility of ceasing employment before vesting	**Zero**	**Zero**	Zero	Zero
Fair value per option	**13.3p**	**30.7p**	31.9p	37.5p
Probability of meeting market-based vesting conditions	**60%**	**60%**	60%	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 2009 is shown on the opposite page:

20. Share-based payments (continued)

Executive share option schemes

	2009 Number	2009 Weighted average exercise price	2008 Number	2008 Weighted average exercise price
Outstanding at 1 April	4,562,690	85.8p	2,831,542	93.8p
Granted	234,346	67.8p	2,236,690	80.8p
Lapsed	(178,000)	157.8p	(174,042)	159.3p
Forfeited	–	–	(91,000)	102.7p
Exercised	–	–	(240,500)	74.7p
Outstanding at 31 March	4,619,036	82.1p	4,562,690	85.8p
Exercisable at 31 March	911,000	80.9p	1,009,000	82.1p

Savings related share option scheme

	2009 Number	2009 Weighted average exercise price	2008 Number	2008 Weighted average exercise price
Outstanding at 1 April	662,115	54.3p	867,220	54.4p
Lapsed	(32,841)	54.4p	(3,856)	54.3p
Forfeited	(7,992)	54.4p	(79,362)	54.3p
Exercised	(42,509)	54.9p	(121,887)	54.9p
Outstanding at 31 March	578,773	54.3p	662,115	54.3p
Exercisable at 31 March	578,773	54.3p	48,908	54.9p

Executive share option scheme

	2009				2008			
	Weighted average exercise price	Number of shares	Weighted average remaining life		Weighted average exercise price	Number of shares	Weighted average remaining life	
Range of exercise prices			Expected	Contractual			Expected	Contractual
37.0p to 74.3p	62.0p	902,054	2.4	6.2	63.6p	856,000	3.0	7.0
75.9p to 94.5p	81.6p	3,116,982	4.0	8.1	81.8p	3,011,690	5.0	9.0
100.1p to 120.0p	111.3p	525,000	3.4	7.2	111.4p	530,000	4.3	8.1
137.83p to 242.67p	137.8p	75,000	–	0.3	189.1p	165,000	–	0.7

Savings related share option scheme

	2009				2008			
	Weighted average exercise price	Number of shares	Weighted average remaining life		Weighted average exercise price	Number of shares	Weighted average remaining life	
Range of exercise prices			Expected	Contractual			Expected	Contractual
54.3p to 55.08p	54.3p	578,773	–	0.2	54.3p	662,115	0.9	1.2

The weighted average share price during the period for options exercised over the year was 75.6p (2008 – 104.7p). The total charge for the year relating to employee share-based payment plans was £368,000 (2008 – £142,000), all of which related to equity-settled share-based transactions. After deferred tax, the total charge was £269,000 (2008 – £142,000).

The middle-market price of ordinary shares at 31 March 2009 was 16p and the range of prices during the year was 16p to 89.5p.

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21. Analysis of changes in shareholders' equity

	Share capital £m	Share premium account £m	Retained earnings £m	Currency translation reserve £m	Other reserves £m	Minority interest £m	Total equity £m
At 1 April 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 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
Profit for the year	–	–	2.1	–	–	–	2.1
Recycling of losses on cash flow hedges to the income statement	–	–	–	–	0.5	–	0.5
Net losses on cash flow hedges taken to equity	–	–	–	–	(1.8)	–	(1.8)
Foreign exchange translation difference	–	–	–	3.4	–	–	3.4
Actuarial gains and losses	–	–	(22.3)	–	–	–	(22.3)
Gains on fair value of hedging net investments in foreign operations	–	–	–	5.5	–	–	5.5
Tax on items recognised directly in equity	–	–	4.6	–	–	–	4.6
Proceeds from share placing	1.8	3.5	–	–	–	–	5.3
Associated costs of placing	–	(0.2)	–	–	–	–	(0.2)
Employee share options:							
– value of employee services	–	–	0.4	–	–	–	0.4
Minority interest arising on acquisition	–	–	–	–	–	1.6	1.6
At 31 March 2009	19.3	9.6	3.9	7.6	(1.9)	1.6	40.1

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 2009, subsequent to the capital reorganisation in January 1985, amounted to £2.0 million (2008 – £2.0 million).

Included in retained earnings is an amount of £7.1 million (net of tax) (2008 – £7.4 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.

22. 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:

	2009		2008	
	Properties £m	**Equipment £m**	Properties £m	Equipment £m
Within one year	**2.1**	**0.5**	2.1	0.4
Between two and five years	**7.4**	**0.4**	6.6	0.5
Over five years	**13.9**	**–**	15.7	–
	23.4	**0.9**	24.4	0.9

Certain of the leased properties have been sublet and the future minimum sublease payments expected to be received under non-cancellable sublease agreements is £1.2 million (2008 – £0.3 million).

23. Contingent liabilities

Performance guarantees given to third parties in respect of Group companies were £3.9 million (2008 – £3.7 million).

24. Additional cash flow information

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

	2009 £m	2008 £m
Cash generated from operations:		
Continuing operations:		
Profit before taxation	**2.9**	9.3
Depreciation and amortisation	**4.7**	5.1
Profit on plant and equipment disposals	**(0.7)**	(3.0)
Equity share plans	**0.4**	0.1
Net finance costs	**4.7**	2.9
Decrease/(increase) in inventories	**3.4**	(5.0)
Decrease/(increase) in receivables	**3.8**	(3.0)
(Decrease)/increase in payables	**(13.0)**	2.4
Decrease in provisions	**(2.0)**	(0.3)
Movement on pension plans	**(3.9)**	(4.0)
Movement in derivative financial instruments	**0.8**	–
Cash generated from continuing operations	**1.1**	4.5
Discontinued operations		
Profit before taxation	**–**	1.5
Decrease in provisions	**–**	(1.3)
Offset of proceeds from disposal of businesses	**–**	(0.2)
Cash generated/(absorbed) by discontinued operations	**–**	–
Cash generated from operations	**1.1**	4.5

Reconciliation of net increase/(decrease) in cash and cash equivalents to movement in net debt:

	2009 £m	2008 £m
Decrease in cash and cash equivalents	**(7.5)**	(2.3)
Change in net debt resulting from cash flows	**(0.2)**	(1.3)
Foreign currency translation differences	**(5.6)**	(0.9)
Change in net debt during the period	**(13.3)**	(4.5)
Net debt at start of year	**(23.9)**	(19.4)
Net debt at end of year	**(37.2)**	(23.9)
Net debt comprises:		
Cash and cash equivalents (Note 13)	**11.3**	15.5
Total borrowings (Note 14)	**(48.5)**	(39.4)
	(37.2)	(23.9)

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continued

25. Financial instruments

These notes should be read in conjunction with the narrative disclosures in the Finance Directors' Review on pages 11 to 13.

Exchange rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Euro exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward exchange contracts and the effect of hedging borrowings in reserves). The impact of translating the net assets of foreign operations into Sterling is included in the following sensitivity analysis:

	Increase/ (decrease) in US$ rate	Effect on profit before tax £m	Effect on equity £m
2009			
	25%	0.2	3.9
	(10%)	(0.1)	(2.1)

	Increase/ (decrease) in Euro rate	Effect on profit before tax £m	Effect on equity £m
2009			
	25%	0.3	0.8
	(10%)	(0.2)	(0.5)

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the basis points of the Group's floating interest rates:

	Increase in basis points	Effect on profit before tax
2009		
Sterling	+150	(0.1)
US Dollar	+150	(0.2)
Euro	+150	(0.2)
Other	+150	(0.2)
		(0.7)

In the prior year, exchange rate and interest rate sensitivity analysis had been performed. However, the results of this analysis were proven to be sufficiently immaterial to disclose.

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

	2009 £m	2008 £m
Current assets:		
Forward foreign currency contracts – cash flow hedge	**–**	0.1
Current liabilities:		
Forward foreign currency contracts – cash flow hedge	**(2.9)**	(0.9)
Non-current liabilities:		
Interest rate swaps	**–**	–

The cash flow hedges of the expected future transactions in Euros and US Dollars were assessed to be highly effective. A net unrealised loss of £0.8 million in respect of Euro contracts and an unrealised loss of £2.1 million in respect of US Dollar contracts was included in equity as at 31 March 2009. A loss of £0.5 million was transferred to operating costs in the income statement in the period.

(b) Short-term receivables and payables

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

25. Financial instruments (continued)

(c) Interest rate swap
The notional principal amount of the outstanding interest rate swap contracts at 31 March 2009 was $nil million (2008 – $4.4 million). The interest rate swap terminated on 30 March 2009.

At 31 March 2009 the fixed interest rate was nil% (2008 – 6.9%) and the floating rate was nil% (2008 – 6.4% US LIBOR plus 100 base points). At 31 March 2009 the fair value of the swap was £nil (2008 – immaterial).

(d) Hedge of net investment in foreign entity
The Group has US Dollar-denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in the USA. The carrying value of the US Dollar borrowings at 31 March 2009 was £9.1 million (1 April 2008 – £6.5 million). A foreign exchange loss of £2.6 million (2008 – gain of £0.1 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.

(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
2009					
Sterling					
– Financial liabilities	7.1	2.0	0.2	10.6	10.8
– Preference shares[24]	6.0	–	0.5	–	0.5
US Dollar	6.9	–	–	11.6	11.6
Euro	–	–	–	13.0	13.0
Other	–	–	0.6	12.0	12.6
			1.3	47.2	48.5
2008					
Sterling					
– Financial liabilities	7.1	3.0	0.2	13.0	13.2
– Preference shares[24]	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

24 Preference shares have no fixed repayment date.

The Sterling and US Dollar fixed rate financial liabilities take into account interest rate swaps in 2008. The interest rate swap had terminated on 30 March 2009.

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 Sterling, US Dollar and Euro debt obligations.

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

Notes to the consolidated financial statements
continued

25. Financial instruments (continued)

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.

(f) Currency and interest rate profile of financial assets at 31 March 2009

	2009			2008		
Currency	Cash at bank and in hand £m	Short-term deposits £m	Total £m	Cash at bank and in hand £m	Short-term deposits £m	Total £m
Sterling	0.6	–	0.6	1.0	5.0	6.0
Euro	3.6	1.3	4.9	1.9	2.1	4.0
Other	5.1	0.7	5.8	5.2	0.3	5.5
	9.3	2.0	11.3	8.1	7.4	15.5

Cash balances and short-term deposits are held with the Group's bankers. These deposits are held largely in Germany and South Africa 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:

2009	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
Interest-bearing loans and borrowings	46.2	1.8	1.1	0.7	49.8
Leases	0.1	0.1	–	–	0.2
Trade payables	22.9	–	–	–	22.9
Foreign exchange forward contracts – outflow	14.3	–	–	–	14.3
Preference shares[25]	–	–	–	0.5	0.5
	83.5	1.9	1.1	1.2	87.7

Interest bearing loans and borrowings maturing in one year or less on demand of £46.2 million include an amount of £3.6 million drawn from ABN Amro (a subsidiary of The Royal Bank of Scotland plc) in India at 31 March 2009. Although the financial covenants were not met on this facility at 31 March 2009, the Company is taking action to resolve this position and the bank has indicated the continuing availability of the facility. As a consequence, £2.4 million of the loan has been reclassified from long term to current.

2008	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
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[25]	–	–	–	0.5	0.5
	32.0	30.6	0.9	1.2	64.7

25 No fixed repayment date.

The Group has contracted forward contracts consisting of Euro forward contracts of £5.0 million (2008 – £7.9 million) and US Dollar forward contracts of £9.3 million (2008 – £8.6 million) due within one year.

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25. Financial instruments (continued)

(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:

	2009 £m	2008 £m
Expiring within one year or less, or on demand	18.6	12.0

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 2010.

After the balance sheet date, the Group reached agreement (subject to the completion of full documentation) to enter 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. Further information can be found in Note 27.

(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	
	2009 £m	2008 £m	2009 £m	2008 £m
Financial assets				
Cash	11.3	15.5	11.3	15.5
Financial liabilities				
Bank overdraft (floating rate borrowing)	2.7	1.3	2.7	1.3
Interest-bearing loans and borrowings				
Floating rate borrowing	44.5	30.4	44.5	30.4
Fixed rate borrowing	0.8	7.2	0.8	7.2
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 2009 and 31 March 2008.

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

	2009 £m	2008 £m
Net debt (Note 24)	37.2	23.9
Preference shares	0.5	0.5
Equity	38.5	41.0
Total capital	39.0	41.5
Capital and net debt	76.2	65.4
Gearing ratio	49%	37%

As set out in Note 25(h), the Group reached agreement (subject to the completion of full documentation) to enter into a three year syndicated facility after the balance sheet date. Further information can be found in Note 27.

Notes to the consolidated financial statements continued

26. Business combinations

Acquisition made in the year ended 31 March 2009
On 29 September 2008 the Group acquired an interest in the assets forming the industrial chain business of LGB, located in India. The acquisition has been accounted for using the purchase method of accounting.

Renold's interest is represented by a 75% equity investment in Renold Chain India, the vehicle used to acquire the respective trade and business assets of LGB. The Agreement contains a call option allowing Renold International Holdings Limited the right to acquire the remaining 25% equity interest from LGB at any time after 29 September 2010. The fair value of the call option at the balance sheet date is not material. In addition, the Agreement also includes a put option that sets out certain circumstances in which the minority interest could acquire the Group's 75% interest. The exercise of this option is within the Group's control. The fair value of the put option is not material.

The purchase consideration is summarised as follows:

	£m
Cash consideration	5.0
Deferred consideration	0.8
Working capital adjustment	(0.6)
Contingent consideration	0.9
Direct costs relating to the acquisition	0.6
Total purchase consideration	6.7
Fair value of net identifiable assets acquired	(4.6)
Goodwill	2.1

Deferred consideration, which is calculated based on the minimum amount of total consideration payable under the terms of the Sale and Purchase Agreement, is payable in financial year 2009/10. Contingent consideration is based on the directors' best estimate of future obligations, which are dependent on the adjusted audited results of the acquired business for the year ended 31 March 2009 and subject to agreement with the vendor of the business. The maximum amount payable, at year-end exchange rates, is £2.3 million. Contingent consideration is payable in financial year 2009/10. The working capital adjustment arises as a result of the agreed position with respect to the completion accounts and represents consideration repaid by the vendor of the business.

The goodwill resulting from the acquisition is attributable to certain intangible assets that cannot be individually separated and reliably measured due to their nature. These include the synergies expected to result from combining Renold Chain India within the Renold Group and the acquisition of an assembled workforce.

The assets and liabilities arising from the acquisition are as follows:

	Book value £m	Provisional fair values £m
Property, plant and equipment	1.3	4.5
Inventories	1.9	1.7
Net assets	3.2	6.2
Minority interests (25%)		(1.6)
Net assets acquired		4.6

Cash outflow on acquisition:

	£m
Purchase consideration settled in cash	5.0
Direct costs relating to the acquisition	0.6
Cash outflow on acquisition	5.6

From the date of acquisition of 29 September 2008, Renold Chain India has incurred a loss of £0.1 million.

It is not practicable to provide pro-forma data as if Renold Chain India had been owned by the Group since 1 April 2008, as separable and reliable data for the trading operation is not available for the period prior to acquisition and due to the planned changes in operational activities following the acquisition by Renold.

25% of the equity interest in Renold Chain India is owned by LGB and results in a minority interest of £1.6 million in the Group balance sheet.

26. Business combinations (continued)

Acquisition made in the year ended 31 March 2008

On 16 June 2007, the Group acquired an interest in the plant, equipment, inventory and existing workforce of the chain manufacturing business of 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 a call option allowing either party to enforce the right of Renold to acquire the remaining 10% equity interest from HZSS at a date ten 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. This is based on a formula relative to the reported earnings of the acquired business.

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

	Book value £m	Final 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

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 Group and the acquisition of an assembled workforce.

The onerous contracts provision was fully utilised in 2007/08.

27. Events after the balance sheet date

Closure of the Polish factory

On 1 April 2009, it was announced that the factory located in Goleniow, Poland is to close. Work is underway to transfer assets and activities to other Renold facilities. The impact of this event on the Group financial statements is unknown at present but management anticipate that the impact will be immaterial.

Closure of pension plans

Future accrual to the RGMPS defined-contribution-type fund and the RGPS defined-benefit-type fund has ceased in April 2009 and May 2009 respectively. This is anticipated to reduce the IAS 19 pension obligation by approximately £1.0 million.

From 6 April 2009 all current and future employees have the opportunity to join the Renold Personal Pension Plan which is a contract-based defined benefit scheme.

Funding

On 13 July 2009, the Group reached agreement (subject to the completion of full documentation) to enter a three year bank facility with the existing syndicate members 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 and is for the same amount as the facility it replaces. The agreement is in the form of agreed heads of terms together with a letter of commitment and has received credit committee approval from the banks. It is expected that full documentation will be agreed and signed during July 2009. The key terms of the new agreement are as follows:

- Total facilities of £31 million, including Multicurrency Revolving Credit Facility ("MRCF") maturing on 30 June 2012 of £20 million and a Multicurrency Term-Loan Facility ("MLTF") maturing on 30 June 2012 of £11 million;
- Margin on the MRCF a maximum of 4.5% above LIBOR, subject to a reducing margin ratchet down to 2.5% based on leverage;
- Cash margin of 6% above LIBOR and a PIK margin commencing at 7.5% and increasing by 0.5% every six months on the MLTF;
- Leverage, interest cover and operating cash flow covenants tested quarterly;
- Capital expenditure covenant tested annually; and
- Warrants over 3,500,000 ordinary shares of the Company, approximately 4.3% of the fully diluted share capital as at the closing date.

Financial statements

Group five-year financial review (unaudited)

		2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Group revenue		**194.7**	172.6	188.4	225.1	197.0
Less discontinued operations		**–**	–	(29.1)	(70.1)	(53.8)
Revenue from continuing operations		**194.7**	172.6	159.3	155.0	143.2
Operating profit before exceptional items (and goodwill amortisation under UK GAAP) – continuing		**10.0**	12.0	9.8	6.8	4.6
Operating profit		**7.6**	12.2	3.9	5.4	0.4
Profit/(loss) before tax		**2.9**	9.3	1.4	1.8	(1.8)
Taxation		**(0.8)**	(3.1)	(0.6)	(1.5)	1.5
		2.1	6.2	0.8	0.3	(0.3)
Discontinued operations:						
Profit/(loss) from discontinued operations		**–**	1.5	(13.5)	(13.9)	0.2
Profit/(loss) for the year		**2.1**	7.7	(12.7)	(13.6)	(0.1)
Net assets employed						
Property, plant and equipment, intangible software and investment property		**54.4**	42.6	36.2	38.4	64.7
Working capital and other net assets		**42.9**	33.2	26.2	30.7	43.0
Operating assets		**97.3**	75.8	62.4	69.1	107.7
Assets of discontinued operations		**–**	–	–	37.1	–
Liabilities of discontinued operations		**–**	–	–	(28.1)	–
Properties held for sale		**–**	–	3.4	3.4	–
Goodwill		**24.5**	16.3	15.2	17.1	15.7
Net debt		**(37.2)**	(23.9)	(19.4)	(20.7)	(17.0)
Deferred and current taxation		**14.0**	8.4	15.5	17.0	14.6
Provisions		**(3.4)**	(4.4)	(5.2)	(0.4)	(11.7)
Net assets excluding pension obligations		**95.2**	72.2	71.9	94.5	109.3
Pension obligations		**(55.1)**	(31.2)	(48.0)	(53.9)	(53.2)
Total net assets		**40.1**	41.0	23.9	40.6	56.1
Other data and ratios						
Operating return on average operating assets[26]	%	**11.6**	17.4	14.9	7.7	4.7
Operating profit on turnover[27]	%	**5.1**	7.0	6.2	4.4	3.2
Capital expenditure	£m	**5.8**	8.2	5.8	6.6	7.6
Basic earnings/(loss) per share	p	**2.8**	11.0	(18.3)	(19.6)	(0.1)
Dividends per ordinary share	p	**–**	–	–	–	4.5
Employees at year end (continuing)		**2,301**	2,536	2,041	2,008	2,015

26 Being operating profit before exceptional items divided by average operating assets.
27 Based on operating profit before exceptional items.

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 2009 which comprise the Company Balance Sheet, the Company Statement of Total Recognised Gains and Losses, the Accounting Policies and the related notes (i) to (xii). 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 2009.

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 Business 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 Overview and the Business Review, the Responsibilities and Governance sections of the Directors' Report, the Directors' Remuneration Report and the Group Five-Year Financial Review. 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 2009;
- 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
13 July 2009

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.

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 25.

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 – 10 to 15 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 – Investments in subsidiary companies are accounted for at cost and are reviewed for impairment on an annual basis. Where indicators of impairment are present, the cash flows of the underlying entities are reviewed to determine whether the investment value is recoverable.

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; and
- 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 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 Group defined benefit plans are provided in the Group financial statements.

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.

Interest-bearing loans and borrowings – All interest-bearing loans and borrowings are initially recognised at net proceeds. After initial recognition, debt is subsequently measured at amortised cost using the effective interest method.

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 2009

	Note	2009 £m	2008 £m
Fixed assets			
Tangible assets	i	**0.4**	0.3
Investments in subsidiary undertakings	ii	**66.1**	54.7
		66.5	55.0
Current assets			
Debtors	iii	**4.7**	2.9
Cash and short-term deposits		**13.0**	19.9
		17.7	22.8
Creditors – amounts falling due within one year			
Other creditors	iv	**(1.8)**	(4.0)
Bank borrowings	v	**(19.7)**	(3.0)
Net current (liabilities)/assets		**(3.8)**	15.8
Total assets less current liabilities		**62.7**	70.8
Creditors – amounts falling due after more than one year			
Bank borrowings	v	**–**	(17.8)
Preference shares	v	**(0.5)**	(0.5)
Derivative financial instruments	vi	**(2.8)**	(0.9)
Net assets		**59.4**	51.6
Capital and reserves			
Called-up share capital	viii	**19.3**	17.5
Share premium account	ix	**9.6**	6.3
Profit and loss account	ix	**30.5**	27.8
Shareholders' funds		**59.4**	51.6

Approved by the Board on 13 July 2009 and signed on its behalf by:

Matthew Peacock
Chairman

Robert Davies
Director

Financial statements

Company statement of total recognised gains and losses
for the year ended 31 March 2009

	2009 £m	2008 £m
Profit for the year	**2.3**	14.3
Total recognised gains and (losses) for the year	**2.3**	14.3
Attributable to:		
Equity shareholders of the Company	**2.3**	14.3

Notes to the Company financial statements

(i) Tangible assets

	Properties £m	Equipment £m	Total £m
Cost			
At beginning of year	0.2	1.0	1.2
Additions at cost	0.2	–	0.2
At end of year	**0.4**	**1.0**	**1.4**
Depreciation			
At beginning of year	0.1	0.8	0.9
Depreciation for the year	0.1	–	0.1
At end of year	**0.2**	**0.8**	**1.0**
Net book value at end of year	**0.2**	**0.2**	**0.4**
Net book value at beginning of year	0.1	0.2	0.3

(ii) Investments in subsidiary undertakings

	Shares £m	Advances £m	Total £m
Subsidiary companies			
Cost or valuation			
At beginning of year	22.6	32.1	54.7
Advances	–	11.4	11.4
At end of year	22.6	43.5	66.1

The principal subsidiary companies of Renold plc at 31 March 2009 are set out on page 77.

(iii) Debtors

	2009 £m	2008 £m
Amounts owed by Group undertakings	**4.2**	2.1
Deferred tax asset	**0.1**	0.2
Other debtors	**0.2**	0.4
Prepayments and accrued income	**0.2**	0.2
	4.7	2.9

The analysis of the deferred tax asset is as follows:

	2009 £m	2008 £m
All amounts falling due after more than one year:		
Decelerated capital allowances	**0.1**	0.1
Other temporary differences	**–**	0.1
	0.1	0.2

(iv) Other creditors

	2009 £m	2008 £m
Amounts falling due within one year:		
Trade creditors	**0.7**	0.9
Amounts owed by Group undertakings	**0.4**	0.2
Other taxation and social security	**0.3**	0.3
Other creditors	**–**	2.2
Accruals	**0.4**	0.4
	1.8	4.0

(v) Borrowings

	2009 £m	2008 £m
Amounts falling due within one year:		
Bank overdrafts	**1.0**	1.2
Bank loans	**18.7**	1.8
	19.7	3.0
Amounts falling due after one year:		
Bank loans	**–**	17.8
Repayable:		
In more than one year but not more than two years	**–**	17.8
	–	17.8
Summary of total borrowings:		
Bank overdrafts	**1.0**	1.2
Total bank loans	**18.7**	19.6
Preference shares	**0.5**	0.5
Total borrowings	**20.2**	21.3

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

All payments of dividends on the 6% cumulative preference stock 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 prior 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; and

(iv) there is no redemption entitlement.

(vi) Derivative financial instruments

	2009 £m	2008 £m
Forward foreign currency contracts – cash flow hedge	**(2.8)**	(0.9)

The cash flow hedges of the expected future transactions in Euros and US Dollars were assessed to be highly effective. A net unrealised loss of £0.8 million in respect of Euro contracts and a loss of £2.0 million in respect of US Dollar contracts were included in equity as at 31 March 2009.

A loss of £0.5 million was transferred to operating costs in the income statement in the period.

The Group has contracted forward contracts to sell foreign currency consisting of Euro forward contracts of £5.0 million and US Dollar forward contracts of £9.3 million due within one year.

Notes to the Company financial statements
continued

(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. This is due to the fact that the Company cannot attribute the members of the schemes to the individual sponsoring employer company. As a consequence, the deficit in the UK defined benefit schemes is only recognised as a liability in the Group balance sheet. The basis used to determine the deficit in the schemes is disclosed in Note 18 in the consolidated financial statements. No contributions are outstanding at the year end.

(viii) Called-up share capital

	Authorised (nominal value)		Issued	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Ordinary shares of 25p each	**23.1**	23.1	**19.3**	17.5
6% cumulative preference stock	**0.6**	0.6	**0.5**	0.5
Total	**23.7**	23.7	**19.8**	18.0

At 31 March 2009, the issued ordinary share capital comprised 77,064,703 (2008 – 70,022,194) ordinary shares of 25p each.

In August 2008, 7,000,000 new ordinary shares were placed at 76p each, raising £5.3 million gross (£5.1 million after transaction expenses). The new shares rank pari passu with the existing ordinary shares.

During the year the Company issued 42,509 (2008 – 362,387) ordinary shares of 25p each for a cash consideration of £23,320 (2008 – £246,570) 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).

Disclosures in respect of capital management can be found in Note 25 of the consolidated financial statements.

Share options have been granted under the Executive Share Option Schemes and the Savings Related Share Option Schemes. At 31 March 2009, unexercised options for ordinary shares amounted to 5,197,809 (2008 – 5,224,805) made up as follows:

	Option price (pence per share)	**Number of shares 2009**	Number of shares 2008
Date normally exercisable Executive Share Option Schemes Within seven years from:			
17 July 2001 (1995 Scheme)	237.33	**–**	85,000
16 July 2002 (1995 Scheme)	137.83	**75,000**	80,000
19 July 2003 (1995 Scheme)	118.50	**45,000**	50,000
28 November 2004 (1995 Scheme)	67.34	**122,000**	127,000
27 November 2005 (1995 Scheme)	58.50	**106,000**	109,000
28 July 2006 (1995 Scheme)	80.84	**–**	50,000
27 November 2006 (1995 Scheme)	83.50	**100,000**	125,000
11 March 2007 (1995 Scheme)	76.50	**125,000**	125,000
2 September 2007 (2004 Scheme)	88.00	**475,000**	475,000
22 November 2007 (2004 Scheme)	74.30	**105,000**	105,000
26 July 2009 (2004 Scheme)	61.60	**515,000**	515,000
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**	660,000
31 March 2011 (2004 Scheme)	75.90	**1,576,690**	1,576,690
1 April 2011 (2004 Scheme)	77.00	**180,292**	–
25 November 2011 (2004 Scheme)	37.00	**54,054**	–
		4,619,036	4,562,690
Savings Related Share Option Schemes Within six months from:			
1 February 2008 (1995 Scheme)	55.08	**–**	38,164
1 March 2009 (2004 Scheme)	54.30	**578,773**	623,951
		578,773	662,115

Further details of share-based payment schemes operated by the Company are provided in the Directors' Remuneration Report and Note 20 of the consolidated financial statements.

Financial statements

(ix) Reserves

	Profit and loss account £m	Share premium £m	Total reserves £m
At beginning of year	**27.8**	**6.3**	**34.1**
Profit for the year	2.3	–	2.3
Employee share option schemes – value of employee services	0.4	–	0.4
Share premium	–	3.3	3.3
At end of year	**30.5**	**9.6**	**40.1**

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 £2.3 million (2008 – profit £14.3 million).

Total fees payable by the Company to Ernst & Young LLP for work in respect of the audit of the Company were £31,000 (2008 – £31,000). 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:

	2009 £m	2008 £m
Leases expiring:		
– within one year	–	–
– between two and five years	199	–
– over five years	–	199
	199	199

(xi) Contingent liabilities

The Company has guaranteed borrowings by subsidiary undertakings of £23.6 million (2008 – £14.8 million). Performance guarantees given to third parties in respect of Group companies were £3.8 million (2008 – £3.4 million). No material loss is expected to arise as a result of these contingent liabilities.

(xii) Events after the balance sheet date

See Note 27 of the consolidated financial statements for disclosures in respect of post-balance sheet funding arrangements.

Corporate details

Corporate calendar

Annual General Meeting	21 September 2009
Interim Management Statement (first)	Between 11 June 2009 and 18 August 2009
Half-year end 2009/10	30 September 2009
Announcement of half-year 2009/10 results	November 2009
Interim Management Statement (second)	Between 11 December 2009 and 16 February 2010
Year end 2009/10	31 March 2010
Announcement of annual results 2009/10	June 2010
Payment of preference dividends	Between 1 July 2009 and 1 January 2010

Company details

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Company Secretary

Lindsay Beardsell

Auditors

Ernst & Young LLP
Manchester

Broker and financial adviser

Singer Capital Markets Limited

Financial PR consultants

College Hill Associates Limited

Registrar

Capita Registrars
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Principal subsidiary companies as at 31 March 2009[28]

United Kingdom

Renold Power Transmission Limited (held directly by Renold plc)

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
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 Otvetstvennost'u)
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
India	Renold Chain India Private Limited
Malaysia	Renold (Malaysia) Sdn Bhd
New Zealand	Renold New Zealand Limited
Singapore	Renold Transmission Limited (incorporated in the United Kingdom)
South Africa	Renold Crofts (Pty) Limited

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 other than Renold (Hangzhou) Co Ltd and Renold Chain India Private Limited (in which we hold majority stakes[29]) 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.

28 All companies held indirectly unless otherwise stated.
29 See Note 26 to the consolidated financial statements for information on % shareholding in Renold (Hangzhou) Co Ltd and Renold Chain India Private Limited.

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Designed and produced by The College www.thecollege.uk.com

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