

RENOLD

Annual Report and
Accounts 2011

Delivering
world-class
engineering

www.renold.com

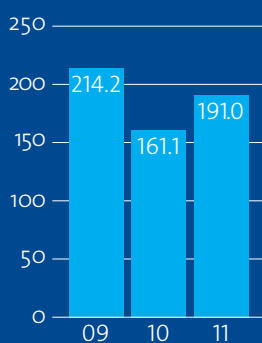
Renold is a world-class engineering business, delivering market-leading precision chain and power transmission products internationally.

Renold products can be seen in diverse applications from cement making to chocolate manufacturing, stopping tidal waterways to theme parks, escalators to bottling plants, in fact, anywhere something needs to be lifted, moved, rotated or conveyed.

Financial results

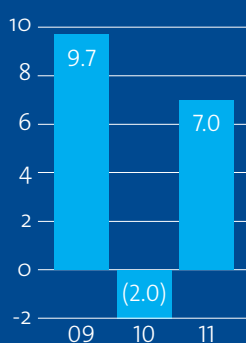
Underlying turnover*

£m



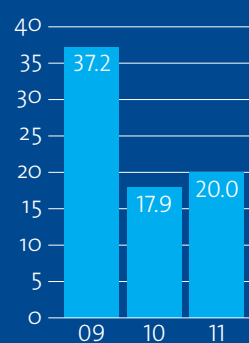
Underlying operating profit*

£m



Net debt

£m



* Underlying results exclude the impact of disposals, exceptional items and are retranslated to current year exchange rates.

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Overview

This section provides an overview of our financial results 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

Our strategy

We outline our strategy and how we are taking the business forward.

Our performance

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Directors' report

Overview

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Our operations

Renold plc is an international engineering group, producing a wide range of world-class 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 torque transmission products.

Renold Chain – Revenue £145.3m

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 our all-purpose range of standard chain provides affordable reliability.

Continuous research, development, innovation and ingenuity has led to the production of more specialised solutions, such as Hydro-Service with its superior corrosion-resistant coating and the Syno range which sets a new benchmark for chains requiring little or no lubrication. 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.

Renold Torque Transmission – Revenue £45.7m

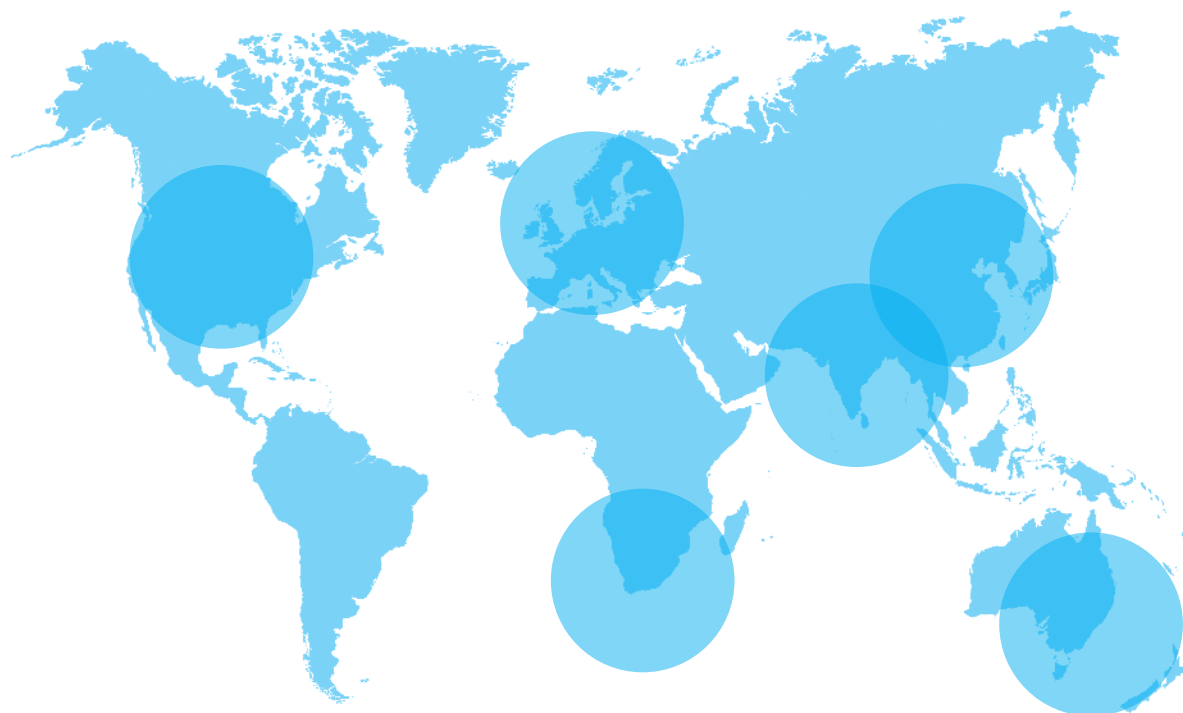
Renold Torque Transmission provides a complete range of worm gears, helical and bevel helical worm drives and a wide range of coupling solutions ranging from fluid couplings to rubber-in-compression and rubber-in-shear couplings. We manufacture custom gear spindles and gear couplings for the primary metals industry and we are experts in providing bespoke gear solutions across industries worldwide such as power generation, mass transit, people movement, metals and materials handling.




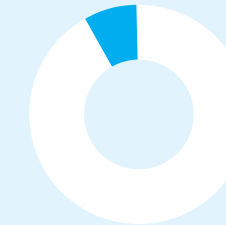
Our speciality is working alongside our customers, to design and manufacture a solution to specific application needs. Our design capability and innovation is recognised by customers around the world and is utilised in customising our gearboxes and couplings to meet customers' specific requirements, delivering durability, reliability and long life for demanding industrial applications.

Also from Renold Torque Transmission is a range of freewheel clutches featuring both sprag and roller ramp technology. Sprag clutches are used in a wide range of safety critical applications. Typical examples of these are safety backstops on inclined bucket conveyor systems and holdbacks that can protect riders on some of the world's most thrilling roller coasters.

We have manufacturing sites across the world including the UK, US, South Africa and China and we sell world renowned brands. We operate at the leading edge of technology, producing innovative products designed to meet customers' exacting standards.

Our geographic regions



Americas	Europe	Asia Pacific	Emerging economies
<p>North America saw a strong recovery from recession with 36% underlying growth in orders.</p> <p>Renold Jeffrey and Renold Ajax have been well known participants in the North American markets for many years with a focus on engineering class chain and mass transit gears and couplings.</p>	<p>Our European businesses saw a 33% increase in orders.</p> <p>Renold Chain operates from two principal manufacturing locations in Europe (UK and Germany). Renold Torque Transmission operates three plants in the UK exporting to various parts of the world.</p>	<p>The expansion in natural resource industries in the region has led to increases in orders of 10% in the year.</p> <p>Extractive industries in Australia and natural oils in other parts of Asia have seen a significant increase in activity levels.</p>	<p>Recent investments in China and India have created access to fast growing local markets and expanded our product offering in all markets.</p> <p>China and India have experienced significant growth in activity levels over the last year, with China in particular increasing export led production by over 90%. Local demand in India has led to a 14% increase in sales in India itself.</p>
<p>Global sales 34%</p> 	<p>Global sales 38%</p> 	<p>Global sales 20%</p> 	<p>Global sales 8%</p> 

Operating globally in diverse sectors 

Our sectors

We are focused on specific sectors which give us the best opportunities for growth. We have tremendous depth of experience and market-leading expertise across all the sectors in which we operate.

Basic industries  Mining, oil, cement, steel	Construction  Off-road vehicles, lumber, major projects	Leisure  Theme parks, major events	Food  Palm oil, confectionery, beverages
Manufacturing  Original equipment manufacturers, printing	Transport  Shipping, freight handling, aerospace, mass transit	Infrastructure  Waste water plants, escalators, underground systems, power generation	

Input costs

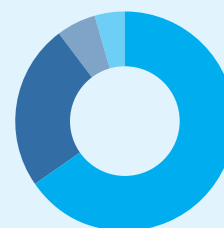
Managing the impact of volatile input costs is a key core competency for Renold.

Steel and other metals are a major component of the Group's costs when measured as a percentage of revenue. Steel price indices have shown

continued increases across the globe over most of the last year. Labour costs are more stable in western economies but growing quickly from a low base in China and India. The Group has implemented a number of capital expenditure projects and continuous

improvement initiatives to increase productivity, reduce waste and limit price increases to customers.

The adjacent chart shows input costs as a proportion of revenue.



- Material
- Labour
- Consumables
- Other

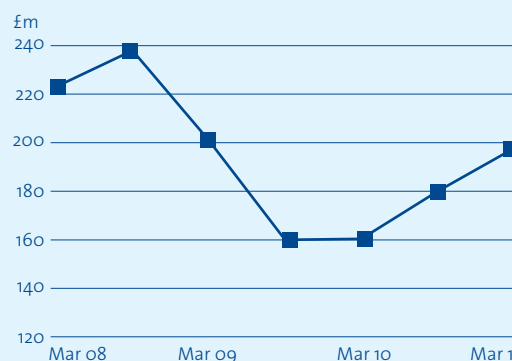
Demand

Increases in underlying demand drove strong order intake throughout the year.

Underlying order intake was 23% ahead of the prior year and growth was seen in all regions. The fourth quarter year-on-year increase was also 23% and is a firm platform for continued growth in the first quarter of the new year. This increase in orders appears

to have been driven by underlying demand as opposed to restocking.

The adjacent chart shows underlying order intake at constant currency rates on a rolling 12 month basis since March 2008. It highlights both the impact of the recession and the opportunity presented by a full recovery.



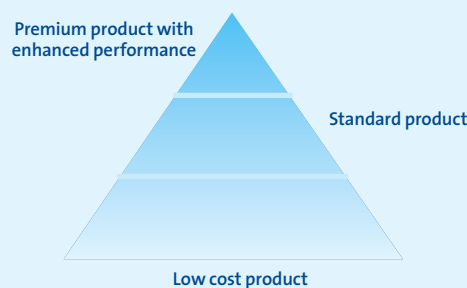
Emerging economies

Our presence in China and India gives access to growing local markets.

Investments in the emerging economies of China and India have allowed Renold to almost double our addressable sales market compared to 2007.

Renold now serves almost all levels of the price/performance pyramid. This is in addition to access to local markets, where GDP growth is typically 10% or better.

Price/performance pyramid



Chairman's letter

We are seeing a good recovery from the recession, with a strong increase in orders around the world. Renold is building solid foundations for growth.



Matthew Peacock
Chairman

Overview

I am pleased to report a robust set of full year results, which are characterised by recovery and growth. The Group benefited greatly from the decisive management actions to structurally reduce our cost base during the global recession.

Underlying Group sales grew by almost 20% to £191.0m, meaning that around half of the revenues lost during the recession have now been recovered. Our sales and order intake grew steadily throughout the whole year and Renold's high level of operational gearing means that the Group has benefited strongly from the growth in revenue. We are pleased to report a £9.1m increase in operating profit, resulting in an operating profit before exceptional items of £7.0m compared to the £2.1m loss of the prior year. This increase in operating profit is a direct result of concerted measures taken by management to reduce the Group's cost base during the economic downturn, while maintaining capacity in order to benefit from the eventual upturn.

Growth in profitability was matched by increased operating cash generation by the business, particularly in the second half when £6.0m of cash was generated before UK pension contributions of £2.4m. A key component of the improved cash generation was tighter management of stock and debtors which allowed the Group to grow underlying revenues by £29.9m without any increase in working capital. Improved cash generation then allowed the Group to fund £6.6m of attractive capital investment projects (such as our global enterprise resource planning (ERP) system) without a significant increase in net debt, which was £20.0m by the year end.

Our balance sheet position has also been improved with an increase of £12.1m in net assets. The Group's net pension deficit is now £21.5m lower than a year ago while the outlook for the annual cash cost of funding pensions is stable for the medium term.

Summary

Overview

- Achieved all objectives set during the equity fund raising
- Operational gearing delivering 30% incremental profit on new revenue
- Improved working capital management self-funded £29.7m of underlying sales growth

Strategy

- Chain products service the whole price/performance pyramid
- Addressable market doubled
- Torque Transmission focus on four key growth markets leveraging existing capabilities

Outlook

- 23% growth in order intake: a solid foundation for growth next year
- Additional initiatives underway to further enhance efficiency
- Working capital: a key area of focus

Strategy

Renold now offers a broad range of products that are designed and customised to meet the specific requirements of all our customers, whatever their pricing or performance priorities, and does so through production facilities that can serve local markets in almost all regions of the world. In addition, specialist manufacturing facilities deliver highly technical solutions for export to all key markets.

We continue to improve operating and cost efficiencies across all of our manufacturing and logistics facilities. As part of this process, during the year the manufacturing plant in Seclin, France was closed and production consolidated into existing plants elsewhere in the Group. Our main distribution centre and warehouse in the US was merged into our existing US manufacturing plant in Morristown. Some early steps have also been taken to restructure the European business in readiness for the new business processes and operating model facilitated by the implementation of our new ERP system.

The ERP system saw its first successful implementation in Morristown on 1 April 2011. This new, state of the art IT system will enhance our management capability, particularly around production planning and the optimisation of working capital around the globe. As the start of a global roll-out programme, preparations are now underway for subsequent implementations with the aim of moving all of our European operations onto the system during the next 12 months.

The aim of this ongoing programme of change is to create both the financial and operational capability to deliver significant growth – whether organically or by acquisition. The strengthening balance sheet and operating profitability matched by incremental cash generation continues to enhance the Group's ability to take advantage of strategic and growth opportunities as they arise.

Your Board

This year of recovery and growth has brought a new focus for the Board on the next stage of Renold's development. This has been met with the same level of commitment and contribution from all Board members that enabled Renold to emerge from the downturn stronger and better able to grow.

I am very pleased to welcome Brian Tenner who joined the Board as Finance Director in September 2010. Brian has an excellent depth and breadth of experience in a range of manufacturing and infrastructure businesses. He replaces Peter Bream, who I would like to thank on behalf of the Board for his significant contribution to the strategic position and financial performance of the Group during the course of his tenure. We wish Peter all the best for the future.

Outlook

Your Board's priority throughout the year under review has been to ensure a robust return to profit and to realise growth opportunities.

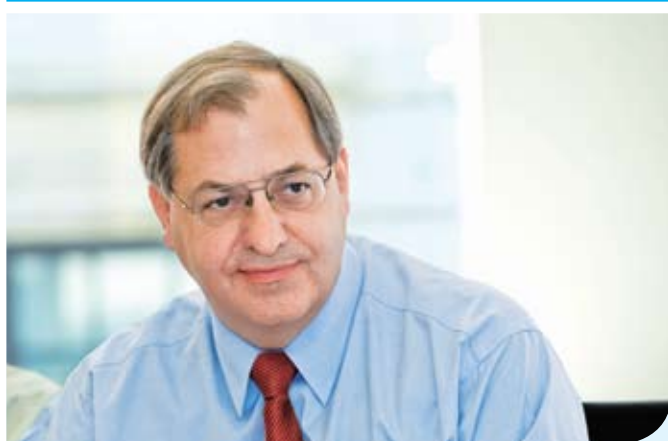
We believe that those objectives have now been delivered. Strengthening operating profit and cash flows have been combined with active management of working capital and pensions obligations to create a strong foundation for growth. In order to advance these objectives, the Board has decided to recommend that no dividend be paid, but it will consider future dividend policy in the light of results from the business in the future.

Renold is now well positioned to take advantage of emerging opportunities, with its combination of technical expertise, low cost manufacturing capabilities and globally recognised brand making it a unique proposition in its markets. We look forward in particular to continued growth in the emerging markets as we increasingly leverage our manufacturing footprint in India and China to drive new sales.

Matthew Peacock
Chairman

Chief Executive's review

Our recovery from the recession has gathered momentum throughout the year with the growth in sales flowing through to operating profit in every month. This was matched with strong cash generation in the second half.



Robert Davies
Chief Executive

Overview

Improving underlying economic activity in most parts of the world markets was accompanied by a significant reduction in customer destocking. This combination was a key driver for strong sales and order growth throughout the year. We also continued to reshape our business and cost base for greater efficiency. Our increased focus on working capital management has brought significant cash flow benefits.

Renold's return to operating profitability in the second half of 2009/2010 was consolidated and improved on during the year ended 31 March 2011. Early increases in order intake were matched by double digit sales growth that continued throughout the year. Our full year operating profit of £7.0m before exceptional costs reflects an underlying 30% drop through of incremental sales to the bottom line. The 23% improvement in order intake continued through to the fourth quarter, and we finished the year with an order book 13% stronger than it was at the start of the period under review.

Our objectives for this year were to consolidate the recovery that we began in the previous year and to build up a sound platform for growth. A key part of this programme is the implementation of the global ERP system and our first major operating site launched as planned on 1 April 2011. The subsequent rolling implementations will see most of our European businesses go live with the new system over the next 12 months.

Having taken proactive and decisive measures to cut costs over the previous two years and the worst of the recessionary period, we successfully executed a number of further but smaller restructuring projects. Our French manufacturing facility in Seclin was consolidated into our existing operations in the UK and our US warehouse in Hebron was absorbed into the production facility in Morristown, Tennessee. We have also taken some preparatory steps in Europe in readiness for the deployment of our ERP system which will allow us to reduce infrastructure costs.

The second half of the year saw the business generate almost £10.0m of cash before capital expenditure of £3.7m and UK pension contributions of £2.4m. This improved cash generation enabled the Group to fund £34.9m of profitable sales growth without any increase in working capital and a modest £2.1m increase in overall net debt. This focus on working capital management has now been embedded into the incentive plans for the senior management team to ensure that improvements continue to be made in the future.

This year has also seen a significant improvement in the position of our UK pension schemes. Legislative changes in rates of indexation and the mortality experience of our schemes have meant that the gross UK pension deficit has fallen by £19.9m over the year. It is worth noting that the change in indexation rate and the mortality experience of the schemes, which account for £16.4m of the reduction, are enduring in nature and are not subject to the volatility seen in discount rates and asset values. It is also reassuring to note that one of the three UK schemes is now in surplus.

Our employees have continued to show great commitment to Renold and are at the forefront of driving the ongoing improvements in our business. This year's rapid recovery from the effects of the recession is testament to their ongoing effort and support.

Renold Chain

Renold Chain has been responsible for the majority of our growth this year, with underlying sales increased by 26%. That rate of growth was reflected in all three regions with Europe, the US and Asia seeing particularly strong recovery in sales volumes. The impact of destocking has almost come to an end everywhere with very little evidence of significant restocking. We are therefore reassured and confident that the sales growth experienced and the increase in our order books is driven by sustainable customer demand.

Many of the restructuring projects undertaken during the recession were focused on the Chain division. We have identified some additional efficiencies and the consolidation of French manufacturing and the Hebron warehouse into existing facilities were two such projects with attractive payback periods.

Delivering world-class engineering



Manufacturing technology

We have invested in manufacturing technologies which consistently provide high performance and high volume product. This includes extrusion technology for round parts, high speed progressive die sets for producing plates and many other processes to impart toughness and fatigue resistance in the components, which are often highly stressed in service.

Chief Executive's review continued

Renold Torque Transmission

Renold Torque Transmission provides standard and engineered couplings as well as enclosed and open gear products, to serve a wide range of end markets. The downturn in its markets was much less severe than in Renold Chain, largely due to a more direct route to market requiring less inventory in the system but also because of large infrastructure contracts which continued unaffected by the recession. The comparative period was therefore a relatively strong one and current year sales were broadly flat. This represents an underlying growth rate of 26% as the prior year result included the completion of a mass transit contract that added approximately £10.0m to sales in 2009/10.

Renold Torque Transmission's wide range of customers and end markets makes it less sensitive to volatility in specific markets and also creates attractive growth opportunities. Two of our key markets were unaffected by the economic downturn: mass transit and energy (including power generation, oil and gas). In both these sectors, infrastructure growth in key developing markets continued at a pace, particularly the demand for electrical power. Two other key markets continue to recover and to provide opportunities for growth: the escalator drives and quarrying and mining sectors have provided significant projects, including product development, for customers in North America and Europe. Capital investment in our South African business means that we now hold a commanding position providing technical services to the mining industry in the region.

The late recovery markets of metals manufacture and machine tools are both important to Renold Torque Transmission and offer exciting opportunities in 2011/12 as activity in both markets has been gaining momentum in recent months. New growth initiatives are currently being executed to leverage our expertise from established markets into new growth regions and market sectors. In particular we are working with local market experts to capture new business in the rapidly expanding Chinese mass transit and light rail market. A key part of this initiative will be the investment in new capacity to service the market locally.

Customer service

Maintaining customer service can be very challenging in an environment where growth rates have exceeded 20%. It was important in Renold Chain that we did not lose sight of our strong focus on providing excellent customer service. Several new initiatives were therefore put in place during the year that drove our teams not only to maintain levels of customer service but to improve on them. The performance of the US Chain facility was deemed strong enough to allow us to put a guarantee programme in place to stand behind our excellent levels of service. The fact that these levels of service were delivered while improving working capital management adds to the significance of the achievement. We are confident that our customer service commitment differentiates us from the competition and will enable us to continue to win market share.

Delivering world-class engineering



Innovative solutions

Many original equipment manufacturers and end users require engineering solutions applied to their specific problems. We have a team of high calibre engineers across the globe to do this. The team is customer focused, there is a global helpdesk and engineers search for opportunities to innovate as well as provide the solutions to customer needs and applications.

Delivering world-class engineering



Safety evaluation

Many chain installations require detailed evaluation of the loads in a service environment. This applies particularly to safety related applications. Here our unique Smartlink device is installed on a new theme park ride providing vital data used for safety evaluation.

Technical innovation

Despite the relative maturity of the industry, our work with key customers has resulted in a number of new solutions to old problems. We have developed Smart Chain technology to measure system dynamics, enabling improvements to drive efficiency which enables real cost reduction for our customers.

Additionally, we have maintained our initiative to produce a wider range of engineering solution products aimed at specific applications. This includes lubrication free chains, which contribute to both lower maintenance costs and a cleaner environment. Our engineers use state of the art 3D design technology connected to a global engineering system, enabling teams to work round the clock on time critical projects. To further increase our support of the customer, this system is being linked to the new Group wide ERP system.

Our Torque Transmission products are largely bespoke and often form mission critical components in large, long term projects. Consequently, the extremely high performance characteristics of many of our products, some of which are exclusive to Renold, are a highly valuable core competency which we are seeking to leverage. The expansion of important energy and infrastructure projects across the world, particularly in the emerging economies, are significant opportunities for Renold Torque Transmission to grow its sales of high quality, high value add products.

Summary and outlook

Our Chain business is the second largest in the world by market share. As it is closely linked to global economic activity, its recovery from recession has been reassuringly robust and rapid. Relentless management focus on cost efficiencies and working capital management in Chain has enabled the Group as a whole to move strongly into overall profitability and cash generation. The Chain business can now boast a full product range in terms of performance and pricing that is almost unique in the marketplace. This strength will be a solid base for the drive to higher profit margins in this side of the business.

Financial returns from the Chain business are improving but are not yet at acceptable levels. As has been previously communicated, our aim is to deliver a 10% return on sales for the Group as a whole by the end of 2012/13. Further improvements to our cost base are already underway in addition to the growth opportunities being pursued. We are confident that this combination of growth and cost base improvements will maintain our high operational gearing and present a clear road map to the 10% return on sales target. The changes already executed within our business and the enhanced operating platform provided by our ERP system will provide a strong foundation for growth. A firm move into cash generation and improved working capital management mean Renold will be well placed and able to capitalise not only on opportunities for growth, but also to take action to reduce long term exposure to pension deficits and net debt.

Our business objectives 

Chief Executive's review

Our business objectives

A number of near term opportunities exist both inside and outside the Group to further enhance our cost base and exploit our market presence.

Objectives

Return on sales

- ▶ Target of 10% return on sales for the full year ended 31 March 2013
- ▶ Profitability focus in Chain division

Sales growth

- ▶ Recapture pre-recession sales levels by 2012/13
- ▶ Growth focus in Torque Transmission division

Working capital

- ▶ 2010/11 average working capital ratio to sales approximately 25%
- ▶ 2011/12 target is 22.5%

Pensions

- ▶ Reduce Group exposure to volatile defined benefit pension liabilities
- ▶ Limit increases in annual pension cash costs

2012 and beyond

Actions

- ▶ Reductions to fixed cost base in recession have enhanced underlying operational gearing (30%)
- ▶ Seclin and Hebron closures already complete for full year benefit in 2011/12
- ▶ Further efficiencies planned for 2011/12

- ▶ Underlying revenues are still £30-40m below pre-recession peak
- ▶ Aiming for 10% sales growth in 2011/12
- ▶ New product development and focus on core markets
- ▶ Scope for consolidation in various markets should opportunities arise

- ▶ New senior management incentive scheme focused on month-on-month improvements in working capital ratio
- ▶ Focus on reducing overdue debtors and increasing stock turns
- ▶ ERP system tools and capabilities to bring further reductions

- ▶ Sustainable reductions in deficit of approximately £16.4m due to RPI/CPI changes and scheme mortality experience
- ▶ UK annual deficit repair payments stable for next three years

Finance Director's review

During the year the Group continued to improve its operational footprint, generating £7.0m of operating profit. This was due to increased sales and previous cost cutting exercises.



Brian Tenner
Finance Director

Our performance

Overview

Order intake and revenues both saw significant growth during the year ended 31 March 2011. The order book finished the year 13% ahead of the opening position. This stronger closing position gives us considerable confidence for the first half of the new financial year. The return to profitability was matched by a return to cash generation in the second half of the year. At the same time, the Group funded an increase in short payback investment opportunities in many of our operations. Finally, the latest triennial review of our UK pension schemes is almost complete with the cash costs to the business being effectively unchanged in the medium term.

Revenue

Revenue for the year increased by 22% to £191.0m compared to a 20% fall in the preceding year to £156.1m. On an underlying basis, excluding the impact of foreign exchange, the increase was 19%. Underlying revenue in the second half was 6% higher than in the first half and 19% above the prior year on a comparative basis. For the year as a whole, order intake was 104% of revenue and resulted in strengthening order books.

Underlying revenue growth of 26% was experienced in the Chain division and Torque Transmission grew by 26% after adjusting for the mass transit contract which completed in the prior year. The Chain division experienced growth across all regions and almost all countries with Germany, Switzerland and the US, being particularly strong, driven by the recovery in OEM activity. Similarly, all of the various market sectors served by both Chain and Torque Transmission enjoyed good growth with double digit performance in the mining, environmental, agricultural and power generation market sectors.

Operating result

The Group generated £3.1m of operating profit before exceptional items in the first half (2010: loss of £2.3m) and £3.9m in the second half (2010: profit of £0.2m) with a full year result of £7.0m (2010: loss of £2.1m). The improved result was due to the combination of increased sales and the benefits of the full year impact of management actions taken to cut costs during the recession. The incremental revenue resulted in a 'drop through' to the profit line of approximately 30%.

During the year, the Group continued to streamline its operations for greater efficiency. We closed our manufacturing facility in France, a warehouse in the US was consolidated into another

facility, and we commenced the reorganisation of our different European businesses in preparation for the implementation of our ERP system. These changes resulted in exceptional charges of £2.7m for the year (2010: £2.7m charge). Further details of the exceptional items are given in Note 2(c) to the Group financial statements.

Financing costs

External net interest costs in the year were £2.0m (2010: £5.0m including £2.8m of exceptional financing charges associated with the refinancing in the prior year). Net IAS 19 finance charges (which are a non-cash item) were £3.6m (2010: £3.8m); the movement being due to lower interest charges on overseas pension plan liabilities. The fall in liability values this year means that we expect next year's net IAS 19 financing charge to fall by around £1.0m.

Result before tax

Profit before tax and before exceptional items was £1.4m (2010: loss of £8.1m). The loss before tax after exceptional items was £1.3m (2010: loss of £13.6m).

Taxation

The current year tax credit of £0.4m (2010: tax credit of £3.9m) is made up of a current tax charge of £0.8m (2010: credit of £0.2m) offset by a deferred tax credit of £1.2m (2010: £3.7m). The charge represents an effective rate of approximately 31% compared to 29% for the year ended 31 March 2010. The Group cash tax paid was much lower at £0.1m (2010: refund of £1.0m) and the difference is due to the value of tax losses and other tax assets in various parts of the Group.

Group results for the financial period

The loss for the financial year ended 31 March 2011 was £0.9m (2010: loss of £9.7m); the basic loss per share and the diluted loss per share was 0.4p (2010: loss of 8.0p). The basic adjusted earnings per share and diluted adjusted earnings per share was 2.0p (2010: loss of 1.4p).

Balance sheet

Net assets at 31 March 2011 were £56.9m (2010: £44.8m). The net liability for retirement benefit obligations was £42.0m (2010: £56.8m) after allowing for a net deferred tax asset of £9.5m (2010: £16.2m). Of the £42.0m post tax net retirement benefit obligation, almost half is now in respect of overseas schemes of which £20.5m arises in respect of the German scheme which is not required to be prefunded (see Pensions section on page 16).

Cash flow and borrowings

Cash generated from operations was £6.6m (2010: £0.9m). Capital expenditure increased to £6.6m (2010: £4.2m) following two years of constrained investments. Group net borrowings at 31 March 2011 were £20.0m (2010: £17.9m) comprising cash and cash equivalents of £7.4m (2010: £7.3m) and borrowings, including preference stock, of £27.4m (2010: £25.2m).

Despite funding sales growth of £34.9m, the Group managed to generate cash from working capital of £1.5m. The Group also funded its global ERP implementation and a number of additional capital investment projects which typically had attractive payback periods of less than two years. Net borrowings increased over the period by £2.1m.

Share issue

In December 2009, the Group raised £26.9m after expenses through the completion of a firm placing and placing and open offer of 142,500,000 new ordinary shares at 20p per share.

Bank facility

On 13 July 2009, the Group reached agreement 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. The key terms of this new facility were effective from 13 August 2009. The key terms were a Multi Revolving Credit Facility (MRCF) of £20.0m and a Multi Currency Term-Loan Facility (MTLF) of £11.0m, with both facilities expiring on 30 June 2012.

This facility was amended in December 2009 following the successful share issue (see Note 18) with the repayment and cancellation of the £11.0m MTLF and certain financial and non-financial covenants were relaxed. The remaining £20.0m MRCF is the Group's principal credit facility although the Group also benefits from numerous overseas facilities.

At 31 March 2011 the Group had unused credit facilities totalling £23.3m and cash balances of £7.4m (including £8.6m of committed facilities). The Group is in discussions with a number of interested banks to refinance the facilities noted above and expects to announce the results of the refinancing by the time of our interim results.

Finance Director's review continued

Contracts essential to the business of the Company

The section on Contractual or other arrangements essential to the business on page 42 of the Statutory information section of the Directors' report is incorporated by reference here.

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. Treasury and financing matters are assessed further in the section on Principal risks and uncertainties on page 19. Note 24 to the Group financial statements provides further details of financial instruments.

To manage foreign currency exchange risk on the translation of net investments, certain Dollar denominated borrowings taken out in the UK to finance US acquisitions had been designated as a hedge of the net investment in US subsidiaries. At 31 March 2011, this hedge was fully effective. At 31 March 2010, a previous hedge had been determined to be ineffective and revised arrangements were put in place. The carrying value of these borrowings at 31 March 2011 was £8.1m (2010: £8.5m).

At 31 March 2011, the Group had 4% (2010: 4%) 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.

Pensions

The Group has a mix of UK (83% of gross liabilities) and overseas (17%) defined benefit pension obligations. The Group's three UK pension schemes, the Renold Group Pension Scheme (**RGPS**), the Renold Supplementary Pension Scheme 1967 (**RSPS**) and the Jones and Shipman plc Retirement Benefit Plan (**J&S**), were closed to new entrants in 2002 and to future accrual in 2008 and 2009. The new arrangement is the Renold Personal Pension Plan, a defined contribution plan which is administered by Fidelity International.

Detailed information on the Group's pension schemes is set out in Note 17 to the Group financial statements, including the key assumptions used by the actuary in arriving at the IAS 19 funding position. The chart on page 17 shows the relative funding position of each of the UK schemes. It should be noted that one of the schemes, the J&S, which represents 18% of UK gross obligations, is fully funded as at 5 April 2011. The actuarial basis of measurement is used in calculating the need for cash contributions to the J&S from the Group and hence if this position is maintained at the time of the next triennial review for the J&S, the Group may be able to discontinue contributions of £0.3m per annum.

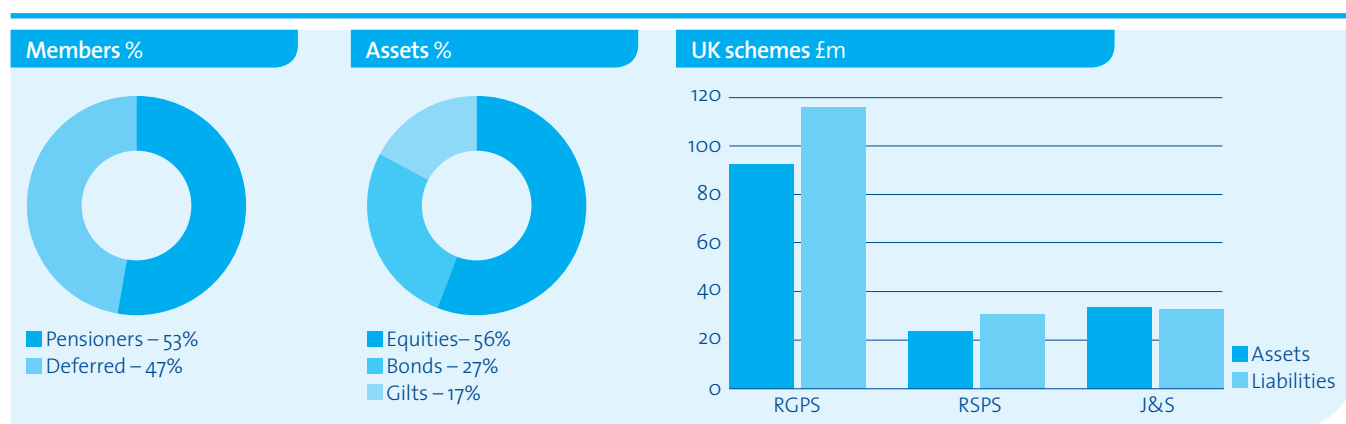
The chart on page 17 shows the relative proportion of pensioner members and deferred members of the three UK schemes (total membership 5,831). This shows the relative maturity of the UK schemes and hence the stability of their funding needs.

Delivering world-class engineering



Performance testing

The key performance measures for chain are wear and fatigue. We have comprehensive facilities for evaluating these parameters along with extensive metallurgical and other specialised equipment.



Given the relative maturity of the UK schemes' liabilities, the UK asset portfolio (£149.1m) is biased towards lower risk assets. The overall target for UK portfolio returns is 6.25% less an allowance of 0.25% for expenses. During the year ended 31 March 2011, total UK assets rose by £1.4m. UK asset performance reflects actual asset returns of £8.1m (just under 8%) and employer contributions of £2.7m less the funding of £9.4m of pension benefits.

Overseas asset values fell by £3.3m, largely driven by the wind up of the South African defined benefit scheme which saw £4.5m of liabilities settled by an equal amount of scheme assets. The residual scheme surplus of £1.7m will be returned to the sponsoring company when the official scheme liquidator completes the formal wind up process. Excluding this use of assets to extinguish liabilities, the overseas asset portfolio grew by £1.2m, equivalent to an annual return of 8%.

The Group is currently concluding the latest triennial review process with the trustees of the RGPS and the RSPS (the J&S is on a one year earlier valuation and review cycle which concluded in 2010). Results of the triennial review will be available at the time of the Group's interim results in November and it is anticipated that any change in the annual cash cost of the UK schemes will be limited to the cost of funding legacy Pension Protection Fund levies over a period of time.

The gross pension assets and liabilities and resulting net deficits are summarised below:

	2011			2010		
	Assets £m	Liabilities £m	Deficit £m	Assets £m	Liabilities £m	Deficit £m
UK schemes						
– funded	149.1	(178.9)	(29.8)	147.7	(197.4)	(49.7)
Overseas schemes						
– funded	14.2	(15.4)	(1.2)	17.5	(19.6)	(2.1)
– unfunded	–	(20.5)	(20.5)	–	(21.2)	(21.2)
	163.3	(214.8)	(51.5)	165.2	(238.2)	(73.0)
Deferred tax asset			9.5			16.2
Net deficit			(42.0)			(56.8)

Scheme liabilities decreased during the year as a result of UK legislative changes to move statutory pension increases to the CPI measure which is assumed to be 0.75% lower than the previous measure of RPI (net reduction in liabilities of approximately £7.0m, primarily in respect of deferred pensions). In addition, actual mortality experience in the last three years was heavier than forecast and that experience is also now factored into future longevity assumptions (total mortality reduction of £10.4m). CPI and mortality are both seen as causing enduring reductions in liabilities. The UK and overseas schemes discount rates were unchanged at 5.6%.

The overseas deficit is made up of £1.2m (2010: £2.1m) of funded defined benefit schemes with £14.2m of assets (2010: £17.5m) and £15.4m of liabilities (2010: £19.6m) and £20.5m of unfunded schemes (2010: £21.2m). The unfunded portion relates principally to the German scheme which, as is common in Germany, is a 'pay as you go' scheme.

The status of three UK defined benefit pension schemes, (i) the main scheme, which is the RGPS; (ii) the RSPS; and (iii) the J&S, at 31 March 2011 is summarised below:

	RGPS £m	RSPS £m	J&S £m	Total £m
31 March 2011				
IAS 19 liabilities	(115.6)	(30.7)	(32.6)	(178.9)
Market value of assets	92.3	23.5	33.3	149.1
Deficit/surplus on IAS 19 basis	(23.3)	(7.2)	0.7	(29.8)
Annual deficit reduction payment (current)	1.6	0.5	0.3	2.4
Total members	4,736	110	985	5,831

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 on the following pages.

Finance Director's review continued

External market

Economic and political risks

We operate in 20 countries and sell to customers in over 100. 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, while benefiting from the global recovery, order book visibility has reduced since before the recession as customers place smaller more frequent orders in an attempt to reduce their own working capital needs. However, the pressure to maintain short lead times requires the Group to significantly enhance our own working capital management processes. Our global ERP system implementation and constant management focus are key parts of that improvement plan.

Raw material prices

The Group's profit and cash flows are impacted by the price of its principal raw material, steel, which in recent years has seen considerable price volatility driven by global market conditions outside the control of the Group. Where contractually possible, we pass price increases on to our customers but this ability is, to some extent, dependent upon market conditions. There may be periods of time in which the Group is not fully able to recover increases in the cost of raw materials due to the weakness in demand for its products or the action of its competitors. During periods in which prices of raw materials fall, the Group may face demands from its customers to reduce its prices or experience a fall in demand for its products whilst customers delay orders in anticipation of price reductions. All of these factors could have a material adverse affect on the Group's business, financial condition, prospects, customer retention and results of operations. In recent years, the majority of unmitigated cost increases have been passed on to customers.

Internal operations

Operational problems

The Group's profits and cash flows are dependent on the continued use of its various facilities. Operational risks include equipment failure, failure to comply with applicable regulations and standards, raw materials supply disruptions, labour force shortages, events impeding or increasing the cost of transporting the Group's products and natural disasters. Any disruption of the manufacturing processes can result in delivery delays, interrupt production or even lead to a full cessation of production. If production is interrupted, customers may decide to purchase products from other suppliers. The Group has insurance cover to mitigate the impact of a number of these risks.

ERP system implementation

The Group is presently implementing a global ERP system to replace numerous legacy systems. This change is expected to improve customer service and to facilitate further cost and inventory reduction. Our first major site went live on schedule on 1 April 2011. The majority of the Group will migrate to the new system during the next 12 months. Until that is achieved, the risk continues that an unsuccessful implementation at an individual site could seriously impact the Group's business, financial condition, prospects, customer retention and results of operations. In any event, a temporary increase in operating costs is inevitable in any major change process. To mitigate this risk, the Group is making extensive use of external consultants, the implementation is taking place in phases and a thorough project plan is in place with agreed milestones reviewed by the Board.

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 liability and warranty claims in the event that a product fails. In order to mitigate these risks, where possible, we maintain product liability 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.

Delivering world-class engineering



Target markets

We have sectors and markets with which we have a long association. We apply our expertise and experience in providing customised products for these target markets. An example of product differentiation is the helical gearbox.

Treasury and 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. During the previous year the Group raised new equity of £26.9m (net of expenses) and also refinanced the major European facilities which have an expiry date of June 2012. The Group is now in the early stages of agreeing new banking facilities to replace the existing agreements. 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: arises due to exchange rate fluctuations in the translation of the results of overseas subsidiaries into Sterling. To manage foreign exchange currency risk on the translation of net investments, certain Dollar denominated borrowings taken out in the UK to finance US acquisitions have been designated as a hedge of the net investment in US subsidiaries.

Interest rates

Borrowings at variable rates expose the Group to cash flow interest rate risk and borrowings at fixed rates expose the Group to fair value interest rate risk. The Group reviews the mix of fixed and floating debt and intends to use 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. Explanations for the changes in pension deficits in the current year are included in the Pensions section on page 16. The Group continually reviews risks in relation to the Group's pension schemes and takes action to mitigate them where possible. While the Group is consulted by the trustees on the investment strategies of its pension plans, it 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 on page 39 of the Statutory information section of the Directors' report and are incorporated by reference here.

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 Head of Operations Europe, 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, disability, gender 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 Renold 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 duties. Employees may not engage in conduct or activity that may raise questions as to Renold's honesty, impartiality, or reputation or otherwise cause embarrassment to the Group. Our employees are required to neither offer nor accept improper and/or illegal gifts, hospitality or payments.

Every Renold employee has the responsibility to ask questions, seek guidance and report suspected violations of the Group's code of ethics.

A free of charge, independent whistleblowing hotline is available to all employees across the Group, enabling them to report any concerns about theft, fraud and other malpractice in the workplace.

Employees

The motivation and commitment of our employees is essential to drive forward our business. Talent is key to our success and we therefore aim to attract and retain motivated, effective people.

During the year ended 31 March 2011 we focused on the following activities across the Group.

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 and helps with employee retention.

Engaging our people

We have placed a strong emphasis on employee communications and two way feedback and the Group's intranet site enables easy access to the latest Group information as well as Group policies. To support the principle of two way feedback, we have launched an online appraisal system which has both an employee and a manager focus.

In addition, to ensure a Group dynamic and encourage the involvement of employees in the Group's performance and to aid internal communications across the Group, we produce a newsletter for our employees, Renold LINK, and have bulletin boards for the sharing of knowledge and information across the world. This helps to achieve a common awareness amongst employees of the financial and economic factors affecting the performance of the Group.

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 2001, we introduced an ISO 14001 certified environmental management system at our main chain production site in the UK which has since been recertified. We are pleased to state that two further sites have become ISO 14001 accredited over the last 12 months. The systems introduced will assist in ensuring that we meet our legal requirements, continue our efforts in preventing pollution and improve our environmental performance across all our activities.

In line with the Government's ongoing commitment to reduce CO₂ emissions in the UK, Renold has registered within the Carbon Reduction Commitment scheme, in respect of its UK operations, which is a new mandatory energy saving and carbon emissions reduction scheme. To satisfy the requirements, the UK sites' energy policies now include a reference to the Carbon Trust where details are given of energy saving products, technologies and supplying companies.

Developing capability



We still believe it is 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. Again, this year, we have an 'Apprentice of the Year', Aaron Marshall, from our Milnrow site. We also participate in other youth programmes, such as work experience and work shadowing, and liaise closely with various universities which conduct relevant research. We serve our engineering pipeline through these relationships with key universities and through sponsorship.

“During the time I have been doing my apprenticeship with Renold Gears I have been able to train and develop new skills, whilst earning a bit of money. I have found everybody involved in my training has been very helpful to me and I will continue to enjoy the experience.”

Aaron Marshall

Responsibilities continued

Environment continued

The Group continues to strive to reduce its energy costs and the impact of its activities on the environment. With this aim in mind, there have been a number of energy saving initiatives during the year ended 31 March 2011, including the following:

- Many of our sites have programmes in place to replace old inefficient switch start lighting with the latest high frequency lighting and monitoring equipment, both lux and occupancy sensors, to ensure that lighting illuminates areas only when required.
- A key project at one site was to replace the old and inefficient manual controls to all the gas furnaces with a new PC based energy management control system. This has resulted in annual energy savings of approximately £23,000 through better control, together with improvements in the quality of the manufacturing process and, therefore, the final product. This followed a similar project that was undertaken last year at another of our sites where annual savings of approximately £27,000 were achieved.
- A further project was to replace an air compressor with a new variable speed type which has resulted in energy savings of approximately £12,000 per annum.
- Another site has implemented a ducting system from the air compressors enabling heat, which previously had been exhausted to the atmosphere, to be transferred into the factory.

Potential for improvements remains and we will continue to explore further energy saving and environmental projects in the future.

Research and development

The Group has taken a leading role in the industry for more than a century and chairs the ISO Standards Committee for Chain as well as being active on other standards committees such as BSI and DIN. Renold invented the bush roller chain, inverted tooth chain and the modern sprocket tooth form, which was freely given to the chain industry in order to ensure standardisation.

In recent years, the Group has pioneered the use of maintenance free products and has developed a range of tools to evaluate and monitor the performance of drive systems.

Community

We aim to be a part of the communities in which we work and, as such, seek to assist projects by providing non-financial support. We encourage volunteering and working with local educational institutions in the promotion and raising of awareness of engineering and manufacturing.

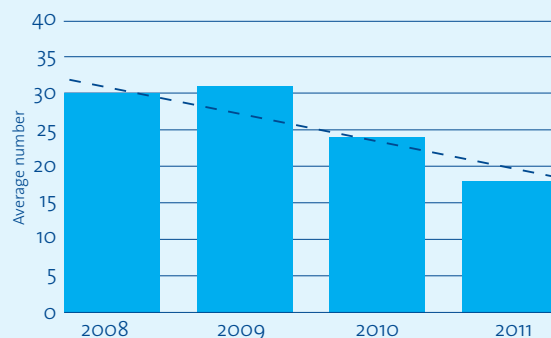
Health and safety

Renold continues to place a very significant priority on its responsibility for health and safety and is committed to providing a safe workplace for all its employees and those affected by its activities.

The Group aims to achieve zero accident and incident levels by identifying and eliminating occupational health hazards and raising awareness at all levels. We also work closely with our insurers and communicate major incidents and any consequent improvements implemented across the Group to help promote best practice standards.

During the year ended 31 March 2011, we have seen a 30% reduction in the average lost time accident frequency rate within the Group. We believe that a good part of this improvement is down to the proactive measures that have been taken within the sites and the sharing of best practice.

Average lost time accident frequency rates



The Group is currently evaluating an integrated health and safety database whereby incidents from all our sites can be logged and actioned accordingly. The system will heighten health and safety awareness throughout the Group and will improve control over the spectrum of reporting criteria and increased management information.

All sites provide specific health and safety plans to highlight areas which require particular attention and are using these plans to improve health and safety standards. The sites are monitored on a regular basis by the health and safety team.

Where accidents do occur, we are keen that any lessons are learned swiftly and the findings shared throughout the Group to prevent recurrence. Root cause analysis of incidents is carried out to identify common issues and solutions.

The Board regularly reviews health and safety performance and ensures that, where any issues are identified, they are promptly addressed.

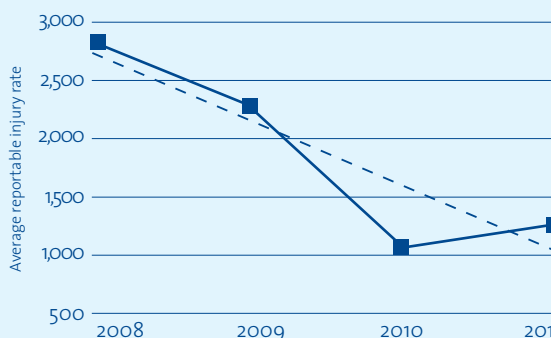
These charts show the Group's health and safety performance for the year ended 31 March 2011 and the three years prior to that on the basis of reportable injury rates, working days lost and lost time accident frequency rates. There was an increase in working days lost this year due to a serious accident at our Bredbury site where the employee remains absent from work. Following this incident, guarding on the machinery where the incident took place was modified and, in accordance with an improvement notice from the Health and Safety Executive, a new and detailed safe system of work was introduced and training provision enhanced.

Further details of the lost time accident frequency rate and reportable injury rate can be found on page 39 of the Statutory information section of the Directors' report. The lost time accident frequency rate is calculated using the rolling lost time accident figure for the year to date divided by the number of hours worked in the 12 month period and multiplied by 1,000,000 therefore providing the lost time accident rate per 1,000,000 hours worked.

Working days lost



Reportable injury rates



Board of Directors



Matthew Peacock
Chairman

Matthew, aged 49, 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 20 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 Group plc, Singer Capital Markets Limited, a London stockbroking and corporate advisory firm, Regeneris plc and a Non-Executive Director of STV Group plc.



Robert Davies
Chief Executive

Robert, aged 57, joined the Group in March 2004 and was appointed Chief Executive in April 2004. He is a member of the Institution of Engineering and Technology and a Non-Executive Director of Economic Solutions Limited. His previous experience includes his role as Chief Executive of GE Druck Holdings Limited, formerly known as Druck Holdings plc. Prior to that, he held a number of leadership roles at TRW, Lucas and General Electric, including several years spent in the US.



Brian Tenner
Finance Director

Brian, aged 42, joined the Group in September 2010 as Finance Director. Until 31 August 2010, he was Group Finance Director and a member of the Board of Scapa Group plc. Prior to this, he was Group Finance Director for the former British Nuclear Group. Brian held various Finance Director posts within National Grid and his first industry role was as Head of Investor Relations of the Lattice Group plc. His early career was spent with PricewaterhouseCoopers where he qualified as a chartered accountant and he completed several extended international assignments and a wide range of consulting and corporate finance projects.



David Shearer
Senior Independent Non-Executive Director

David, aged 52, was appointed to the Board in May 2007 as the Senior Independent Non-Executive Director. He is Deputy Chairman of Aberdeen New Dawn Investment Trust plc, Senior Independent Director of STV Group plc, Superglass Holdings plc and Martin Currie (Holdings) Limited (a Bermuda registered Company) and a Non-Executive Director of Mithras Investment Trust plc. He was previously Chairman of Crest Nicholson plc, standing down after leading the successful restructuring of that business, and, until early 2007, a Non-Executive Director of HBOS plc. A corporate financier and turnaround specialist, he is a former senior partner and Executive Board member of Deloitte LLP.



John Allkins
Non-Executive Director

John, aged 61, was appointed to the Board and to the chair of the Audit Committee in April 2008. He is also a Non-Executive Director of Fairpoint Group plc, Albemarle & Bond Holdings plc and Lincac Group Limited and was until recently a Non-Executive Director of Intec Telecom Systems Limited (previously Intec Telecom Systems plc) and Molins plc. He was previously Group Finance Director of MyTravel Group plc prior to which he held a number of finance director roles with BT.



Ian Griffiths
Non-Executive Director

Ian, aged 60, was appointed to the Board in January 2010 and to the chair of the Remuneration Committee in November 2010. He is currently a Non-Executive Director of Ultra Electronics Holdings plc, an appointment which he has held since April 2003. He was previously Managing Director of Royal Mail Letters and a Director of Royal Mail Holdings plc. He has also held Executive Director roles at GKN plc and GKN Holdings plc where he was Group Managing Director, GKN Automotive, having been a member of the GKN Driveline senior management team since 1990.

Corporate governance

The Group is committed to high standards of corporate governance in order to facilitate efficient, effective and entrepreneurial management of the Company. Your Board acknowledges its contribution to achieving management accountability, improving risk management and ultimately to creating shareholder value over the longer term. This statement describes how the principles of corporate governance contained in the Combined Code issued by the Financial Reporting Council in June 2008 (the **Combined Code**), to which the Company is subject for the year ended 31 March 2011, have been applied. The Combined Code is available to view on the Financial Reporting Council's website at www.frc.org.uk.

The disclosures required by the Financial Services Authority's Disclosure and Transparency Rule 7.2.6 have been included in the Statutory information section of the Directors' report on pages 39 to 42 and are incorporated here by reference.

Compliance with the Combined Code

The Board considers that the Company has complied with the provisions of section 1 of the Combined Code throughout the year ended 31 March 2011 except where highlighted below.

The Board

Composition

The 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 set out in writing and agreed by the Board. The Chairman's primary role is to ensure the effectiveness of the Board in setting the direction of the Company and the agenda of the Board. 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 pages 24 and 25.

Board operation

The Board has approved a schedule of matters reserved for decision by it to ensure that it takes all major strategy, policy and investment decisions affecting the Group. The Board provides entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. In addition, it is responsible for business

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

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

Board evaluation

The Board is supportive of the principle of evaluation of the Board, as set out in paragraph A.6 of the Combined Code. A formal process for evaluating the performance of the Board, its members and its committees is conducted annually. This process gives the Directors the opportunity to identify areas for improvement both jointly and individually through the use of questionnaires and/or open discussion. An evaluation of the Chairman is also carried out annually, led by the Senior Independent Non-Executive Director. Both an evaluation of the Board and its committees and an evaluation of the Chairman were carried out during the year ended 31 March 2011.

Board independence

The Chairman, Matthew Peacock, is and has been throughout the year ended 31 March 2011 a principal of a significant shareholder, Hanover Investors Limited, which as at the date of this report holds 11.24% of the ordinary share capital of the Company.

Matthew Peacock is and has been throughout the year ended 31 March 2011 the Chairman of the Company's broker and financial adviser, Singer Capital Markets Limited (**Singer**). 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 or termination of the relationship with Singer.

Matthew Peacock's other significant commitments are detailed in his biography on page 24.

David Shearer, the Senior Independent Director, is, and has been throughout the year ended 31 March 2011, a director of STV Group plc, a company of which Matthew Peacock is also a director.

John Allkins is, and has been throughout the year ended 31 March 2011, a director of Fairpoint Group plc, a company of which Matthew Peacock is also a director.

Whilst the Company is obliged to disclose the existence of cross-directorships by paragraph A.3.1 of the Combined Code, the Board has discussed the independence issue and concluded that the existence of cross-directorships does not prevent a Director from being independent and therefore considers that each of David Shearer, John Allkins and Ian Griffiths are independent as they all act with complete independence of character and judgement in respect of their dealings with matters pertaining to Renold plc and are free from any business or other relationship which could affect their judgement.

The Board includes a balance of Executive and Non-Executive Directors and is of the opinion that all of the Directors take decisions objectively and in the best interests of the Company and that no individual or small group of individuals can dominate the Board's decision taking.

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

All new Directors are initially appointed upon recommendation by the Nomination Committee. All Directors are subject to election by shareholders at the first annual general meeting of the Company following their appointment and to re-election, subject to the Company's articles of association and to the provisions of the Companies Act 2006 relating to the removal of a Director, thereafter at intervals of no more than three years, subject to continued satisfactory performance.

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 annual general meeting on 20 July 2011 (**Annual General Meeting**), Brian Tenner, being appointed by the Board during the year ended 31 March 2011, will offer himself for election by shareholders and Robert Davies will retire and offer himself for re-election by shareholders in accordance with the Company's articles of association. Biographical details of both Directors submitted for election/re-election at the Annual General Meeting are contained in the notice of the Annual General Meeting.

The 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					Risk Monitoring Committee
	Board	Audit Committee	Nomination Committee	Remuneration Committee		
Matthew Peacock	9	–	–	–	–	–
Robert Davies	9	–	–	–	–	4
Brian Tenner ¹	5	–	–	–	–	2
Peter Bream ²	4	–	–	–	–	2
David Shearer	9	5	–	–	6	–
John Allkins	9	5	–	–	6	–
Ian Griffiths	9	5	–	–	6	–

¹ Brian Tenner was appointed to the Board with effect from 27 September 2010.
² Peter Bream resigned from the Board with effect from 27 September 2010.

Corporate governance

continued

Board committees

The Board has delegated authority to a number of committees to deal with specific aspects of the management and control of the Group. Committee membership may not be refreshed as frequently as would be the case for a company with a larger board. However, the Board is satisfied that no undue reliance is placed on particular individuals. The Company Secretary, Hannah Woodcock, 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 at www.renold.com.

	Composition	Role	Activities
Audit Committee	John Allkins (Chairman) David Shearer Ian Griffiths	The review of the Group's financial statements, internal financial control systems, ethics policy, internal audit reports and the appointment/reappointment and independence of the external auditors and conduct of the external audit.	<p>The Audit Committee normally meets four times a year. The Board is satisfied that, as well as the Chairman of the Audit Committee, at least one other member of the Audit Committee has recent and relevant financial experience.</p> <p>The Chairman, Chief Executive, Finance Director and other managers (including those from the internal audit function) attend meetings from time to time at the invitation of the Audit Committee. The external auditor, who attends by invitation, are invited by the Audit Committee to advise it of any matters which they consider should be brought to the Audit Committee's attention without the Executive Directors present.</p> <p>A formal process for evaluating the performance and independence of the external auditors and the performance of the Audit Committee and the internal audit function is conducted annually. The Board reviews the outcome. Additionally, to safeguard the independence and objectivity of the auditor, the Audit Committee has approved a policy on non-audit services provided by the auditors in line with professional practice. The policy is available on the Company's website at www.renold.com.</p> <p>The Audit Committee met five times during the year ended 31 March 2011. In the course of these meetings the Audit Committee considered matters which included the following:</p> <ul style="list-style-type: none"> • Internal controls: The Audit Committee considered reports from the internal audit function summarising work planned and undertaken, recommending improvements and describing actions taken by management. The Audit Committee also sought the views of the external auditor in making its assessment of the internal control environment including all material controls, financial, operational and compliance controls and risk management systems. • Internal audit function: The Audit Committee evaluated the performance of the internal audit function and assessed the work planned and undertaken through the completion of a questionnaire which was used to facilitate a discussion of performance. • Financial reporting: The Audit Committee reviewed draft annual and interim reports before recommending their publication to the Board. The Audit Committee discussed with the Chief Executive, Finance Director and external auditor the significant accounting policies, estimates and judgements applied in preparing these reports and reviewed data provided in accordance with policies which aim to provide assurance that transactions are recorded properly to permit the preparation of financial statements in accordance with International Financial Reporting Standards (IFRSs). It also reviewed papers prepared by the Board to support key judgements and their related disclosures in accordance with IFRS. • Risk monitoring: The Risk Monitoring Committee reported the results of its discussions to the Audit Committee. • Whistleblowing: The Audit Committee reviewed the Group's procedures for staff to raise concerns about financial reporting or other misconduct in confidence. The Audit Committee considered reports summarising the concerns raised, how these were investigated and follow-up action taken.

	Composition	Role	Activities
Nomination Committee	Matthew Peacock (Chairman) David Shearer John Allkins Ian Griffiths	To select and recommend to the Board new appointments of Executive and Non-Executive Directors. The Nomination Committee meets as required.	The only new appointment to the Board made during the year ended 31 March 2011 was of Brian Tenner (who was appointed to the Board as Finance Director on 27 September 2010). Brian Tenner was appointed following an evaluation of a number of candidates. Brian Tenner's appointment was made on merit and against objective criteria and the process for his appointment was led by the Nomination Committee, which recommended the appointment to the Board.
Remuneration Committee	Ian Griffiths ³ (Chairman) David Shearer John Allkins	To determine the terms and conditions of employment including remuneration and benefits of the Chairman and the Executive Directors as well as performance-related bonus schemes and pension rights. The main Board determines the remuneration of the Non-Executive Directors (other than the Chairman) and individual Non-Executive Directors are not present when their own remuneration is being discussed.	The Remuneration Committee is currently chaired by Ian Griffiths. In addition, 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 Remuneration Committee. The Directors' remuneration report is set out on pages 32 to 37. Robert Davies is and has been throughout the year ended 31 March 2011 a Non-Executive Director of Economic Solutions Limited. He is not remunerated for such services. Details of advice taken by the Remuneration Committee during the year ended 31 March 2011 is contained within the Directors' remuneration report on pages 32 to 37 which is incorporated by reference here.
Risk Monitoring Committee	Robert Davies (Chairman) Brian Tenner ⁴ Hannah Woodcock Maggie Hurt Mike Christmas Colin Gibson Andrew Monkhouse	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, the Group Engineering Director, the Head of Operations Europe and the Group Head of Business Process and Assurance. The Risk Monitoring Committee meets and reports to the Audit Committee at least twice each year. For the year ended 31 March 2011, the Risk Monitoring Committee met four times as more frequent consideration of the risks to the Group and their reporting to the Audit Committee was felt to be appropriate. It is intended that, in future, the Risk Monitoring Committee will meet quarterly. The Risk Monitoring Committee considers the principal risks to the Group and the appropriate actions to be taken to minimise such risks. It is also provided with information in the form of reports on health and safety, treasury, insurance and material litigation. The Chairman of the Risk Monitoring Committee reports to the Audit Committee.

³ David Shearer chaired the Remuneration Committee until 17 November 2010 when Ian Griffiths replaced him as Chairman of the Remuneration Committee.

⁴ Peter Bream was also a member of the Risk Monitoring Committee until his resignation from the Board on 27 September 2010. Brian Tenner was appointed as a member of the Risk Monitoring Committee on his appointment to the Board on 27 September 2010.

Corporate governance continued

Review of the work of the external auditor

The annual appointment of the external auditor is subject to the approval of the Company's shareholders and the Audit Committee regularly reviews the relationship between the Group and the external auditor. This review includes an assessment of their performance, cost-effectiveness, objectivity and independence.

The Audit Committee is responsible for ensuring that an appropriate relationship is maintained between the Group and the external auditor. The Group has implemented a policy of controlling the provision of non-audit services by the external auditor in order to ensure that its objectivity and independence are safeguarded. This control is exercised by ensuring that all non-audit services where fees exceed an agreed limit are subject to the prior approval of the Audit Committee. During the year ended 31 March 2011, the Audit Committee continued with the appointment of other accountancy firms to provide non-audit services to the Group and anticipates that this will continue during the year ended 31 March 2012.

A full breakdown of the audit and non-audit related fees is set out in Note 2(b) to the financial statements on page 59. The Audit Committee discussed the level of fees and considered them appropriate given the current size of the Group. The Audit Committee is satisfied that the level and scope of non-audit services undertaken by the external auditor does not impair its independence or objectivity and considers that the Company receives particular benefit from the advice provided by its external auditor, given its wide and detailed knowledge of the Group and its international operations. An assignment would not be given to the external auditor when the result may be that: as part of the statutory audit, it is required to report directly on its own non-audit work; it makes management decisions on behalf of the Group; it acts as advocate for the Group; or the level of non-audit fees is such, relative to audit fees, as to raise concerns about its ability to form objective judgements.

The Audit Committee, having considered the external auditor's performance during their period in office, recommends its reappointment.

Conflicts of interest

The Company's articles of association were amended at the 2008 annual general meeting, in line with the Companies Act 2006, to allow the Board to authorise potential conflicts of interest of Directors, on such terms (if any) as the Board thinks fit when giving any authorisation. Any decision of the Board to authorise a conflict of interest is only effective if it is approved without the conflicted Directors voting or without their votes being counted and, in making such a decision, the Directors must act in a way they consider in good faith will be most likely to promote the success of the Company. The Board considers that the procedures it has in place for reporting and considering conflicts of interest are effective and a review of previously approved conflicts is carried out annually.

Internal control

The Board has overall responsibility for the Group's system of internal control including financial, operational and compliance controls and risk management systems, and for reviewing internal control effectiveness. The ongoing process, in accordance with the Financial Reporting Council's 'Internal Control: Revised Guidance for Directors on the Combined Code (October 2005)', of review of the system of internal controls by the Directors, to identify, evaluate and manage the significant risks faced by the Group, has been in place for the year ended 31 March 2011 and up to the date of approval of this report and the financial statements. Internal controls are reviewed on a regular basis by the Audit Committee, which reports directly to the Board, and the Risk Monitoring Committee, which reports to the Audit Committee and, ultimately, to the Board.

During the year ended 31 March 2011, the responsibility to review internal control effectiveness was discharged by the Audit Committee and reported to the Board as follows:

- receiving and considering regular reports from the internal audit function on the status of internal control across the Group. The Audit Committee also reviewed the internal audit function's findings, annual audit plan and the resources available to it to perform its work;
- reviewing the external auditor's findings on internal financial control;
- seeking reports from senior management on the effectiveness of the management of key risk areas; and
- monitoring the adequacy and timeliness of management's response to identified audit issues.

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

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

The key features of the Group's internal control and risk management systems are:

- a Risk Monitoring Committee which oversees, on behalf of the Audit Committee and, ultimately, the Board, that appropriate policies are implemented to identify and evaluate risks. As part of the Group's efforts to ensure continuous improvement, a review has been commissioned to ensure that risk management processes continue to meet the needs of the Group;
- access for all Group employees to a free of charge, independent whistleblowing hotline enabling them to report any concerns about theft, fraud or other malpractice in the workplace;
- an internal audit function which assists management and the Audit Committee in the fulfilment of the Board's responsibility for ensuring that the Group's financial and accounting systems provide accurate and up-to-date information about its current financial position whilst also permitting the accurate preparation of financial statements. Plans are also in place to broaden the existing financial risk focus of internal audit to other key risk areas;
- 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;
- procedures for the appraisal, approval and control of acquisitions and disposals;
- monitoring procedures which include a system of key financial controls self assessment questionnaires. The results of this work are reported to the Audit Committee; and
- enhancements in internal controls will also be achieved in future from the standardisation of processes and core transactional controls as supported by the implementation of the new ERP system.

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

The Board has approved a Corporate Governance Compliance Statement which contains terms of reference for the Board and each of the Board committees. The terms of reference are available on the Company's website at www.renold.com. Internal controls are in place at both local and Group level. In addition, the Renold Internal Control Statement contains details of such matters as Group signing authorities, contracting principles and ethics policy to ensure that all Group employees conduct business on behalf of the Group on the same basis and in accordance with approved policies and procedures. This has been approved by the Board and has been fully rolled out across the Group.

Throughout the year ended 31 March 2011, the Group has undertaken a review of its policies and procedures in preparation for the implementation of the Bribery Act 2010.

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 44 which is incorporated by reference here.

Communications with shareholders

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

The reporting calendar is driven by the publication of interim and final results each year, in which the Board reports to shareholders on its management of the Company. Comments on Group financial performance in the context of the business risks faced and objectives and plans for the future are set out in the Business review on pages 8 to 23.

At other times during the year, presentations are given by the Executive Directors to analysts and updates provided to the London Stock Exchange and shareholders via the Company's website at www.renold.com. In addition, the Chairman, Chief Executive and Finance Director meet with major shareholders to discuss governance and Group strategy. A significant shareholder has a representative on the Board.

The Senior Independent Non-Executive Director does not generally attend meetings with shareholders although makes himself available to attend such meetings if and when required. Whilst the Company is not in compliance with paragraph D.1.1 of the Combined Code, the Chairman ensures that the Chief Executive and Finance Director provide feedback to the Board following presentations to investors and meetings with shareholders and analysts' and brokers' briefings are circulated to all Directors in order to ensure that Board members, and in particular Non-Executive Directors, develop an understanding of the views of major shareholders about their Company.

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

At the Annual General Meeting, the Chairman of the Board and the chairmen of the Audit, Remuneration, Nomination and Risk Monitoring Committees, together with the Executive Directors and the other Non-Executive Directors, will be available to answer questions. Notice of the Annual General Meeting is sent to shareholders at least 20 business days before the meeting. Details of the proxy votes lodged on each resolution are made available and shareholders are invited to talk informally to the Directors after the formal proceedings.

Other information

The Statutory information section of this Directors' report on pages 39 to 42, which is incorporated by reference here, contains the information required by paragraph 13(2)(c), (d), (f), (h) and (i) of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

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

If you wish to advise a change of name, address, or dividend mandate, please contact the Company's registrar, Capita Registrars, whose contact details appear on page 95. Alternatively, you can view up-to-date information and manage your shareholding through Capita's share portal where you will be able to access and maintain your holding at your own convenience. You will require your unique investor code, which can be found on your share certificate. The URL for the portal is www.capitashareportal.com.

Directors' remuneration report

This Directors' remuneration report has been prepared on behalf of the Board and is subject to the approval of shareholders at the Annual General Meeting.

Remuneration Committee and advisers

The 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. Details of those who were members of the Remuneration Committee during the year ended 31 March 2011 are contained in the Corporate governance section of the Directors' report on pages 26 to 31 which is included in this Directors' remuneration report by reference. The members of the Remuneration Committee currently comprise the Non-Executive Directors (other than the Chairman), Ian Griffiths (Chairman), John Allkins and David Shearer⁵, 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 Remuneration Committee by invitation, but do not take part in the Remuneration Committee's recommendations on their own remuneration. No Director is involved in deciding his own remuneration, whether determined by the Remuneration Committee or, in the case of the Non-Executive Directors, by the Board.

During the year ended 31 March 2011, the Remuneration Committee appointed and received advice from Ernst & Young LLP in respect of the payment of Executive Directors' bonuses in shares. Other services provided to the Group by Ernst & Young LLP during the year ended 31 March 2011 are detailed in Note 2(b) to the financial statements and are incorporated by reference here.

The Remuneration Committee meets as often as necessary to discharge its duties, which during the year ended 31 March 2011 was on six occasions. The terms of reference of the Remuneration Committee are available on the Company's website at www.renold.com.

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 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.

The performance conditions to which the Executive Directors' entitlement to share options are subject are detailed under the section of this Directors' remuneration report titled Long term incentive arrangements on page 33 and are incorporated by reference here.

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

The Remuneration Committee also takes into account the pay and employment conditions of employees within the Group when determining Executive Directors' remuneration. During the year ended 31 March 2011, pay rises for Executive Directors were in line with average percentage increases of salaries across the Group. The proportion of the Group's basic salary bill attributable to the Executive Directors' base salaries for the year ended 31 March 2011 was 0.83% (2010: 0.88%).

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Remuneration Committee ensures that the incentive structure for the Executive Directors will not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour. The Remuneration Committee has discretion to consider corporate performance on environmental, social or governance issues when setting the remuneration of the Executive Directors.

Incentive arrangements are structured so as to motivate Executive Directors to deliver high standards of performance, without encouraging excessive risk taking. In addition, and as described below, a significant proportion of the short term annual bonus for the Executive Directors for the year ended 31 March 2011 will be paid in shares with a requirement, subject to certain exceptions, that the shares be held for three years, thereby providing a longer term performance horizon for the annual bonus.

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 Remuneration 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 Remuneration Committee has regard to comparable jobs in manufacturing companies of a similar size and reach.

The Remuneration Committee recently reviewed Robert Davies' base salary in the context of the overall business performance. It was not necessary to review Brian Tenner's base salary given that his employment with the Group commenced on 27 September 2010. The current salary levels of the Executive Directors who served on the Board during the year ended 31 March 2011, effective from the date shown, are set out below (the figures in brackets reflect salary levels effective as at 7 June 2010):

- Robert Davies £290,700 effective from 1 January 2011 (£285,000);
- Brian Tenner £185,000 effective from 27 September 2010 (not employed by the Group at 7 June 2010); and
- Peter Bream (resigned with effect from 27 September 2010) (£180,000).

⁵ Ian Griffiths replaced David Shearer as Chairman of the Remuneration Committee with effect from 17 November 2010.

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. Details of the Company's contributions to these pension arrangements are provided on page 35 of this Directors' remuneration report. 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

Bonus payments are based on Group financial targets and personal objectives for each Executive Director, set by the Remuneration Committee. Maximum bonus payments are made only upon the achievement of outstanding performance. Bonuses are not pensionable. For Robert Davies, the maximum annual bonus during the year ended 31 March 2011 was 130% (£377,910) of base salary. The maximum annual bonus for Brian Tenner during the year ended 31 March 2011 was 100% (£185,000) of base salary (pro rated from the date of his appointment as Finance Director on 27 September 2010).

Objectives are set at the start of the financial year and are determined by reference to performance targets based on the Group's financial results (up to 80% of basic salary with 34% based on adjusted EBITDA and 33% on net debt). The balance of 33% is based on specific individual targets derived from critical business objectives.

For the year ended 31 March 2011, a bonus was awarded to Robert Davies of £305,235 (reflecting achievement of bonus targets of 81%) and to Brian Tenner of £61,666 (reflecting achievement of bonus targets of 66% (pro rated to 33% due to his appointment commencing six months through the year)). The bonus policy set for the year ended 31 March 2011 will remain in place for the forthcoming year with the exception that the Remuneration Committee has agreed that the cash target will, in future, be measured against average levels of working capital throughout the year rather than year end net debt. This change will allow management to focus on improving working capital management on a continuous basis.

A decision was taken in principle during the year ended 31 March 2010 to change the criteria structure of the short term bonus scheme for Executive Directors to more closely align it with shareholders' interests. For the year ended 31 March 2011 and in future years, a significant portion (approximately half for the bonus payable in respect of the year ended 31 March 2011) of short term bonus will be paid in Company shares with a requirement that those shares be held for a minimum period of three years unless the Executive Director's employment with the Company terminates during this period, in which case, the required holding period will also terminate.

Long term incentive arrangements

2004 Option Plans

In 2007, the Remuneration 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 (subject to the discretion of the Remuneration Committee); 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; and
- 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.

The performance conditions attaching to options granted under the 2004 Option Plans are considerably more challenging than those used by other comparable companies. For awards made under the 2004 Option Plans prior to 31 March 2009, there are two performance conditions, operating independently of each other. Approximately two thirds of an option grant is subject to an earnings per share (**EPS**) performance condition based on annualised compound growth in the Company's adjusted EPS⁶ in excess of the rate of inflation as measured by the retail price index (**RPI**) over a fixed three year performance period (the **performance period**). The number of shares under option that vest in respect of this portion are as follows:

Annualised compound growth in adjusted EPS	% 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 is used because it is a key internal measure of long term Company performance.

The remaining one third is 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 vests unless the Remuneration Committee is satisfied that, over the performance period, the Company's underlying financial position is satisfactory. To the extent that the performance conditions are not met, in

⁶ Being basic EPS from continuing operations less exceptional items after tax.

Directors' remuneration report continued

whole or in part, at the end of the performance period, the options lapse. The introduction of a TSR element to the Company's remuneration policy was a fundamental shift from the previous policy that had been exclusively based on EPS. The number of shares under option that vest in respect of this portion is as follows:

Growth in the Company's TSR over the performance period	% 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%

For options granted during and since the year ended 31 March 2010, the performance condition is based on a varying percentage of the shares under option becoming exercisable depending on the Company's share price on the date three years following the date of the grant of the share options as follows:

Share price (p)	% of shares under option that become exercisable ⁷
30	25
40	50
50	75
60	100

Under the 2004 Option Plans, the Remuneration Committee is to impose an appropriate performance target subject to which option grants are made. At the date of grant of the share options during and since the year ended 31 March 2010, EPS and TSR targets were considered not to be the best measure of Company performance because of the turbulence in the financial markets which is more as a result of external factors than management action. The Remuneration Committee's objective was to fully align business performance with that of rebuilding shareholder value and therefore aligning the performance conditions to improvements in share price, on the basis set out above, was believed to best fulfil this objective.

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

Other long term incentive plans

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 ended 31 March 2011 under the SAYE Scheme and all options previously granted under the SAYE Scheme have now lapsed.

Details of the market price of shares in the Company at the end of the year and the highest and lowest market price, are set out in Note 19 to the financial statements.

Executive Directors' service contracts

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

	Date of contract	Expiry date of current term/notice period
Robert Davies	2 March 2004	No specified term/terminable on 12 months' notice
Brian Tenner	1 September 2010	No specified term/terminable on 12 months' notice
Peter Bream	29 June 2006	Expired 30 September 2010

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 Association of British Insurers' and National Association of Pension Funds' 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.

External non-executive directorships

The Board encourages Executive Directors to broaden their experience outside the Company by taking up non-executive directorships.

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 his duties.

Chairman's and Non-Executive Directors' fees

The contractual fee levels paid to the Chairman and Non-Executive Directors as at 31 March 2011 are set out below:

Matthew Peacock	£50,000 ⁸
David Shearer	£35,000 ⁹
John Allkins	£35,000
Ian Griffiths	£32,500 ¹⁰

⁸ Matthew Peacock's fee is paid to Hanover Investors Management LLP for the provision of his services as Non-Executive Director.

⁹ David Shearer's fee was reduced to £35,000 from £37,500 with effect from 1 November 2010 when he was replaced as Chairman of the Remuneration Committee.

¹⁰ Ian Griffiths' fee was increased to £32,500 from £30,000 with effect from 17 November 2010 when he replaced David Shearer as Chairman of the Remuneration Committee.

⁷ With the corresponding number of shares being rounded down to the nearest whole number.

Appointment details

The details of the appointments of the Chairman and Non-Executive Directors who have served during the year ended 31 March 2011 are as follows:

	Date of appointment	Unexpired term (approximate months from 31 May 2011)	Date of election/ last re-election
Matthew Peacock	21 September 2006	16	21 September 2009
David Shearer	1 May 2007	23	21 September 2009
John Allkins	17 April 2008	35	15 July 2010
Ian Griffiths	13 January 2010	19	15 July 2010

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.

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

Each Non-Executive Director is appointed for an initial period of three years, subject to earlier termination by either party. Thereafter, the appointment may be renewed, provided that both the Non-Executive Director and the Board agree. The letters of appointment contain no provision for payment or compensation on early termination. Copies of the individual letters of appointment are available for inspection by shareholders at the Annual General Meeting.

Directors' remuneration (audited information)

The remuneration for each of the Directors for the year ended 31 March 2011 is as set out below:

	Year ended 31 March 2011					Year ended 31 March 2010 ¹¹ Total (£000)
	Salaries and fees (£000)	Annual bonus (£000)	Cash (£000)	Non-cash (£000)	Total (£000)	
Executive Directors						
Robert Davies	294 ¹²	305	–	32	631	294
Brian Tenner ¹³	95	62	5	–	162	–
Peter Bream ¹⁴	90	–	6	–	96	177
	479	367	11	32	889	471
Non-Executive Directors						
Matthew Peacock ¹⁵	50	–	–	–	50	46
David Shearer ¹⁶	36	–	–	–	36	33
John Allkins	35	–	–	–	35	32
Ian Griffiths ¹⁷	31	–	–	–	31	7
Rod Powell ¹⁸	–	–	–	–	–	13
	631	367	11	32	1,041	602

The Company has provided pension contributions of £35,696 during the year ended 31 March 2011 (£42,750 during the year ended 31 March 2010) for Robert Davies¹⁹, £14,183 during the year ended 31 March 2011 (nil for the year ended 31 March 2010) for Brian Tenner (for the period from commencement of his employment on 27 September 2010) and £13,500 during the year ended 31 March 2011 (£27,000 during the year ended 31 March 2010) for Peter Bream (for the period to termination of his employment on 30 September 2010) (in each case, being 15% of base salary).

¹¹ Directors' fees/salaries were subject to a 10% reduction from April 2009 to February 2010 in line with most Group employees as a temporary response to reduced levels of activity.

¹² £7,267.50 was agreed to be paid to Robert Davies as salary instead of his contractual pension contribution.

¹³ Brian Tenner was appointed as Finance Director with effect from 27 September 2010.

¹⁴ Peter Bream resigned as Finance Director with effect from 27 September 2010.

¹⁵ Matthew Peacock's fee is paid to Hanover Investors Management LLP for the provision of his services as Non-Executive Director.

¹⁶ David Shearer's fee was reduced to £35,000 from £37,500 with effect from 1 November 2010 when he was replaced as Chairman of the Remuneration Committee.

¹⁷ Ian Griffiths' fee was increased from £30,000 to £32,500 with effect from 17 November 2010 when he was appointed as Chairman of the Remuneration Committee.

¹⁸ Rod Powell retired from the Board on 21 September 2009.

¹⁹ £7,267.50 was agreed to be paid to Robert Davies as salary instead of his contractual pension contribution.

Directors' remuneration report

continued

Robert Davies received a non-cash benefit of £32,000 for his company car and private healthcare. Brian Tenner received a cash benefit of £5,000 for his company car (for the period from commencement of his employment on 27 September 2010) and Peter Bream received a cash benefit of £6,000 for his company car (for the period to termination of his employment on 30 September 2010).

Directors' beneficial interests in shares (unaudited information)

The beneficial interests of the Directors who held office at 31 March 2011 and their connected persons in the ordinary shares of the Company were as follows:

	31 March 2011	31 March 2010
Matthew Peacock ²⁰	24,688,990	24,688,990
Robert Davies	723,669	723,669
Brian Tenner	50,000	–
David Shearer	68,442	68,442
John Allkins	Nil	Nil
Ian Griffiths	Nil	Nil

²⁰ 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 the Company as at 31 March 2011 or at the date of this report.

There have been no other changes in the interests of Directors in the share capital of the Company between 31 March 2011 and the date of this report.

Directors' share options as at 31 March 2011 (audited information)

Robert Davies

	Options held at 1 April 2010	Number of share options		Options held at 31 March 2011	Option price (p)	Date from which exercisable	Expiry date
		Granted	Lapsed				
Executive Scheme	146,799	–	–	146,799	65.14	11.03.2007	10.03.2014
	557,835	–	–	557,835	74.93	02.09.2007	01.09.2014
	117,439	–	–	117,439	52.45	26.07.2009	25.07.2016
	117,439	–	–	117,439	97.24	02.01.2010	01.01.2017
	667,151	–	667,151	–	64.63	31.03.2011	30.03.2018
	211,733	–	211,733	–	65.57	01.04.2011	31.03.2018
	2,456,896	–	–	2,456,896	23.20	05.02.2013	04.02.2020
Total	4,275,292	–	878,884	3,396,408			

Brian Tenner

	Options held at 1 April 2010	Number of share options		Options held at 31 March 2011	Option price (p)	Date from which exercisable	Expiry date
		Granted	Lapsed				
Executive Scheme	–	678,898	–	678,898	27.25	27.09.13	26.09.20
Total	–	678,898	–	678,898			

Peter Bream

	Options held at 1 April 2010	Number of share options		Options held at 31 March 2011 ²¹	Option price (p)	Date from which exercisable	Expiry date
		Granted	Lapsed				
Executive Scheme	176,159	–	176,159	–	52.45	26.07.2009	25.07.2016
	70,463	–	70,463	–	97.24	02.01.2010	01.01.2017
	278,511	–	278,511	–	64.63	31.03.2011	30.03.2018
	1,551,724	–	1,551,724	–	23.20	05.02.2013	04.02.2020
Total	2,076,857	–	2,076,857	–			

²¹ Peter Bream's employment with the Company terminated with effect from 30 September 2010 and all share options held by him lapsed on termination of his employment.

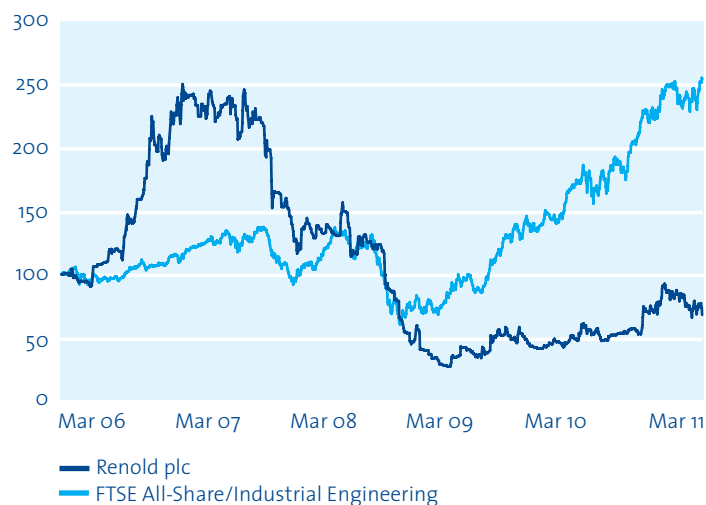
The share options granted to Robert Davies which lapsed during the year ended 31 March 2011 did so as the performance criteria attached thereto were not met. All share options granted to Peter Bream lapsed upon his employment with the Company terminating on 30 September 2010.

The performance conditions to which the share options are subject are disclosed on pages 33 and 34 are included in this audited information section by reference. None of the terms and conditions of the share options were varied in the year.

The market value of shares in the Company at 31 March 2011, and the highest and lowest values, have been disclosed in Note 19 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 shares in the Company against a hypothetical holding of shares in the FTSE Engineering and Machinery index. The Remuneration Committee considers this index to be an appropriate index for total shareholder return and comparison disclosure as it represents a broad equity index of which the Company is a constituent.



Approved by the Board

Hannah Woodcock
Company Secretary
27 May 2011

Statement of Directors' responsibilities in relation to the Group financial statements

The Directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable United Kingdom law and regulations and IFRSs as adopted by the European Union.

Company law requires the Directors to prepare financial statements for each financial year. Under company law, the Directors must not approve the financial statements for the Group unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. Under IFRS, the Directors are required to prepare financial statements that present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- 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;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records, which show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors who were members of the Board at the time of approving the Directors' report are listed on pages 24 and 25. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's auditor in connection with preparing its report) of which the Company's auditor is unaware; and
- each Director has taken all the steps a Directors might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

Each of the Directors listed on pages 24 and 25 confirms that, to the best of his knowledge:

- the consolidated financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' report, including the Business review (comprising pages 8 to 23) includes a fair review of the development and performance of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

On behalf of the Board:

Robert Davies
Chief Executive

Brian Tenner
Finance Director

Statutory information

The Directors submit their report which, incorporates the management report required under the Financial Services Authority's Disclosure and Transparency rules for listed companies, the Corporate governance section of this Directors' report and the Group financial statements as set out on pages 43 to 84. In compiling this report, the Directors have consulted with the management of the Company and its subsidiaries.

Group

The Company is a public limited company incorporated in England, registered number 249688, with its registered office at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL.

The Group is an international engineering group, producing a wide range of high quality engineering products which are sold in over 100 countries worldwide.

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

A summary of the principal undertakings of the Group is set out in Note (xiii) to the Company financial statements which is incorporated by reference here.

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 8 to 23.

Results

Loss for the year ended 31 March 2011 before tax is £1.3m compared with a loss of £13.6m for the year ended 31 March 2010. The loss for the year is £0.9m (a loss of £9.7m for the year ended 31 March 2010).

Key performance indicators

At Board level, the most important key performance measures are summarised below together with details of performance in the current and prior year:

	2011	2010
Operating profit/(loss) before exceptional items	£7.0m	£(2.1)m
Return on sales ²²	3.7%	(1.3)%
Average working capital as a percentage of sales ²³	19%	27%
Adjusted earnings/(loss) per share ²⁴	2.0p	(1.4)p
Group reportable injury rate (RIR) ²⁵	1,227	1,037

²² Operating profit before exceptional items as a percentage of sales.

²³ Working capital is the sum of inventories, trade and other receivables and trade and other payables.

²⁴ This is basic earnings/(loss) per share from continuing operations before exceptional items after tax.

²⁵ The RIR is calculated by dividing the number of reportable injuries in a rolling 12 month period by the year to date average number of Group employees and multiplying by 100,000. The figures show a similar RIR to the year ended 31 March 2010 and remain an improvement on the RIR of 1,818 for the year ended 31 March 2009. There has also been a 30% reduction in the average lost time accident frequency rate compared to the rate for the year ended 31 March 2010 which included all injuries involving more than eight hours of lost working time and therefore also reportable injuries. The target remains to minimise the RIR.

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.

Directors

The Directors' biographical details can be found on pages 24 and 25 and are incorporated by reference here. All Directors were Directors throughout the year, with the exception of Brian Tenner, who was appointed to the Board on 27 September 2010.

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. Accordingly, Brian Tenner will retire and offer himself for election at the Annual General Meeting.

Under the terms of reference of the Nomination Committee, appointments to the Board 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 of this Directors' report on pages 26 to 31.

Directors' interests

Details of the interests of the Directors and their connected persons in the Company's share capital and in options held under the Company's share option schemes, along with any changes in such interests since the end of the year, are detailed in the Directors' remuneration report on pages 32 to 37. No Director had any interests in contracts of significance in relation to the Company's business during the year.

Directors' and officers' liability insurance

Liability insurance for Directors and officers was maintained throughout the year. No qualifying third party indemnity provision or qualifying pension scheme indemnity provision was in force when this Directors' report was approved or was in force during the year.

Statement of Directors' responsibilities

Please refer to page 38 for the statement of Directors' responsibilities in respect of the Annual Report and the Group financial statements and for the Directors' statement as to disclosure of information to auditors.

Statutory information continued

Employees

As at 31 March 2011, the Group employed 2,690 people, including 628 in the UK.

Employment policies

Arrangements for consulting and involving Group 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.

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

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

UK pension schemes

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 the Company. The boards of trustees of the principal schemes include employee representatives.

In April 2002, the UK defined benefit pension schemes 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 the Chairman nor the 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.

The Group has reviewed its UK pension position, along with its other pension provisions around the world. Following consultation in the UK, two of the defined benefit schemes were closed to future accrual from August 2008 and the remaining defined benefit scheme from June 2009, and the Renold Personal Pension Plan, a group personal pension plan, which is not trust based and is contracted in, has been offered to employees.

Shares

Share capital

As at 31 March 2011, the issued share capital of the Company was £26,971,657.75 divided into 219,564,703 ordinary shares of 5p each, 580,482 units of 6% cumulative preference stock of £1 each and 77,064,703 deferred shares of 20p each. The ordinary shares represent 40.70%, the preference stock represents 2.15% and the deferred shares represent 57.14% of the Company's total share capital. The Company's ordinary shares and preference stock are listed on the London Stock Exchange. The deferred shares have no voting or dividend rights and are not able to be traded.

The Company obtained shareholder authority at the 2010 annual general meeting to make market purchases of up to 21,956,470 ordinary shares in the Company, which remains outstanding until the conclusion of the Annual General Meeting. The minimum price which must be paid for any ordinary share is the nominal value of such share at the time of the purchase and the maximum price is that permitted under the Financial Services Authority's Listing Rules or, in the case of a tender offer, 5% above the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the tender offer is announced. As at the date of this report, the Company had not purchased any of its own ordinary shares in the market pursuant to such authority. The Directors will seek authority from shareholders at the forthcoming Annual General Meeting for the Company to purchase, in the market, up to 21,956,470 of its own ordinary shares (which represents approximately 10% of the Company's ordinary share capital as at the date of this report) either to be cancelled or retained as treasury shares.

Details of the Company's share capital and any changes during the year are set out in Note 18 to the Group financial statements on page 75.

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

Voting rights

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

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

In August 2009, warrants were granted to West Register (Investments) Limited and Fortis Bank, UK Branch over an aggregate number of 3,500,000 ordinary shares in the capital of the Company (circa 4.3% of the ordinary share capital of the Company at that time and circa 1.6% of the current ordinary share capital) with a subscription price of 21.06p per share (subject to amendment on any changes to the Company's share capital structure). The warrant holders have no rights to vote at general meetings of the Company unless and until they exercise their subscription rights under the terms of the warrant instruments and shares in the Company are issued to them.

No member shall, unless the Directors otherwise determine, be entitled to vote at a general meeting either personally or by proxy, or to exercise any other right conferred by membership in relation to meetings of the Company, if any call or other sum presently payable by him to the Company in respect of such shares remains unpaid. The Directors also have powers to suspend voting rights in certain limited circumstances when a shareholder has failed to comply with a notice issued under section 793 of the Companies Act 2006.

Full details of the deadlines for exercising voting rights and appointing a proxy or proxies in respect of the resolutions to be considered at the Annual General Meeting are set out in the Notice of Annual General Meeting which accompanies this report.

Major shareholdings

As at the date of this report, the Company had been notified of the following major holdings of voting rights attached to its ordinary shares under the Financial Services Authority's Disclosure and Transparency Rule 5:

Shareholder	Number of voting rights	% of total number of voting rights
Prudential plc group of companies	31,948,668	14.55
Henderson Global Investors Limited	30,130,711	13.72
Hanover Investors Limited	24,688,990	11.24
Blackrock, Inc.	11,220,472	5.11
Gartmore Investment Limited	10,958,081	4.99
Cazenove Capital Management Limited	10,591,636	4.82
Hargreave Hale Limited	9,933,956	4.52
Legal & General Group plc	6,755,100	3.07

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 dividend policy are set out on page 49 of the Group financial statements.

The Board has decided to recommend that no ordinary dividend be paid in respect of the year ended 31 March 2011, but it will consider future dividend policy in the light of results from the business going forward.

Dividend payments in respect of the 6% cumulative preference stock in the Company were made on 1 July 2010 and 1 January 2011.

Directors' rights in respect of shares

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

Issue of shares

The Directors are authorised to issue equity securities either by way of a rights issue or in any other way, provided that the shares issued other than by way of a rights issue, open offer or other pre-emptive offer or under the various share option schemes of the Company be limited to shares with an aggregate nominal value of £548,911.75, being equal to 5% of the aggregate nominal amount of the Company's ordinary share capital in issue as at the date of the notice of the Company's 2010 annual general meeting. The authority will expire at the forthcoming Annual General Meeting. The Directors will seek authority from shareholders at the Annual General Meeting to issue equity securities either by way of a rights issue or in any other way, provided that the shares issued other than by way of a rights issue, open offer or other pre-emptive offer or under the various share option schemes of the Company be limited to shares with an aggregate nominal value of £548,911.75.

In addition, the Directors have authority to allot shares up to a maximum nominal amount of £7,311,504.60, representing approximately two thirds of the issued ordinary share capital as at the date of the notice of the Company's 2010 annual general meeting. The authority will expire at the forthcoming Annual General Meeting. The Directors will seek authority from shareholders at the Annual General Meeting to allot shares up to a maximum nominal amount of £7,311,504.60, representing approximately 66.6% of the issued ordinary share capital as at the date of the notice of the Annual General Meeting.

Transfer of shares

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

Statutory information continued

The Directors may suspend transfers where a shareholder has failed to comply with a notice issued under section 793 of the Companies Act 2006.

There are no other restrictions on the transfer of shares in the Company other than certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws and market requirements relating to close periods) and pursuant to the Financial Services Authority's Listing Rules whereby certain employees of the Company require the approval of the Company to deal in the Company's securities.

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

Finance

Financial instruments

Financial risk management objectives and policies, and exposure to risk (including credit risk) are discussed in the Business review section of this Directors' report on page 16, and in Note 24 to the Group financial statements on pages 78 to 83.

Policy on payment of suppliers

Under the supervision of the head office of the Company, 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 Group policy that payments to suppliers are made in accordance with these terms, provided that the supplier complies with all relevant terms and conditions. It is intended that such policy will remain in place for the year ending 31 March 2012.

As at 31 March 2011, trade creditors of the Group's businesses in the UK and overseas represented 99 days' purchases, compared with 110 last year.

Donations

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

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 L. G. Balakrishnan & Bros Ltd, Renold International Holdings Limited and Renold Chain India Private Limited dated 24 June 2008 contains certain change of control provisions. On the change of control of a shareholder (being one of the parties to the agreement), the other 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.

Contracts of significance

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Note 17 to the Group financial statements on pages 71 to 75 details the Group's obligations to contribute to the UK defined benefit pension schemes and is incorporated by reference here.

Contractual or other arrangements essential to the business

There are no contractual or other arrangements essential to the business, other than those described under the section on change of control provisions above, that require disclosure under the enhanced business review requirements of the Companies Act 2006.

Related party transactions

Related party transactions which took place during the year ended 31 March 2011 are set out in Note (xii) to the Company financial statements on page 93 which are incorporated by reference here.

Important events affecting the Group since 31 March 2011

Note 26 to the financial statements refers to post balance sheet events and is incorporated by reference here.

Hannah Woodcock

Company Secretary
27 May 2011

Independent auditor's report

To the members of Renold plc

We have audited the Group financial statements of Renold plc for the year ended 31 March 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Accounting Policies and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities in relation to the Group financial statements set out on page 38, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

- Under the Companies Act 2006 we are required to report to you if, in our opinion:
 - certain disclosures of Directors' remuneration specified by law are not made; or
 - we have not received all the information and explanations we require for our audit.
- Under the Financial Services Authority's Listing Rules we are required to review:
 - the Directors' statement, set out on page 31, in relation to going concern; and
 - the part of the Corporate governance section of the Directors' report relating to the Company's compliance with the nine provisions of the Combined Code specified for our review; and
 - certain elements of the Directors' remuneration report.

Other matter

We have reported separately on the parent company financial statements of Renold plc for the year ended 31 March 2011 and on the information in the Directors' remuneration report that is described as having been audited.

Eamonn McGrath

(Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester

27 May 2011

Accounting policies

Basis of preparation

Renold plc is a public limited company incorporated and domiciled in the United Kingdom. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the **Group**). The Company financial statements present information about the Company as a separate entity and not about the Group. The consolidated financial statements have been prepared in accordance with IFRSs as adopted by the EU. In addition, the financial statements have been prepared in accordance with those parts of the Companies Act 2006 applicable to groups reporting under IFRS.

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 85 to 94. The financial statements were approved by the Board on 27 May 2011.

The Group financial statements are presented in Sterling and all values are rounded to the nearest million pounds (£m) except where otherwise stated.

Going concern

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

Further information in relation to the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Business review section of the Directors' report on pages 8 to 23.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business Review section of the Directors' report on pages 8 to 23. In addition Note 24 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 12, 13 and 23 of the financial statements.

The Directors have assessed the future funding requirements of the Group and the Company and compared them to the level of available borrowing facilities. The assessment included a detailed review of financial and cash flow forecasts, financial instruments and hedging arrangements for at least the 12 month period from the date of signing the Annual Report. 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 show that the Group should be able to operate within the level of its borrowing facilities and covenants.

Having undertaken this work, the Directors are of the opinion that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the 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 International Financial Reporting Interpretations Committee (**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.

Amendment to IFRS 2	– Group Cash-settled Share-based Payment Arrangements
IAS 27 (amended)	– Consolidated and Separate Financial Statements
IAS 32 (amended)	– Classification of Rights Issues
Amendment to IAS 39	– Financial Instruments: Recognition and Measurement – Eligible Hedged Items
IFRIC 17	– Distributions of Non-cash Assets to Owners
IFRS 3R	– Business Combinations

Improvements to IFRSs (issued 2009)

Adoption of these standards and interpretations did not have a material impact on the Group's results or financial position.

The Group has not adopted the following pronouncements, which have been issued by the International Accounting Standards Board (**IASB**) but are not effective for the year ended 31 March 2011.

International Accounting Standards (IAS/IFRSs)	Effective date ¹
IAS12 – Income Taxes (amendment)	1 July 2010
IAS 24R – Related Party Disclosures	1 January 2011
IFRS 7 – Financial Instruments: Disclosures (amendment)	1 July 2011
IFRS 9 – Financial Instruments: Classification and Measurement	1 January 2013
IFRS 10 – Consolidated Financial Statements	1 January 2013
IFRS 11 – Joint Arrangements	1 January 2013
IFRS 12 – Disclosures of Interests in Other Entities	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013
IFRIC 14 – Prepayments of a Minimum Funding Requirement (amendment)	1 January 2011
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
– Improvements to IFRSs (issued May 2010)	Various dates

¹ The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsements restricts the Group's discretion to early adopt standards. Management does not expect that these standards will have a material impact on the Group's results or financial position.

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 company, Renold plc.

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

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

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

Exceptional items – Items which individually or, if of a similar type, in aggregate, are material to an understanding of the Group's financial performance are separately disclosed as memorandum information on the face of the income statement.

Borrowing costs – Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the costs of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 other comprehensive income is recognised in other comprehensive income and not the income statement. Similarly, income tax is charged or credited to equity if it relates to items that are credited or charged directly to equity. Otherwise, income tax is recognised in the income statement.

Accounting policies continued

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.

Business combinations and goodwill – prior to 1 April 2010

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, 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 other comprehensive income 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.

Business combinations and goodwill – post 1 April 2010

There have been no business combinations post 1 April 2010. IFRS 3R will apply for any business combinations prospectively and will result in the following changes in accounting treatment from the policy adopted prior to 1 April 2010:

- Acquisition costs incurred will be expensed and included in expenses.
- Contingent consideration will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration will be recognised in accordance with IAS 39 either in the profit or loss account or in other comprehensive income.

Intangible assets

(a) 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.

(b) 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 assets to the income statement over their expected useful lives. 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.

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 measured its freehold properties on a fair value basis and used that value as the 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.

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

Financial assets and liabilities

(a) Financial assets – Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through the income statement 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 time frame 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. 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 is recognised in administration costs.

Accounting policies continued

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 – These 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.

Employee benefits

(a) Pension obligations

The Group operates a number of defined benefit plans around the world. The costs are calculated by independent actuaries using the projected unit credit method. Any past service costs resulting from enhanced benefits are recognised immediately in 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 other comprehensive income 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 calculated using a Black-Scholes pricing model and is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. No expense is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon market or non-vesting conditions which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied provided that all other performance or service conditions are satisfied. The market-based conditions are linked to the market price of shares in the Company.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

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 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.

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

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

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

There are no fair value hedges.

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

(a) Cash flow hedges

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

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

(b) Hedges of a net investment

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

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

From 1 April 2005, the Group's 6% cumulative preference stock of £1 each (**Preference Stock**) has been classified as a liability. Dividends payable are included within net finance costs.

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.

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, or 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.

Accounting policies

continued

Significant accounting judgements, estimates and assumptions

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

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

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

a) Impairment of non-financial assets

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

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit (CGU) and choose a suitable discount rate in order to calculate the net present value of those cash flows. Further details are included in Note 7.

b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with the future tax planning strategies. Actual outcomes may vary that could require a material adjustment to the carrying amounts. Further details are contained in Note 16.

c) Retirement benefit obligations

The valuation of the Group's defined benefit plans is determined by using actuarial valuations. These involve 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 17.

Consolidated income statement for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Revenue	1	191.0	156.1
Operating costs	2	(186.7)	(160.9)
Operating profit/(loss)		4.3	(4.8)
Operating profit/(loss) before exceptional items		7.0	(2.1)
Exceptional items	2	(2.7)	(2.7)
Operating profit/(loss)		4.3	(4.8)
Financial costs		(2.1)	(2.8)
Financial revenue		0.1	0.6
Net IAS 19 financing costs		(3.6)	(3.8)
Exceptional refinancing costs	2	–	(2.8)
Net financing costs	3	(5.6)	(8.8)
Loss before tax		(1.3)	(13.6)
Taxation	4	0.4	3.9
Loss for the financial year		(0.9)	(9.7)
Attributable to:			
Owners of the parent		(0.9)	(9.6)
Non-controlling interests		–	(0.1)
		(0.9)	(9.7)
(Loss)/earnings per share	5		
Basic loss per share		(0.4)p	(8.0)p
Diluted loss per share		(0.4)p	(8.0)p
Adjusted earnings/(loss) per share ²		2.0p	(1.4)p
Diluted adjusted earnings/(loss) per share ²		2.0p	(1.4)p

² Adjusted for the after tax effects of exceptional items and the IAS 19 charge.

Consolidated statement of comprehensive income for the year ended 31 March 2011

	2011 £m	2010 £m
Loss for the year	(0.9)	(9.7)
Other comprehensive income/(expense):		
Reclassification of losses on cash flow hedges to the income statement	0.1	0.1
Net gains on cash flow hedges	–	2.7
Foreign exchange translation differences	(0.1)	1.2
Foreign exchange differences on loans forming part of the net investment in foreign operations	(1.0)	(1.8)
Actuarial gains/(losses) on retirement benefit obligations	20.3	(21.5)
Actuarial gain on retirement benefit obligations – restriction removed	0.1	1.5
Tax on components of other comprehensive income	(7.0)	4.9
Other comprehensive income/(expense) for the year, net of tax	12.4	(12.9)
Total comprehensive income/(expense) for the year, net of tax	11.5	(22.6)
Attributable to:		
Owners of the parent	11.5	(22.5)
Non-controlling interests	–	(0.1)
	11.5	(22.6)

Consolidated balance sheet

as at 31 March 2011

	Note	2011 £m	2010 £m
ASSETS			
Non-current assets			
Goodwill	7	22.4	23.5
Other intangible assets	7	4.1	1.6
Property, plant and equipment	8	48.9	49.9
Investment property	9	2.1	2.1
Other non-current assets	11	0.4	0.4
Deferred tax assets	16	16.9	22.9
		94.8	100.4
Current assets			
Inventories	10	44.1	42.9
Trade and other receivables	11	32.8	28.3
Retirement benefit surplus	17	1.7	1.5
Cash and cash equivalents	12	7.4	7.3
		86.0	80.0
TOTAL ASSETS		180.8	180.4
LIABILITIES			
Current liabilities			
Borrowings	13	(13.6)	(13.4)
Trade and other payables	14	(39.6)	(33.0)
Current tax		(0.9)	(0.2)
Derivative financial instruments	24	(0.2)	(0.2)
Provisions	15	(1.2)	(0.6)
		(55.5)	(47.4)
NET CURRENT ASSETS		30.5	32.6
Non-current liabilities			
Borrowings	13	(13.3)	(11.3)
Provisions	15	–	(0.5)
Preference Stock	13	(0.5)	(0.5)
Trade and other payables	14	(0.6)	(0.5)
Deferred tax liabilities	16	(0.8)	(0.9)
Retirement benefit obligations	17	(53.2)	(74.5)
		(68.4)	(88.2)
TOTAL LIABILITIES		(123.9)	(135.6)
NET ASSETS		56.9	44.8
EQUITY			
Issued share capital	18	26.4	26.4
Share premium account		29.4	29.4
Currency translation reserve	20	5.9	7.0
Other reserves	20	1.4	0.9
Retained earnings	20	(8.3)	(20.7)
Equity attributable to equity holders of the parent		54.8	43.0
Non-controlling interests		2.1	1.8
TOTAL SHAREHOLDERS' EQUITY		56.9	44.8

Approved by the Board on 27 May 2011 and signed on its behalf by:

Matthew Peacock
Chairman

Robert Davies
Director

Consolidated statement of changes in equity for the year ended 31 March 2011

	Share capital £m Note 18	Share premium account £m	Retained earnings £m Note 20	Currency translation reserve £m Note 20	Other reserves £m Note 20	Attributable to owners of parent £m Note 20	Non- controlling interests £m	Total equity £m
At 1 April 2009	19.3	9.6	3.9	7.6	(1.9)	38.5	1.6	40.1
Loss for the year	–	–	(9.6)	–	–	(9.6)	(0.1)	(9.7)
Other comprehensive income	–	–	(15.1)	(0.6)	2.8	(12.9)	–	(12.9)
Total comprehensive income for the year	–	–	(24.7)	(0.6)	2.8	(22.5)	(0.1)	(22.6)
Share issue proceeds	7.1	21.4	–	–	–	28.5	–	28.5
Share issue costs	–	(1.6)	–	–	–	(1.6)	–	(1.6)
Employee share options:								
– value of employee services	–	–	0.1	–	–	0.1	–	0.1
Proceeds from non-controlling interests	–	–	–	–	–	–	0.3	0.3
At 31 March 2010	26.4	29.4	(20.7)	7.0	0.9	43.0	1.8	44.8
Loss for the year	–	–	(0.9)	–	–	(0.9)	–	(0.9)
Other comprehensive income	–	–	13.4	(1.1)	0.1	12.4	–	12.4
Total comprehensive income for the year	–	–	12.5	(1.1)	0.1	11.5	–	11.5
Share warrants	–	–	–	–	0.4	0.4	–	0.4
Employee share options:								
– value of employee services	–	–	(0.1)	–	–	(0.1)	–	(0.1)
Proceeds from non-controlling interests	–	–	–	–	–	–	0.3	0.3
At 31 March 2011	26.4	29.4	(8.3)	5.9	1.4	54.8	2.1	56.9

Consolidated statement of cash flows for the year ended 31 March 2011

	2011 £m	2010 £m
Cash flows from operating activities (Note 23)		
Cash generated from operations	6.6	0.9
Income taxes (paid)/refunded	(0.1)	1.0
Net cash from operating activities	6.5	1.9
Cash flows from investing activities		
Acquisition of subsidiary undertaking (Note 25)	(0.7)	(0.5)
Purchase of property, plant and equipment	(3.6)	(3.3)
Purchase of intangible assets	(3.0)	(0.9)
Proceeds from non-controlling interests capital injection	0.3	0.3
Net cash from investing activities	(7.0)	(4.4)
Cash flows from financing activities		
Financing costs paid	(2.0)	(5.6)
Proceeds from borrowings	9.5	3.0
Repayment of borrowings	(7.9)	(24.0)
Issue of ordinary shares	–	26.9
Payment of finance lease liabilities	(0.1)	(0.1)
Net cash from financing activities	(0.5)	0.2
Net decrease in cash and cash equivalents	(1.0)	(2.3)
Net cash and cash equivalents at beginning of year	5.9	8.6
Effects of exchange rate changes	–	(0.4)
Net cash and cash equivalents at end of year (Note 12)	4.9	5.9

Notes to the consolidated financial statements

1. Segmental information

For management purposes, the Group is organised into two reportable operating segments according to the nature of their products and services. Having considered the management reporting and organisational structure of the Group, the Directors have concluded that Renold plc has two reportable operating segments as follows:

- the Chain segment manufactures and sells power transmission and conveyor chain and also includes sales of Torque Transmission product through Chain National Sales Centres (**NSCs**); and
- the Torque Transmission segment manufactures and sells torque transmission products such as gearboxes and couplings used in power transmission.

No operating segments have been aggregated to form the above reportable segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The Chief Operating Decision Maker (**CODM**) for the purposes of IFRS 8 – Operating Segments is considered to be the Board of Directors of Renold plc. Segment performance is evaluated based on operating profit and loss and is measured consistently with operating profit and loss in the consolidated financial statements. However, Group financing (including finance costs and finance income), retirement benefit obligations and income taxes are managed on a Group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Year ended 31 March 2011	Chain £m	Torque Transmission £m	Head Office costs and eliminations £m	Consolidated £m
Revenue				
External customers	145.3	45.7	–	191.0
Inter-segment	0.5	6.9	(7.4)	–
Total revenue	145.8	52.6	(7.4)	191.0
Operating profit/(loss) before exceptional items	4.6	6.0	(3.6)	7.0
Exceptional items	(2.7)	–	–	(2.7)
Operating profit/(loss)	1.9	6.0	(3.6)	4.3
Net financing costs				(5.6)
Loss before tax				(1.3)
Other disclosures				
Inventories	34.3	9.8	–	44.1
Capital expenditure	2.8	1.1	3.2	7.1
Depreciation and amortisation	3.6	0.9	0.4	4.9

- Inter-segment revenues are eliminated on consolidation.
- Segment operating results do not include certain Head Office costs of £3.1m.
- Capital expenditure consists of additions to property, plant and equipment, and intangible assets including assets from the acquisition of subsidiaries.
- Included in Chain external sales is £12.6m of Torque Transmission product sold through the Chain NSCs. The Torque Transmission business may use the Chain NSC framework in countries where it does not have its own presence. Where this occurs Torque Transmission represents a low proportion of total sales for the NSC.
- The measure of segment assets reviewed by the CODM is inventories.

1. Segmental information continued

The segment results for the year ended 31 March 2010 have been restated to disclose Head Office costs separately in the Head Office and eliminations column rather than be allocated to the operating segments.

The results were as follows:

Year ended 31 March 2010 (restated)	Chain £m	Torque Transmission £m	Head Office costs and eliminations £m	Consolidated £m
Revenue				
External customer	111.2	44.9	–	156.1
Inter-segment	0.4	5.3	(5.7)	–
Total revenue	111.6	50.2	(5.7)	156.1
Operating (loss)/profit before exceptional items	(4.6)	4.1	(1.6)	(2.1)
Exceptional items	(2.2)	(0.3)	(0.2)	(2.7)
Operating (loss)/profit	(6.8)	3.8	(1.8)	(4.8)
Net financing costs				(8.8)
Loss before tax				(13.6)
Other disclosures				
Inventories	33.8	9.1	–	42.9
Capital expenditure	3.3	0.9	–	4.2
Depreciation and amortisation	4.1	0.9	–	5.0

- Inter-segment revenues are eliminated on consolidation.
- Segment operating results do not include certain Head Office costs of £3.9m³.
- Capital expenditure consists of additions to property, plant and equipment, and intangible assets including assets from the acquisition of subsidiaries.
- Included in Chain external sales is £9.7m of Torque Transmission product sold through the Chain NSCs. The Torque Transmission business may use the Chain NSC framework in countries where it does not have its own presence. Where this occurs Torque Transmission represents a low proportion of total sales for the NSC.
- The measure of segment assets reviewed by the CODM is inventories.

The Board reviews the performance of the business using information presented at consistent exchange rates ('underlying'). The prior year results have been restated using this year's exchange rates as follows:

Year ended 31 March 2010 (restated)	Chain £m	Torque Transmission £m	Head Office costs and eliminations £m	Consolidated £m
Revenue				
External customers	111.2	44.9	–	156.1
Foreign exchange	3.7	1.3	–	5.0
Underlying external sales	114.9	46.2	–	161.1
Operating (loss)/profit before exceptional items	(4.6)	4.1	(1.6)	(2.1)
Foreign exchange	0.1	–	–	0.1
Underlying operating (loss)/profit before exceptional items	(4.5)	4.1	(1.6)	(2.0)

³ Head Office costs of £3.9m were allocated £2.8m to Chain and £1.1m to Torque Transmission prior to the change in accounting treatment.

Notes to the consolidated financial statements

continued

1. Segmental information continued

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 principal operating territories are as follows:

- United Kingdom
- Rest of Europe
- North America
- Other countries

The sales analysis in the table below is based on the location of the customer; the analysis of non-current assets is based on the location of the assets:

	External revenues		Non-current assets	
	2011 £m	2010 £m	2011 £m	2010 £m
United Kingdom	16.5	14.7	15.0	12.5
Rest of Europe	56.0	44.3	15.3	15.8
North America	65.3	47.7	24.8	26.3
Other countries	53.2	49.4	22.4	22.5
	191.0	156.1	77.5	77.1

All revenue relates to the sale of goods. No individual customer, or group of customers, represents more than 10% of Group revenue (2010: none).

Non-current assets consist of goodwill, other intangible assets, property, plant and equipment and investment property. Other non-current assets and deferred tax assets are not included above.

2. Operating costs and exceptional items

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

	2011		2010	
	£m	£m	£m	£m
Change in finished goods and work in progress		0.3		2.9
Raw materials and consumables		79.7		66.7
Other external charges		28.8		25.0
Employee costs				
Gross wages and salaries	57.7		48.4	
Social security costs	8.2		7.8	
Pension costs				
– defined benefit (Note 17)	0.4		(0.5)	
– defined contribution (Note 17)	1.8		1.0	
Cost of share-based incentive plans	(0.1)		0.1	
		68.0		56.8
Depreciation of property, plant and equipment				
– owned assets		4.3		4.5
– leased assets		0.1		0.1
Amortisation of intangible assets		0.5		0.4
Operating leases – minimum lease payments				
– plant and machinery	0.5		0.5	
– property	2.1		2.0	
		2.6		2.5
Other operating income		(1.9)		(2.4)
Loss on disposal of property, plant and equipment		0.1		0.5
Research and development expenditure		0.5		0.4
Auditor's remuneration (Note 2(b))		0.6		0.6
Trade receivables impairment		0.1		0.2
Foreign exchange		0.3		–
Exceptional items (Note 2(c))		2.7		2.7
		186.7		160.9

(b) Auditor's remuneration

	2011	2010
	£000	£000
	Total	Total
Audit of the Group's annual financial statements	59	64
Audit of the Company's subsidiaries pursuant to legislation	221	241
Total audit fees	280	305
Taxation services	188	247
Corporate finance services	–	924
All other services	105	103
	573	1,579
This is analysed in the following captions in the financial statements:		
Exceptional financing costs	–	798
Share premium	–	126
Operating costs	573	655
	573	1,579

The Group's auditor also received fees of £29,000 for audit services provided to Group pension schemes (2010: £30,000). These were the only services provided to the pension schemes.

Notes to the consolidated financial statements

continued

2. Operating costs and exceptional items continued

(c) Exceptional items

	2011 £m	2010 £m
Included in operating costs		
Reorganisation and redundancy costs	2.7	2.7
	2.7	2.7

Exceptional costs associated with the restructuring of the Group's manufacturing and distribution facilities have originated as follows: UK £1.1m (2010: £1.2m), France £1.1m (2010: £0.1m), US £0.2m (2010: nil) and other countries £0.3m (2010: £1.4m).

	2011 £m	2010 £m
Included in financing costs		
Costs associated with refinancing	–	2.8
	–	2.8

(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:

	2011 £000	2010 £000
Short term employee benefits	674	602
Social security costs	54	47
Post employment benefits	63	70
Share-based payments	82	67
	873	786

Further details of the remuneration of Directors are provided in the auditable part of the Directors' remuneration report on pages 32 to 37. The credit to share-based payments follows the lapse of a number of options after the departure of the previous Finance Director.

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

	2011	2010
United Kingdom	614	591
Rest of Europe	454	368
North America	386	288
Other countries	1,058	909
	2,512	2,156

3. Net financing costs

	2011 £m	2010 £m
Financial costs		
Interest payable on bank loans and overdrafts	(2.1)	(2.6)
Amortised financing costs	–	(0.2)
Total financing costs	(2.1)	(2.8)
Financial revenue		
Ineffectiveness on net investment hedge	0.1	0.6
Total financing revenue	0.1	0.6
IAS 19 financing costs		
Interest cost on plan balances	(12.7)	(12.9)
Expected return on pension plan assets	9.1	9.1
Net IAS 19 financing costs	(3.6)	(3.8)
Exceptional financing costs		
Costs associated with refinancing	–	(2.8)
Total exceptional financing costs	–	(2.8)
Net financing costs	(5.6)	(8.8)

The Company has changed the presentation of the IAS 19 financing costs to show these as a single net item on the income statement of £3.6m (2010: £3.8m), which the Board considers appropriate to enable the reader to clearly distinguish IAS 19 financing costs from other financing costs. Previously the interest cost on pension plan balances and expected return on plan assets were reported under financial costs and financial revenue respectively, which were therefore previously reported as £15.7m total financing costs and £9.7m financial revenue in 2010.

4. Taxation

Analysis of tax (credit)/charge in the year

	2011 £m	2010 £m
United Kingdom		
UK corporation tax at 28% (2010: 28%)	–	0.2
Less: double taxation relief	–	(0.2)
	–	–
Overseas taxes		
Corporation taxes	0.7	(0.2)
Withholding taxes	0.1	–
Current income tax charge/(credit)	0.8	(0.2)
Deferred tax		
UK – origination and reversal of temporary differences	(0.1)	(0.5)
Overseas – origination and reversal of temporary differences	(1.1)	(3.2)
Total deferred tax credit	(1.2)	(3.7)
Tax credit on loss on ordinary activities	(0.4)	(3.9)
	2011 £m	2010 £m
Tax on items taken to other comprehensive income		
Deferred tax on changes in net pension deficits	(7.0)	4.9
Tax charge in the statement of other comprehensive income	(7.0)	4.9

Notes to the consolidated financial statements

continued

4. Taxation continued

Factors affecting the Group tax charge for the year

Announcements were made in the Budget on 23 March 2011 that the main rate of corporation tax is to be reduced from 28% to 26% with effect from 1 April 2011 and then by 1% per year to 23%.

Only the first 2% reduction above has been enacted at the Balance Sheet date and hence only this change has been recognised in the accounts.

This has resulted in a £0.3m deferred tax charge to the income statement and a £1.0m deferred tax charge to other comprehensive income, due to the reduction in the value of the deferred tax assets recognised in the UK. Based on the closing deferred tax assets at the Balance Sheet date, the aggregate impact of the proposed reductions from 26% to 23% would reduce the deferred tax asset by approximately £1.3m (approximately £0.4m per 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 actual tax on the Group's loss before tax differs from the theoretical amount using the UK corporation tax rate as follows:

	2011 £m	2010 £m
Loss on ordinary activities before tax	(1.3)	(13.6)
Theoretical tax credit at 28% (2010: 28%)	(0.4)	(3.8)
Effects of:		
Permanent differences	(0.3)	0.6
Overseas tax rate differences	(0.2)	(0.5)
Recognition of tax losses	0.2	–
Utilisation of brought forward unrecognised tax losses	–	(1.2)
Other temporary differences	–	1.2
Change in tax rate	0.3	–
Adjustments in respect of prior periods	–	(0.2)
Total tax credit	(0.4)	(3.9)

5. (Loss)/earnings per share

(Loss)/earnings per share (EPS) is calculated by reference to the (loss)/earnings for the year and the weighted average number of shares in issue during the year as follows:

	2011			2010		
	Loss £m	Shares (thousands)	Per share amount (pence)	Loss £m	Shares (thousands)	Per share amount (pence)
Basic EPS						
Loss attributed to ordinary shareholders	(0.9)	219,565	(0.4)	(9.7)	120,520	(8.0)
Diluted EPS	(0.9)	219,565	(0.4)	(9.7)	120,520	(8.0)

5. (Loss)/earnings per share continued

	2011			2010		
	(Loss)/ earnings £m	Shares (thousands)	Per share amount (pence)	(Loss)/ earnings £m	Shares (thousands)	Per share amount (pence)
Adjusted EPS						
Basic EPS	(0.9)	219,565	(0.4)	(9.7)	120,520	(8.0)
Effect of exceptional items, after tax:						
Redundancy and restructuring	2.8		1.2	2.5		2.1
Exceptional financing costs	–		–	2.8		2.3
Net finance costs arising on pension plan assets	2.6		1.2	2.7		2.2
Adjusted EPS	4.5	219,565	2.0	(1.7)	120,520	(1.4)

Inclusion of the dilutive securities, comprising 1,293,000 additional shares due to share options and 1,107,000 additional shares due to warrants over shares, the calculation of adjusted EPS does not change the amounts shown above (2010: no change). In 2010, there was a basic and adjusted loss per share, so share options and warrants were excluded from the EPS calculation on the grounds that these were anti-dilutive.

Further details in relation to the warrants can be found in Note 20.

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. Due to the existence of unrecognised deferred tax assets, there was no associated tax credit on the exceptional charges and so exceptional costs are added back in full.

6. Dividends

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

7. Intangible assets

	Goodwill £m	Computer software £m	Total £m
Cost			
At 1 April 2009	24.5	3.7	28.2
Exchange adjustment	(1.0)	–	(1.0)
Additions	–	0.9	0.9
Disposals	–	(0.2)	(0.2)
At 1 April 2010	23.5	4.4	27.9
Exchange adjustment	(1.1)	–	(1.1)
Additions	–	3.0	3.0
At 31 March 2011	22.4	7.4	29.8
Accumulated amortisation and impairment			
At 1 April 2009	–	2.6	2.6
Amortisation charge	–	0.4	0.4
Disposals	–	(0.2)	(0.2)
At 1 April 2010	–	2.8	2.8
Amortisation charge	–	0.5	0.5
At 31 March 2011	–	3.3	3.3
Net book amount at 31 March 2011	22.4	4.1	26.5
Net book amount at 31 March 2010	23.5	1.6	25.1
Net book amount at 31 March 2009	24.5	1.1	25.6

Notes to the consolidated financial statements

continued

7. Intangible assets continued

Goodwill is tested for impairment at least annually. No impairment charge has been recognised in the period (2010: £nil).

For the purposes of impairment testing of goodwill, these businesses are defined as CGUs.

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

	2011 £m	2010 £m
Jeffrey Chain, US	18.1	19.1
Renold Hangzhou, China	1.5	1.5
Ace Chains, Australia	0.5	0.5
Renold Chain India	2.3	2.4
	22.4	23.5

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 three financial periods as approved by the Board. Cash flows beyond the three 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 three financial years. The expected sales prices and volumes reflect management's experience of how sales will develop at this point of the economic cycle. The expected profit margin reflects management's experience of each CGU's profitability at the forecast level of sales and incorporates the impact of any restructuring that took place during the year ended 31 March 2011.

Growth and discount rates

Cash flows beyond the period of projections are extrapolated using the long term growth rate published by the Organisation for Economic Co-operation and Development for the territory in which the CGU is based. Discount rates applied to the cash flow forecasts reflect the current market assessment of the risks specific to each CGU.

CGU	Growth rates		Discount rates	
	2011 %	2010 %	2011 %	2010 %
Jeffrey Chain, US	2.8	3.0	15.2	14.7
Renold Hangzhou, China	10.7	8.1	12.4	14.2
Ace Chains, Australia	3.5	3.7	14.1	11.5
Renold Chain India	6.9	7.0	21.3	21.6

The discount rates applied to the cash flows of each of the CGUs are based on the risk free rate for long term bonds (typically ten years) issued by the government in the respective market. This is then adjusted to reflect both the increased risk of investing in equities and the systematic risk of the specific CGU. In determining the risk adjusted discount rate, management has applied an adjustment for the systematic risk to each of the CGUs 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 Jeffrey Chain, Renold Hangzhou, Ace Chains and Renold Chain India to materially exceed each CGU's recoverable amount.

8. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 April 2009	22.2	123.5	145.7
Exchange adjustment	0.8	(1.2)	(0.4)
Additions	0.3	3.0	3.3
Disposals	–	(4.2)	(4.2)
At 1 April 2010	23.3	121.1	144.4
Exchange adjustment	0.1	(1.4)	(1.3)
Additions	0.2	3.9	4.1
Disposals	–	(2.2)	(2.2)
At 31 March 2011	23.6	121.4	145.0
Accumulated depreciation			
At 1 April 2009	2.8	91.8	94.6
Exchange adjustment	–	(1.0)	(1.0)
Charge for the year	0.4	4.2	4.6
Disposals	–	(3.7)	(3.7)
At 1 April 2010	3.2	91.3	94.5
Exchange adjustment	–	(0.9)	(0.9)
Charge for the year	0.3	4.1	4.4
Exceptional impairment charge	–	0.2	0.2
Disposals	–	(2.1)	(2.1)
At 31 March 2011	3.5	92.6	96.1
Net book amount at 31 March 2011	20.1	28.8	48.9
Net book amount at 31 March 2010	20.1	29.8	49.9
Net book amount at 31 March 2009	19.4	31.7	51.1

The book amount for plant and equipment includes £0.1m (2010: £0.2m) in respect of assets acquired under finance leases.

Future capital expenditure

At 31 March 2011 capital expenditure contracted for but not provided for in these accounts amounted to £1.3m (2010: £0.8m).

Notes to the consolidated financial statements

continued

9. Investment property

	£m
Cost	
At 1 April 2009	2.3
Exchange adjustment	(0.1)
At 1 April 2010	2.2
Exchange adjustment	–
At 31 March 2011	2.2
Accumulated depreciation	
At 1 April 2009	0.1
Charge for the year	–
At 1 April 2010	0.1
Charge for the year	–
At 31 March 2011	0.1
Net book amount at 31 March 2011	2.1
Net book amount at 31 March 2010	2.1
Net book amount at 31 March 2009	2.2

The present sublease of the Group's 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 £0.3m (2010: £0.3m). The total future minimum lease payments under the non-cancellable term amount to £0.6m (2010: £0.9m) and of this £0.3m (2010: £0.3m) is due within one year and £0.3m (2010: £0.6m) is due between one and two years from the Balance Sheet date.

The property has been accounted for on a cost model basis with a value of £0.6m in respect of land and £1.6m in respect of the building. The most recent valuation of the 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 £2.2m based on similar market transactions of properties in the area at that time. The Directors are not aware of any long term circumstances that have arisen to materially alter that external valuation.

10. Inventories

	2011 £m	2010 £m
Materials	8.4	6.6
Work in progress	9.7	9.9
Finished products	26.0	26.4
	44.1	42.9

Inventories pledged as security for liabilities amounted to £17.4m (2010: £14.7m). Write-offs taken to the income statement amount to £1.2m (2010: £1.0m).

11. Trade and other receivables

	2011 Current £m	2011 Non-current £m	2010 Current £m	2010 Non-current £m
Trade receivables ⁴	30.0	–	26.1	–
Less: impairment provision	(0.6)	–	(0.7)	–
Trade receivables – net	29.4	–	25.4	–
Other receivables ⁴	1.4	0.3	1.6	0.3
Prepayments and accrued income	2.0	0.1	1.3	0.1
	32.8	0.4	28.3	0.4

⁴ Financial assets carried at cost.

The Group has no significant concentration of credit risk but does have a concentration of translational and transactional foreign exchange risk in both US Dollars and Euros. However, the Group hedges against these risks.

Trade receivables are non-interest bearing and are generally on 30-90 days' terms. See Note 24(d) 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	<30 days £m	Past due but not impaired		
			30-60 days £m	60-90 days £m	>90 days £m	
2011	29.4	24.8	2.8	0.6	0.3	0.9
2010	25.4	20.9	3.0	0.8	0.3	0.4

	2011 £m	2010 £m
Movement on impairment provision		
Opening provision	0.7	0.7
Exchange adjustment	0.1	(0.1)
Net charge to income statement	0.1	0.2
Utilised in year through assets written off	(0.3)	(0.1)
Closing provision	0.6	0.7

12. Cash and cash equivalents

	2011 £m	2010 £m
Cash at bank and in hand	7.2	5.1
Short term bank deposits	0.2	2.2
Cash and cash equivalents	7.4	7.3

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

	2011 £m	2010 £m
Cash and cash equivalents (as shown above)	7.4	7.3
Less: Overdrafts (Note 13)	(2.5)	(1.4)
Net cash and cash equivalents	4.9	5.9

Notes to the consolidated financial statements

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13. Borrowings

	2011 £m	2010 £m
Amounts falling due within one year:		
Overdrafts	2.5	1.4
Bank loans	11.0	11.9
Obligations under finance leases	0.1	0.1
	13.6	13.4
Amounts falling due after more than one year:		
Bank loans	13.2	11.2
Obligations under finance leases	0.1	0.1
	13.3	11.3
Preference Stock	0.5	0.5
	13.8	11.8
Total borrowings (Note 24(d))	27.4	25.2

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

The Group's principal credit facility is a £20.0m Multi Revolving Credit Facility. The facility expires in June 2012. At the year end the undrawn facility was £8.6m (2010: £11.7m). The Group pays interest at LIBOR plus a variable margin in respect of this facility. The average rate of interest paid in the year was LIBOR plus 2.5%. This facility has a number of financial and non-financial covenants which are tested on a quarterly basis. The Group also benefits from numerous overseas facilities.

Secured borrowings

Included in Group borrowings are secured borrowings of £19.8m (2010: £16.9m). 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.

	2011 £m	2010 £m
Obligations under finance leases		
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
Allocated as:		
Current obligations	0.1	0.1
Non-current obligations	0.1	0.1
	0.2	0.2

Preference Stock

At 31 March 2011 there were 580,482 units of Preference Stock in issue (2010: 580,482).

All payments of dividends on the Preference Stock have been paid on the due dates. The Preference Stock has the following rights:

- (i) a fixed cumulative preferential dividend at the rate of 6% per annum payable half yearly on 1 January and 1 July in each year;
- (ii) rank both with regard to dividend (including any arrears on the commencement of a winding up) and return of capital in priority to all other stock or shares in the Company, but with no further right to participate in profits or assets;
- (iii) no right to attend or vote, either in person or by proxy, at any general meeting of the Company or to have notice of any such meeting, unless the dividend on the Preference Stock is in arrears for six calendar months; and
- (iv) no redemption entitlement.

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

14. Trade and other payables

	2011 Current £m	2011 Non-current £m	2010 Current £m	2010 Non-current £m
Trade payables ⁵	21.6	–	20.1	–
Other tax and social security	2.0	–	1.9	–
Other payables ⁵	1.9	0.1	1.3	–
Accruals and deferred income ⁵	14.1	0.5	9.7	0.5
	39.6	0.6	33.0	0.5

⁵ Financial liabilities carried at amortised cost.

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

15. Provisions

	Business restructuring £m	Contingent consideration £m	Total provisions £m
At 1 April 2010	0.6	0.5	1.1
Exchange adjustment	–	0.1	0.1
Arising during the year	0.6	–	0.6
Utilised in year	(0.6)	–	(0.6)
At 31 March 2011	0.6	0.6	1.2

Allocated as:	2011 £m	2010 £m
Current provisions	1.2	0.6
Non-current provisions	–	0.5
	1.2	1.1

Business restructuring

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

Contingent consideration

Renold (Hangzhou) Co Limited – China

A provision was established following the acquisition of 90% of the equity interest in Renold (Hangzhou) Co Limited in the period ended 31 March 2008.

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16. Deferred tax

	Assets		Liabilities		Net	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Accelerated capital allowances	0.8	1.3	(0.3)	(0.3)	0.5	1.0
Pension plans	10.0	16.6	(0.5)	(0.4)	9.5	16.2
Tax losses	6.4	5.9	0.1	0.1	6.5	6.0
Other temporary differences	(0.3)	(0.9)	(0.1)	(0.3)	(0.4)	(1.2)
Tax assets/(liabilities)	16.9	22.9	(0.8)	(0.9)	16.1	22.0
Net off (liabilities)/assets	(0.8)	(0.9)	0.8	0.9	–	–
Net deferred tax assets	16.1	22.0	–	–	16.1	22.0

The net deferred tax asset recoverable after more than one year is £16.1m (2010: £22.0m).

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

	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
2011					
Accelerated capital allowances	1.3	–	(0.5)	–	0.8
Pension plans	16.6	–	0.3	(6.9)	10.0
Tax losses	5.9	(0.2)	0.7	–	6.4
Other temporary differences	(0.9)	0.1	0.5	–	(0.3)
	22.9	(0.1)	1.0	(6.9)	16.9

	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
2010					
Accelerated capital allowances	1.4	(0.1)	–	–	1.3
Pension plans	10.7	0.1	0.5	5.3	16.6
Tax losses	4.6	0.2	1.1	–	5.9
Other temporary differences	(2.5)	(0.2)	1.8	–	(0.9)
	14.2	–	3.4	5.3	22.9

16. Deferred tax continued

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

	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
2011					
Accelerated capital allowances	(0.3)	–	–	–	(0.3)
Pension plans	(0.4)	–	–	(0.1)	(0.5)
Tax losses	0.1	–	–	–	0.1
Other temporary differences	(0.3)	–	0.2	–	(0.1)
	(0.9)	–	0.2	(0.1)	(0.8)
2010					
Accelerated capital allowances	(1.5)	0.2	1.0	–	(0.3)
Pension plans	0.3	(0.1)	(0.2)	(0.4)	(0.4)
Tax losses	–	–	0.1	–	0.1
Other temporary differences	0.3	–	(0.6)	–	(0.3)
	(0.9)	0.1	0.3	(0.4)	(0.9)

During the year the Group has reported an operating profit of £7.0m, before exceptional items. The businesses in all jurisdictions where deferred tax assets have been recognised will, more likely than not, generate suitable profits based on approved management forecasts from which the future reversal of the underlying timing differences can be deducted.

Unrecognised deferred tax assets amount to £18.8m (2010: £18.1m) arising from unrecognised losses of £16.5m (2010: £15.6m) representing losses of £52.4m (2010: £50.0m) and other timing differences of £2.3m (2010: £2.5m). Based on available evidence, it is considered unlikely that these amounts will be recovered within the foreseeable future. Materially all of these losses are not subject to time limits.

17. Pensions

The Group operates a number of pension plans throughout the world covering many of its employees. The principal funds are those in the UK: (i) the Renold Group Pension Scheme (**RGPS**); (ii) the Jones & Shipman plc Retirement Benefits Plan (**J&S**); 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 and RSPS ceased in August 2008 and 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 Company and trustees are completing discussions on a revised recovery plan following the most recent triennial valuation of the RGPS and RSPS as at 5 April 2010 carried out by Barnett Waddingham, professionally qualified actuaries. It has been agreed in principal that the current level of contributions will continue with the Group paying an additional £0.6m per annum in respect of outstanding legacy PPF levies met by the schemes. Current contributions are £2.1m per annum indexed by RPI for the next three years. In 2014/15 contributions will increase by £0.6m for the remainder of the 15 year deficit recovery plan. The J&S triennial review as at April 2009 was completed in the prior year and annual contributions amount to £0.3m. This scheme is approaching a funding surplus and there may be scope to reassess these if the position is maintained at the next triennial review in 2012.

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

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17. Pensions continued

The principal financial assumptions used to calculate plan liabilities as at 31 March 2011 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	
	2011	2010	2011	2010
Rate of increase in pensionable salaries ⁶	–	–	2.0%	2.3%
Rate of increase in pensions in payment and deferred pensions	2.6%	3.5%	1.5%	1.5%
Discount rate	5.6%	5.6%	5.6%	5.6%
Inflation assumption ⁷	2.75%	3.7%	1.7%	2.1%
Expected return on plan assets	6.25%	6.5%	7.2%	7.3%

⁶ No increase applies following the closure of the UK defined benefit pension schemes to future accrual.

⁷ Inflation assumption used for UK schemes was changed to a blend of RPI and CPI in 2011 (2010: RPI only).

The expected rates of return on plan assets used in the period is 6.0% (6.25% less 0.25% for expenses) for UK schemes (2010: 6.25%) and 7.2% (2010: 7.3%) for overseas schemes.

The UK Government announced in 2010 its intention to adopt consumer price inflation (CPI) rather than retail price inflation (RPI) for statutory minimum pension revaluations/indexation from 1 January 2011. This change mainly impacts the deferred element of the UK schemes where pension revaluation is linked to the statutory minimum. The reduction in liability at 31 March 2011 from applying the CPI assumption where relevant was £6.4m (before tax) which has been accounted for as an assumption change and recognised through the Statements of Comprehensive Income (CPI assumed to be 0.75% lower than RPI).

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 (£178.9m of the £194.3m 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).

	2011	2010
Retiring today		
Males	19.1	19.6
Females	21.2	22.3
Retiring in 20 years		
Males	20.5	20.8
Females	22.8	23.4

The post-retirement mortality tables used for the plan are the S1PA series tables published by the UK Actuarial Profession (2010: PA92 series tables). 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 on the basis of nine years actual mortality experience. The effect of this adjustment and the change in base tables was to reduce life expectancy. The assumed life expectancy is slightly longer for the other two UK defined benefit plans. The net impact of actual mortality experience gains and changes to forecast mortality has been to reduce the UK deficits by approximately £10m.

17. Pensions continued

Sensitivity analysis:

Assumption	Change in assumption	Impact on plan liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £2.3m
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease by £1.6m
Rate of mortality	Increase by one year	Increase by £6.3m

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	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Equities	85.2	70.1	7.6	7.8	92.8	77.9
Bonds	65.8	66.8	4.0	4.6	69.8	71.4
Other	(1.9)	10.8	2.6	5.1	0.7	15.9
Total market value of assets	149.1	147.7	14.2	17.5	163.3	165.2

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

Pension obligations

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

	2011			2010		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Opening obligation	(197.4)	(40.8)	(238.2)	(157.8)	(43.6)	(201.4)
Current service cost	–	(0.5)	(0.5)	(0.1)	(0.5)	(0.6)
Interest cost	(10.8)	(1.9)	(12.7)	(10.5)	(2.4)	(12.9)
Contributions by plan participants	–	(0.1)	(0.1)	–	(0.2)	(0.2)
Actuarial gains/(losses)	19.9	0.2	20.1	(40.9)	2.2	(38.7)
Curtailments gains	–	0.1	0.1	1.1	–	1.1
Benefits paid	9.4	2.2	11.6	10.8	3.4	14.2
Scheme in wind up	–	–	–	–	1.5	1.5
Liabilities extinguished on settlement	–	4.5	4.5	–	–	–
Exchange adjustment	–	0.4	0.4	–	(1.2)	(1.2)
Closing obligation	(178.9)	(35.9)	(214.8)	(197.4)	(40.8)	(238.2)

The total defined benefit obligation can be analysed as follows:

Funded pension plans	(178.9)	(15.4)	(194.3)	(197.4)	(19.6)	(217.0)
Unfunded pension plans	–	(20.5)	(20.5)	–	(21.2)	(21.2)
	(178.9)	(35.9)	(214.8)	(197.4)	(40.8)	(238.2)

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17. Pensions continued

Pension assets

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

	2011			2010		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Opening assets	147.7	17.5	165.2	130.7	15.6	146.3
Expected return	8.4	0.7	9.1	8.0	1.1	9.1
Actuarial gains/(losses)	(0.3)	0.6	0.3	17.7	1.0	18.7
Employer contributions	2.7	0.9	3.6	2.1	1.3	3.4
Participant contributions	–	0.1	0.1	–	0.2	0.2
Benefits paid	(9.4)	(1.0)	(10.4)	(10.8)	(2.2)	(13.0)
Assets distributed on settlement	–	(4.5)	(4.5)	–	(1.5)	(1.5)
Exchange adjustment	–	(0.1)	(0.1)	–	2.0	2.0
Closing assets	149.1	14.2	163.3	147.7	17.5	165.2
Balance sheet reconciliation:						
Plan obligations	(178.9)	(35.9)	(214.8)	(197.4)	(40.8)	(238.2)
Plan assets	149.1	14.2	163.3	147.7	17.5	165.2
Net deficit	(29.8)	(21.7)	(51.5)	(49.7)	(23.3)	(73.0)
Analysed as follows:						
Current assets						
Retirement benefit surplus	–	1.7	1.7	–	1.5	1.5
Non-current liabilities						
Retirement benefit obligations	(29.8)	(23.4)	(53.2)	(49.7)	(24.8)	(74.5)
Net deficit	(29.8)	(21.7)	(51.5)	(49.7)	(23.3)	(73.0)

The retirement benefit surplus shown above is a net £1.7m (2010: £1.5m) balance in respect of a closed South African defined benefit pension scheme. Following a number of key events in respect of the South African scheme, in accordance with South African legislation, a surplus was identified. These events included a surplus apportionment exercise undertaken by the Company and trustees. As a result of these events the surplus qualifies as an asset under IFRIC 14 and therefore has been recognised in the balance sheet. The Directors expect that upon final liquidation of the scheme the Group will receive a cash settlement of this amount.

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

	2011			2010		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Gains/(losses) arising on plan obligations	19.9	0.2	20.1	(40.9)	2.2	(38.7)
(Losses)/gains arising on plan assets	(0.3)	0.6	0.3	17.7	1.0	18.7
Net gains/(losses)	19.6	0.8	20.4	(23.2)	3.2	(20.0)

The actual return on plan assets was £9.4m (2010: gain £27.8m).

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

	2011 £m	2010 £m
Operating costs		
Current service cost	(0.5)	(0.6)
Gains on curtailments	0.1	1.1
	(0.4)	0.5

17. Pensions continued

History of experience gains and losses

	UK				
	2011	2010	2009	2008	2007
Experience adjustments on plan assets (£m)	(0.3)	17.7	(31.5)	(11.0)	(3.5)
Percentage of plan assets	(0.2%)	12.0%	(24.1%)	(6.9%)	(2.1%)
Experience adjustments on plan liabilities (£m)	19.9	(40.9)	12.5	26.8	4.5
Percentage of present value of plan liabilities	11.1%	(20.7%)	7.9%	16.0%	2.3%
Present value of plan liabilities (£m)	(178.9)	(197.4)	(157.8)	(168.0)	(192.5)
Fair value of plan assets (£m)	149.1	147.7	130.7	158.5	164.4
Deficit (£m)	(29.8)	(49.7)	(27.1)	(9.5)	(28.1)

	Overseas				
	2011	2010	2009	2008	2007
Experience adjustments on plan assets (£m)	0.6	1.0	(3.7)	(0.9)	0.8
Percentage of plan assets	4.2%	5.7%	(23.7%)	(5.9%)	5.3%
Experience adjustments on plan liabilities (£m)	0.2	2.2	0.4	1.1	(0.9)
Percentage of present value of plan liabilities	0.6%	5.4%	0.9%	3.0%	(2.6%)
Present value of plan liabilities (£m)	(35.9)	(40.8)	(43.6)	(36.9)	(35.0)
Fair value of plan assets (£m)	14.2	17.5	15.6	15.2	15.1
Deficit (£m)	(21.7)	(23.3)	(28.0)	(21.7)	(19.9)

	Total				
	2011	2010	2009	2008	2007
Experience adjustments on plan assets (£m)	0.3	18.7	(35.2)	(11.9)	(2.7)
Percentage of plan assets	0.1%	11.3%	(24.1%)	6.9%	1.5%
Experience adjustments on plan liabilities (£m)	20.1	(38.7)	12.9	27.9	3.6
Percentage of present value of plan liabilities	9.4%	(16.2%)	6.4%	13.6%	1.6%
Present value of plan liabilities (£m)	(214.8)	(238.2)	(201.4)	(204.9)	(227.5)
Fair value of plan assets (£m)	163.3	165.2	146.3	173.7	179.5
Deficit (£m)	(51.5)	(73.0)	(55.1)	(31.2)	(48.0)

The cumulative amount of actuarial losses recognised in other comprehensive income since 4 April 2004 was £26.2m (2010: £46.6m).

The Group operates a number of defined contribution plans. The cost for the period was £1.8m (2010: £1.0m) and were fully paid up.

18. Called up share capital

	Issued	
	2011 £m	2010 £m
Ordinary shares of 5p each	11.0	11.0
Deferred shares of 20p each	15.4	15.4
	26.4	26.4

On 9 December 2009, each issued ordinary share of 25p was subdivided and converted into one ordinary share of 5p and one deferred share of 20p. The deferred shares have no voting or dividend rights.

On 10 December 2009, 87,500,000 new ordinary shares of 5p each were issued through a placing and open offer and 55,000,000 new ordinary shares of 5p each were issued through a firm placing raising £28.5m gross (£26.9m after transaction expenses). The new shares rank pari passu with the existing ordinary shares.

At 31 March 2011, the issued ordinary share capital comprised 219,564,703 ordinary shares of 5p each (2010: 219,564,703) and 77,064,703 deferred shares of 20p each (2010: 77,064,703).

During the year the Company issued no ordinary shares (2010: 142.5m).

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19. Share-based payments

Details of the share-based payment arrangements are provided in the Directors' remuneration report on pages 32 to 37. At 31 March 2011, unexercised options for ordinary shares amounted to 7,335,447 (2010: 10,903,517).

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

	2011 Executive share option scheme	2010 Executive share option scheme
Grant date	27.9.10	5.2.10
Share price at date of grant	27.0p	23.0p
Exercise price	27.3p	23.2p
Number of employees	1	8
Shares under option	678,898	6,474,849
Vesting period (years)	3	3
Expected volatility	50%	48.0%
Option life (years)	10	10
Expected life (years)	6	6
Risk free interest rate	1.2%	1.9%
Assumed dividends expressed as a dividend yield	Zero	Zero
Possibility of ceasing employment before vesting	Zero	Zero
Fair value per option	12.8p	10.9p
Probability of meeting market based vesting conditions	40%	40%

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise based on historical data. The risk free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life. Dividend yields indicated above are an expression of assumed dividends over the respective periods included in the calculation. These assumptions may not be borne out in practice. A reconciliation of option movements over the year ended 31 March 2011 is shown on the following page:

Executive share option schemes

	2011		2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	10,903,517	41.2p	5,424,596	69.9p
Granted	678,898	27.3p	6,474,849	23.2p
Lapsed	(1,641,760)	65.1p	(745,742)	83.4p
Forfeited	(2,605,208)	42.1p	(250,186)	70.4p
Outstanding at 31 March	7,335,447	34.3p	10,903,517	41.2p
Exercisable at 31 March	1,586,604	69.9p	2,203,159	71.0p

Savings related share option scheme

	2011		2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	–	–	679,711	46.2p
Granted	–	–	(674,615)	46.2p
Lapsed	–	–	(5,096)	46.2p
Outstanding at 31 March	–	–	–	–
Exercisable at 31 March	–	–	–	–

19. Share-based payments continued

Executive share option schemes

Range of exercise prices	Weighted average exercise price	2011		2010			
		Number of shares	Weighted average remaining life		Number of shares	Weighted average remaining life	
			Contractual	Expected		Expected	Contractual
23.2p to 63.3p	27.1p	6,307,855	4.4	8.2	7,510,728	5.2	9.1
64.6p to 80.5p	72.7p	792,713	–	3.3	2,776,233	2.9	6.9
85.2p to 100.9p	97.2p	234,879	1.8	5.8	616,556	2.5	6.2

No options have been exercised in the period (2010: nil). The total credit for the year relating to employee share-based payment plans was £0.3m (2010: charge £0.1m), all of which related to equity settled share-based transactions. After deferred tax, the total credit was £0.3m (2010: charge £0.1m).

A charge of £0.2m has been made in the year in relation to the equity portion of the Executive Directors' bonus arrangements (2010: nil). The terms of the scheme are outlined in the Director's report on page 33.

The middle market price of ordinary shares in the Company at 31 March 2011 was 33.0p and the range of prices during the year was 23.0p to 45.0p.

20. Reserves

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

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

Cumulative goodwill written off directly to Group reserves at 31 March 2011, subsequent to the capital reorganisation in January 1985, amounted to £2.0m (2010: £2.0m).

Other reserves include £0.4m being the fair value of warrants issued to the Group's lenders as part of the refinancing that was completed in August 2009. The warrants are over 3,500,000 ordinary shares of 5p each and have a seven year term commencing from 13 August 2009 during which they can be exercised at any time.

Included in retained earnings is an amount of £7.0m (net of tax) (2010: £7.0m) 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.

21. Operating lease obligations

The Group has entered into leases on commercial properties and plant and equipment. Minimum rental commitments under non-cancellable operating leases at the year end are as follows:

	2011		2010	
	Properties	Equipment	Properties	Equipment
	£m	£m	£m	£m
Within one year	1.8	0.5	2.1	0.5
Between two and five years	6.1	0.6	6.8	0.4
Over five years	18.3	–	19.5	–
	26.2	1.1	28.4	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 £1.2m (2010: £0.9m).

Notes to the consolidated financial statements

continued

22. Contingent liabilities

Performance guarantees given to third parties in respect of Group companies were £3.7m (2010: £3.8m) associated with the disposal of the automotive business in 2006. This expires in July 2012.

23. Additional cash flow information

Reconciliation of operating profit/(loss) to net cash flows from operations:

	2011 £m	2010 £m
Cash generated from operations:		
Operating profit/(loss)	4.3	(4.8)
Depreciation and amortisation	4.9	5.0
Impairment charge included in exceptional items	0.2	–
Loss on plant and equipment disposals	0.1	0.5
Equity share plans	(0.1)	0.1
(Increase)/decrease in inventories	(1.6)	4.0
(Increase)/decrease in receivables	(4.6)	8.6
Increase/(decrease) in payables	7.7	(5.3)
Increase/(decrease) in provisions	–	(2.2)
Movement on pension plans	(4.4)	(5.1)
Movement in derivative financial instruments	0.1	0.1
Cash generated from operations	6.6	0.9

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

	2011 £m	2010 £m
Decrease in cash and cash equivalents	(1.0)	(2.3)
Change in net debt resulting from cash flows	(1.6)	21.0
Foreign currency translation differences	0.5	0.6
Change in net debt during the period	(2.1)	19.3
Net debt at start of year	(17.9)	(37.2)
Net debt at end of year	(20.0)	(17.9)
Net debt comprises:		
Cash and cash equivalents (Note 12)	7.4	7.3
Total borrowings (Note 13)	(27.4)	(25.2)
	(20.0)	(17.9)

24. Financial instruments

These notes should be read in conjunction with the narrative disclosures in the Finance Director's review on pages 14 to 19.

Exchange rate sensitivity

The table on the following page demonstrates the sensitivity to a reasonably possible change in the US Dollar (**US\$**) and Euro exchange rates, with all other variables held constant, of the Group's loss before tax (due to the effect of foreign exchange on monetary assets and liabilities denominated in a different currency to the functional currency of operation) and the Group's equity (due to the effect on other comprehensive income of changes in the fair value of forward exchange contracts and the effect of hedging borrowings). The impact of translating the net assets of foreign operations into Sterling is excluded from the sensitivity analysis.

24. Financial instruments continued

Change in US Dollar rate:

	Increase/ (decrease) in US\$ rate	Effect on loss before tax £m	Effect on shareholder equity £m
2011	25% (10%)	0.4 (0.3)	2.7 (1.5)
2010	25% (10%)	1.9 (1.2)	0.6 (0.2)

Change in Euro rate:

	Increase/ (decrease) in Euro rate	Effect on loss before tax £m	Effect on shareholder equity £m
2011	25% (10%)	0.3 (0.2)	2.1 (1.2)
2010	25% (10%)	0.3 (0.1)	2.5 (1.5)

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	2011 Effect on loss before tax £m	2010 Effect on loss before tax £m
Sterling	+150	–	–
US Dollar	+150	(0.2)	(0.2)
Euro	+150	(0.1)	–
Other	+150	(0.2)	(0.2)
		(0.5)	(0.4)

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

	2011 £m	2010 £m
Current liabilities:		
Forward foreign currency contracts – cash flow hedge	(0.2)	(0.2)

The cash flow hedges of the expected future transactions in US Dollars and Euros were assessed to be highly effective. In the period £nil (2010: loss £0.1m) was transferred to operating costs in the income statement.

(b) Short term receivables and payables

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

(c) Hedge of net investment in foreign entity

The Group has US Dollar denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in the US. The carrying value of the US Dollar borrowings at 31 March 2011 was £8.1m (1 April 2010: £8.5m). A foreign exchange gain of £0.4m (2010: £nil) on translation of the borrowings into Sterling is included as part of the hedging reserve movement in other comprehensive income as this was deemed to be effective. An additional foreign exchange gain of £0.1m (2010: £0.6m) is included in net financing costs as interest income on financial assets not at fair value as a portion of the hedge of the net investment in the US subsidiaries was deemed not to be effective.

Notes to the consolidated financial statements

continued

24. Financial instruments continued

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

Currency	2011			2010		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Sterling						
– Financial liabilities	0.2	1.1	1.3	0.2	–	0.2
– Preference Stock	0.5	–	0.5	0.5	–	0.5
US Dollar	–	10.3	10.3	–	11.4	11.4
Euro	–	3.8	3.8	–	0.9	0.9
Other	0.4	11.1	11.5	0.4	11.8	12.2
	1.1	26.3	27.4	1.1	24.1	25.2

The Preference Stock has no fixed repayment date.

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 US and Europe, the Group's Balance Sheet can be affected significantly by movements in the US Dollar/Sterling and Euro/Sterling exchange rates.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 11. There are no significant concentrations of credit risk within the Group.

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

(e) Currency and interest rate profile of financial assets at 31 March 2011

Currency	2011			2010		
	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	–	–	–	1.4	1.0	2.4
Euro	3.8	–	3.8	1.3	0.6	1.9
US Dollar	1.0	–	1.0	0.1	–	0.1
Other	2.4	0.2	2.6	2.3	0.6	2.9
	7.2	0.2	7.4	5.1	2.2	7.3

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.

24. Financial instruments continued

(f) Maturity of financial liabilities

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

	One year or less or on demand £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
2011					
Interest bearing loans and borrowings	14.4	12.6	1.0	–	28.0
Leases	0.1	0.1	–	–	0.2
Trade payables	21.6	–	–	–	21.6
Forward foreign exchange contracts – outflow	19.5	–	–	–	19.5
Preference Stock ⁸	–	–	–	0.5	0.5
	55.6	12.7	1.0	0.5	69.8
2010					
Interest bearing loans and borrowings	14.2	0.5	10.8	0.3	25.8
Leases	0.1	0.1	–	–	0.2
Trade payables	20.1	–	–	–	20.1
Forward foreign exchange contracts – outflow	17.2	–	–	–	17.2
Preference Stock ⁸	–	–	–	0.5	0.5
	51.6	0.6	10.8	0.8	63.8

⁸ No fixed repayment date.

The Group has contracted forward contracts consisting of Euro forward contracts of £12.2m (2010: £13.3m) and US Dollar forward contracts of £7.3m (2010: £3.9m) due within one year.

(g) Borrowing facilities

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

	2011 £m	2010 £m
Expiring within one year or less, or on demand	14.7	20.5

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 2012.

Notes to the consolidated financial statements

continued

24. Financial instruments continued

(h) Fair values

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

	Carrying value		Fair value	
	2011 £m	2010 £m	2011 £m	2010 £m
Financial assets				
– Cash	7.4	7.3	7.4	7.3
Financial liabilities				
– Bank overdraft (floating rate borrowing)	2.5	1.4	2.5	1.4
Interest bearing loans and borrowings				
– Floating rate borrowing	23.8	22.7	23.8	22.7
– Fixed rate borrowing	0.6	0.6	0.6	0.5
– Preference Stock	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.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable financial market data.

As at 31 March 2011, the Group held the following financial instruments measured at fair value:

	£m	Level 1 £m	Level 2 £m	Level 3 £m
Liabilities measured at fair value				
Forward foreign currency contracts – cash flow hedge	0.2	–	0.2	–

As at 31 March 2010:

	£m	Level 1 £m	Level 2 £m	Level 3 £m
Liabilities measured at fair value				
Forward foreign currency contracts – cash flow hedge	0.2	–	0.2	–

24. Financial instruments continued

(i) Capital management

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

The Group manages its capital structure, and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to the shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2011 or 31 March 2010.

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

	2011 £m	2010 £m
Net debt (Note 23)	20.0	17.9
Total debt	20.0	17.9
Total capital	54.8	43.0
Capital and net debt	74.8	60.9
Gearing ratio	27%	29%

25. 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 L.G. Balakrishnan & Bros Ltd (LGB), located in India. The acquisition has been accounted for using the purchase method of accounting.

The Group's interest is represented by a 75% equity investment in Renold Chain India Private Limited, the vehicle used to acquire the respective trade and business assets of LGB.

As at 31 March 2010, an amount of £0.7m was payable to the vendor in respect of the final contingent consideration payment. This was paid in the year.

There were no other acquisitions in the current or prior year.

26. Post balance sheet events

- (a) The Group has formed a joint venture in China to pursue the rapidly expanding mass transit infrastructure sector, seeking to leverage Renold's existing capabilities in gears and couplings for subway and light railway cars.

The business licence for the joint venture was granted on 20 April 2011. Renold International Holdings Limited had previously entered into the equity joint venture contract on 15 March 2011 with Changzhou Baiyidar Railway Carparts Co., Ltd, a Chinese entity, to establish the joint venture company, Renold Transmission Technology (Jiangsu) Inc. Each shareholder holds 50% of the shares and voting rights in the joint venture company and has the right to appoint three directors. The agreement provides that each shareholder will invest US\$0.45m within three months of the business licence being issued and a further US\$2.55m within two years of the business licence being issued.

At 31 March 2011, the joint venture company had not commenced trading and expenditure will be minimal until supply contracts are obtained and the business of the joint venture company commences.

- (b) Renold Power Transmission Limited has been subject to a criminal prosecution for failure to discharge a duty imposed on it by section 2(1) of the Health & Safety at Work etc. Act 1974 in connection with the fatality of one of its employees at its Milnrow facility in November 2008 for which the Crown Court hearing took place on 25 May 2011. The Group pleaded guilty to the charge and the sentencing guidelines in respect of such prosecutions provide for a starting level fine of £100,000 with no maximum amount indicated. Following discussions with legal advisers, the Directors had booked an appropriate level of provision in respect of this prosecution in the accounts for the year ended 31 March 2011.

The company was fined £180,000, plus prosecution costs of approximately £9,000.

Group five year financial review (unaudited)

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Group revenue	191.0	156.1	194.7	172.6	188.4
Less discontinued operations	–	–	–	–	(29.1)
Revenue from continuing operations	191.0	156.1	194.7	172.6	159.3
Operating profit/(loss) before exceptional items – continuing	7.0	(2.1)	10.0	12.0	9.8
Operating profit/(loss)	4.3	(4.8)	7.6	12.2	3.9
(Loss)/profit before tax	(1.3)	(13.6)	2.9	9.3	1.4
Taxation	0.4	3.9	(0.8)	(3.1)	(0.6)
	(0.9)	(9.7)	2.1	6.2	0.8
Discontinued operations:					
Profit/(loss) from discontinued operations	–	–	–	1.5	(13.5)
(Loss)/profit for the year	(0.9)	(9.7)	2.1	7.7	(12.7)
Net assets employed					
Tangible and intangible fixed assets	55.1	53.6	54.4	42.6	36.2
Working capital and other net assets	36.9	37.9	42.9	33.2	26.2
Operating assets	92.0	91.5	97.3	75.8	62.4
Properties held for sale	–	–	–	–	3.4
Goodwill	22.4	23.5	24.5	16.3	15.2
Net debt	(20.0)	(17.9)	(37.2)	(23.9)	(19.4)
Deferred and current taxation	15.2	21.8	14.0	8.4	15.5
Provisions	(1.2)	(1.1)	(3.4)	(4.4)	(5.2)
Net assets excluding pension obligations	108.4	117.8	95.2	72.2	71.9
Pension obligations	(51.5)	(73.0)	(55.1)	(31.2)	(48.0)
Total net assets	56.9	44.8	40.1	41.0	23.9
Other data and ratios					
Return on capital employed (%) ⁹	7.6	(2.2)	11.6	17.4	14.9
Return on sales (%) ¹⁰	3.7	(1.3)	5.1	7.0	6.2
Capital expenditure (£m)	6.6	4.2	5.8	8.2	5.8
Basic (loss)/earnings per share (p)	(0.4)	(8.0)	2.8	11.0	(18.3)
Employees at year end (continuing) (number)	2,521	2,257	2,301	2,536	2,041

⁹ Being operating profit before exceptional items divided by average operating assets.

¹⁰ Based on operating profit before exceptional items divided by revenue.

Independent auditor's report

To the members of Renold plc

We have audited the parent company financial statements of Renold plc for the year ended 31 March 2011 which comprise the Company Balance Sheet, the Company Statement of Total Recognised Gains and Losses and the related notes (i) to (xiii). The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' responsibilities for the Company financial statements set out on page 86, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Renold plc for the year ended 31 March 2011.

Eamonn McGrath

(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
27 May 2011

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 408 of the Companies Act 2006, 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 2006 and in accordance with UK Generally Accepted Accounting Principles. They have been prepared under the historical cost convention.

Statement of Directors' responsibilities for the Company financial statements

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 2(d) of Financial Reporting Standard (FRS) 29, the Company is exempt from the disclosure requirements of FRS 29. The Company's financial instruments are consolidated with those of the Group and are incorporated into the disclosures in Note 24.

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

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 – ten to 15 years.
- Motor vehicles – 25% per annum for three 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 reviewed for impairment on an annual basis. Where indicators of impairment are present, the cashflows of the underlying entities are reviewed to determine whether the investment value is recoverable.

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

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

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

Pension costs – Employees of the Company participate in the pension plans operated by the 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.

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. No expense is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon market or non-market vesting conditions which are treated as vesting irrespective of whether or not the market or non-market vesting condition is satisfied provided that all other performance or service conditions are satisfied. The model is adjusted as necessary for market and non-market based vesting conditions. The market-based conditions are linked to the price of shares of the Company.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

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 wholly owned subsidiaries of the Group under FRS 8 – Related Party Disclosures.

Accounting policy on derivatives – Financial assets and financial liabilities are disclosed in the Group financial statements.

Company balance sheet

as at 31 March 2011

	Note	2011 £m	2010 £m
Fixed assets			
Tangible assets	i	4.8	2.0
Investments in subsidiary undertakings	ii	65.6	70.4
		70.4	72.4
Current assets			
Debtors	iii	12.6	9.1
Cash and short term deposits		15.7	16.4
		28.3	25.5
Creditors – amounts falling due within one year			
Other creditors	iv	(2.7)	(2.7)
Derivative financial instruments	vi	(0.1)	(0.1)
Net current assets		25.5	22.7
Total assets less current liabilities		95.9	95.1
Creditors – amounts falling due after more than one year			
Bank borrowings	v	(8.1)	(8.6)
Preference Stock	v	(0.5)	(0.5)
Net assets		87.3	86.0
Capital and reserves			
Called up share capital	viii	26.4	26.4
Share premium account	ix	29.4	29.4
Profit and loss account	ix	31.5	30.2
Shareholders' funds		87.3	86.0

Approved by the Board on 27 May 2011 and signed on its behalf by:

Matthew Peacock
Chairman

Robert Davies
Director

Company statement of total recognised gains and losses for the year ended 31 March 2011

	2011 £m	2010 £m
Profit/(loss) for the year	1.0	(0.4)
Total recognised gains/(losses) for the year	1.0	(0.4)

All attributable to the equity shareholders of the Company.

Notes to the Company financial statements

(i) Tangible assets

	Property £m	Equipment £m	Total £m
Cost			
At beginning of year	0.4	2.6	3.0
Additions at cost	–	3.1	3.1
Disposals	–	(0.1)	(0.1)
At end of year	0.4	5.6	6.0
Depreciation			
At beginning of year	0.2	0.8	1.0
Depreciation for the year	–	0.3	0.3
Disposals	–	(0.1)	(0.1)
At end of year	0.2	1.0	1.2
Net book value at end of year	0.2	4.6	4.8
Net book value at beginning of year	0.2	1.8	2.0

Future capital expenditure

At 31 March 2011, contracted capital expenditure not provided for in these financial statements for which contracts have been placed amounted to £0.8m (2010: £0.1m).

(ii) Investments in subsidiary undertakings

	Shares £m	Advances £m	Total £m
Subsidiary undertakings			
Cost or valuation			
At beginning of year	43.0	27.4	70.4
Net repayments	–	(4.8)	(4.8)
At end of year	43.0	22.6	65.6

The principal subsidiary undertakings of the Company at 31 March 2011 are set out in Note (xiii).

(iii) Debtors

	2011 £m	2010 £m
Amounts owed by Group undertakings	12.0	8.7
Deferred tax asset	0.2	0.2
Other debtors	0.1	0.1
Prepayments and accrued income	0.3	0.1
	12.6	9.1

The analysis of the deferred tax asset is as follows:

	2011 £m	2010 £m
All amounts falling due after more than one year:		
Decelerated capital allowances	0.2	0.2
	0.2	0.2

(iv) Other creditors

	2011 £m	2010 £m
Amounts falling due within one year:		
Trade creditors	1.4	1.1
Amounts owed by Group undertakings	0.4	0.4
Other taxation and social security	0.2	0.2
Accruals	0.7	0.5
Other creditors	–	0.5
	2.7	2.7

(v) Borrowings

	2011 £m	2010 £m
Amounts falling due after one year:		
Bank loans	8.1	8.6
Repayable:		
In more than one year but not more than two years	8.1	8.6
Summary of total borrowings:		
Bank loans	8.1	8.6
Preference Stock	0.5	0.5
Total borrowings	8.6	9.1

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

Preference Stock

Details of the Company's Preference Stock are set out in Note 13 to the Group financial statements.

(vi) Derivative financial instrument

	2011 £m	2010 £m
Forward foreign currency contracts – cash flow hedge	(0.1)	(0.1)

The Group has contracted forward contracts to sell foreign currency consisting of Euro forward contracts £12.2m (2010: £13.3m) and US Dollar forward contracts £7.3m (2010: £3.9m) due within one year.

(vii) Pensions

Employees of the Company include members of the principal UK defined benefit schemes. However, the contributions paid by the Company are accounted for as under a defined contribution scheme, because 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 17 to the Group financial statements. No contributions are outstanding at the year end. As the pension schemes are in a deficit position a plan has been put in place for the participating employers to make additional payments into the schemes. The Company will continue to make payments in line with the plan agreed with the trustees.

Notes to the Company financial statements

continued

(viii) Called up share capital

	Issued	
	2011 £m	2010 £m
Equity interests		
Ordinary shares of 5p each	11.0	11.0
Deferred shares of 20p each	15.4	15.4
Preference Stock ¹	0.5	0.5
	26.9	26.9

¹ Included in borrowing; see note (v).

On 9 December 2009, each issued ordinary share of 25p was subdivided and converted into one ordinary share of 5p and one deferred share of 20p. The deferred shares have no voting or dividend rights.

On 10 December 2009, 87,500,000 new ordinary shares of 5p each were issued through a placing and open offer and 55,000,000 new ordinary shares of 5p each were issued through a firm placing raising £28.5m gross (£26.9m after transaction expenses). The new shares rank pari passu with the existing ordinary shares.

At 31 March 2011, the issued ordinary share capital comprised 219,564,703 ordinary shares of 5p each (2010: 219,564,703) and 77,064,703 deferred shares of 20p each (2010: 77,064,703).

During the year the Company issued no ordinary shares (2010: 142.5m).

Details of the Preference Stock are set out in Note 13 of the Group financial statements.

Disclosures in respect of capital management can be found in Note 24 to the Group financial statements.

Share options

At 31 March 2011, unexercised options for ordinary shares amounted to 7,335,447 (2010: 10,903,517) made up as follows:

	Option price (p per share)	Number of shares 2011	Number of shares 2010
Date normally exercisable			
Executive Share Option Schemes			
Within seven years from:			
19 July 2003 (1995 Scheme)	100.9	–	52,848
28 November 2004 (1995 Scheme)	57.3	125,660	143,276
27 November 2005 (1995 Scheme)	49.8	100,998	124,485
27 November 2006 (1995 Scheme)	71.1	88,079	105,695
11 March 2007 (1995 Scheme)	65.1	146,799	146,799
2 September 2007 (2004 Scheme)	74.9	557,835	557,835
22 November 2007 (2004 Scheme)	63.3	123,312	123,312
26 July 2009 (2004 Scheme)	52.5	334,702	581,325
30 November 2009 (2004 Scheme)	85.2	–	140,926
2 January 2010 (2004 Scheme)	97.2	234,879	422,782
31 March 2011 (2004 Scheme)	64.6	–	1,754,171
1 April 2011 (2004 Scheme)	65.6	–	211,733
25 November 2011 (2004 Scheme)	31.5	21,160	63,481
5 February 2013 (2004 Scheme)	23.2	4,923,125	6,474,849
27 September 2013 (2004 Scheme)	27.3	678,898	–
		7,335,447	10,903,517

Further details of share-based payment schemes operated by the Company are provided in the Directors' remuneration report on pages 32 to 37 and Note 19 to the Group financial statements.

(ix) Reserves

	Profit and loss account £m	Share premium £m	Total reserves £m
At beginning of year	30.2	29.4	59.6
Profit for the year	1.0	–	1.0
Share warrants	0.4	–	0.4
Employee share option schemes – value of employee services	(0.1)	–	(0.1)
At end of year	31.5	29.4	60.9

As permitted by section 408 of the Companies Act 2006, no profit and loss account is presented in these financial statements. The Company's profit for the financial year was £1.0m (2010: loss £0.4m).

Reserves include £0.4m being the fair value of warrants issued over the Company's shares to the Company's lenders as part of the refinancing that was completed in August 2009. The warrants are over 3,500,000 ordinary shares of 5p each and have a seven year term commencing 13 August 2009 during which they can be exercised at any time.

Total fees payable by the Company to Ernst & Young LLP for work in respect of the audit of the Company were £29,000 (2010: £31,000). Fees paid to the Company's auditor for non-audit services to the Company are not disclosed in these financial statements because the Group 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:

	2011 £m	2010 £m
Leases expiring:		
– between two and five years	0.2	0.2
	0.2	0.2

(xi) Contingent liabilities

The Company has guaranteed borrowings by subsidiary undertakings of £13.9m (2010: £11.3m). Performance guarantees given to third parties in respect of Group companies were £3.6m (2010: £3.6m) associated with the sale of the automotive business in July 2006. This guarantee expires in July 2012. No material loss is expected to arise as a result of these contingent liabilities.

(xii) Related party transactions

The Company has taken advantage of the exemption in FRS 8, not to disclose transactions with its wholly owned subsidiaries.

During the year, the Company entered into transactions in the ordinary course of business with its 90% owned subsidiary, Renold (Hangzhou) Company Limited, and its 75% owned subsidiary, Renold Chain India Private Limited. Transactions entered into and trading balances outstanding at 31 March 2011 (and 2010) with Renold Chain India Private Limited are not material. Transactions entered into and trading balances outstanding at 31 March with Renold (Hangzhou) Company Limited are as follows:

	2011 Renold (Hangzhou) Company Limited £m	2010 Renold (Hangzhou) Company Limited £m
Recharges of services	0.4	0.2
Amounts payable as at 31 March	0.7	0.3

Transactions with key management personnel

There were no transactions with key management personnel during the year (2010: key management personnel subscribed for 12,210,449 ordinary shares at 20 pence per share under the placing and open offer which included shares subscribed for by Hanover I Master Fund LP, an entity over which Matthew Peacock exercises significant influence).

Notes to the Company financial statements continued

(xiii) Significant undertakings as at 31 March 2011

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 SAS
Germany	Renold GmbH
Holland	Renold Continental Limited (incorporated in the United Kingdom)
Russia	Renold Russia (Obshchestvo s Ogranichennoj Otvetstvennost'yu)
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) Company Limited Renold Transmission Technology (Jiangsu) Inc.
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 undertakings listed above are those which, in our opinion, principally affected the results and assets of the Group. Companies of minor importance are omitted by virtue of section 410 of the Companies Act 2006.

All of our companies other than Renold (Hangzhou) Company Limited, Renold Chain India Private Limited and Renold Transmission Technology (Jiangsu) Inc. (in which we have an interest of 90%, 75% and 50% of the equity shares and voting rights respectively) are direct or indirect subsidiaries of Renold plc, a company incorporated in England and Wales, which ultimately holds a 100% (except for those companies in which the Group does not hold all of the shares and voting rights as set out above) interest in the equity shares and voting rights. Renold Power Transmission Limited 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.

Corporate information

Corporate calendar

Annual general meeting	20 July 2011
Interim management statement (first)	Between 10 June 2011 and 18 August 2011
Half year end 2011/12	30 September 2011
Announcement of half year 2011/12 results	November 2011
Interim management statement (second)	Between 10 December 2011 and 17 February 2011
Year end 2011/12	31 March 2012
Announcement of annual results 2011/12	June 2012
Payment of preference dividends	1 July 2011 and 1 January 2012

Company details

Registered office

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Styal Road
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M22 5WL

Registered number: 249688
Telephone: +44 (0)161 498 4500
Fax: +44 (0)161 437 7782
Email: enquiry@renold.com
Website: www.renold.com

Company Secretary

Hannah Woodcock

Auditor

Ernst & Young LLP

Broker and financial adviser

Singer Capital Markets Limited

Financial PR consultants

College Hill Associates Limited

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: If calling from the UK: 0871 664 0300 (calls cost 10p per minute plus network extras; lines are open 8.30am to 5.30pm, Monday to Friday)

If calling from overseas: +44 208 639 3399

Email: shareholder.services@capitaregistrars.com
Website: www.capitaregistrars.com
Registrars Share Portal: www.capitashareportal.com

If you receive two or more copies of this report please write to Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU and ask for your accounts to be amalgamated.

Notes



WARNING TO SHAREHOLDERS - BOILER ROOM SCAMS



In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation
- Check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/register/
- Report the matter to the FSA either by calling 0300 500 5000 or visiting www.moneymadeclear.fsa.gov.uk
- If the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml

Details of any share dealing facilities that the company endorses will be included in company mailings.

More detailed information on this or similar activity can be found on the CFEB website www.moneymadeclear.fsa.gov.uk

May 2010



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