RENOLD

Annual Report and Accounts 2012

Progress in motion

www.renold.com

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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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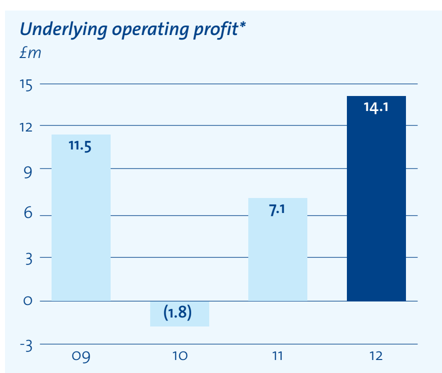

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Overview

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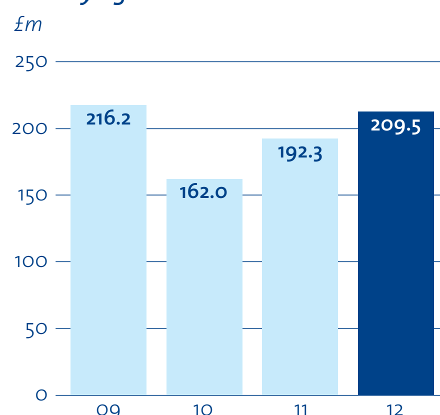
Renold is a world-class engineering business, delivering market-leading precision chain and power transmission products internationally.

Renold products can be seen in diverse applications from cement making to chocolate manufacturing, subway trains to power stations, escalators to quarries, in fact, anywhere something needs to be lifted, moved, rotated or conveyed.

Financial results

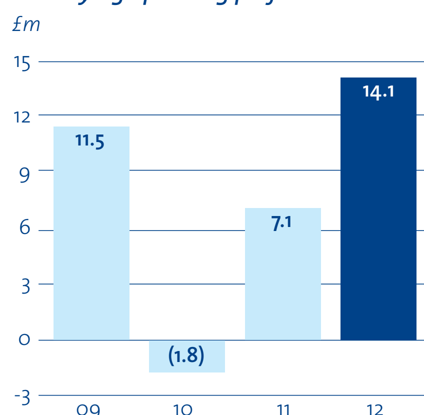
*Underlying turnover**

£m



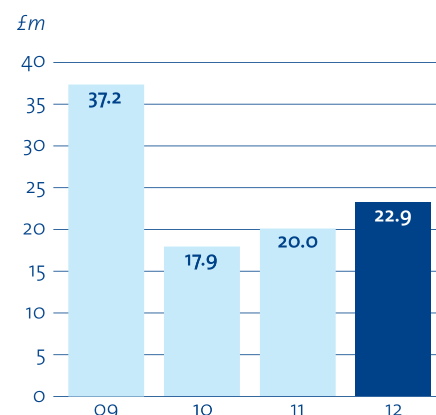
*Underlying operating profit**

£m



Net debt

£m



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

Overview

Our operations

Renold plc is an international engineering group delivering engineering products and solutions to service customers in countries across the globe.

Heat treating components to enhance performance characteristics.

Laser cutting technology hugely enhances our range of adapted chain.

Lubrication free chains are used in hygiene critical food production industry.

Renold Chain

£157.5m
External revenue

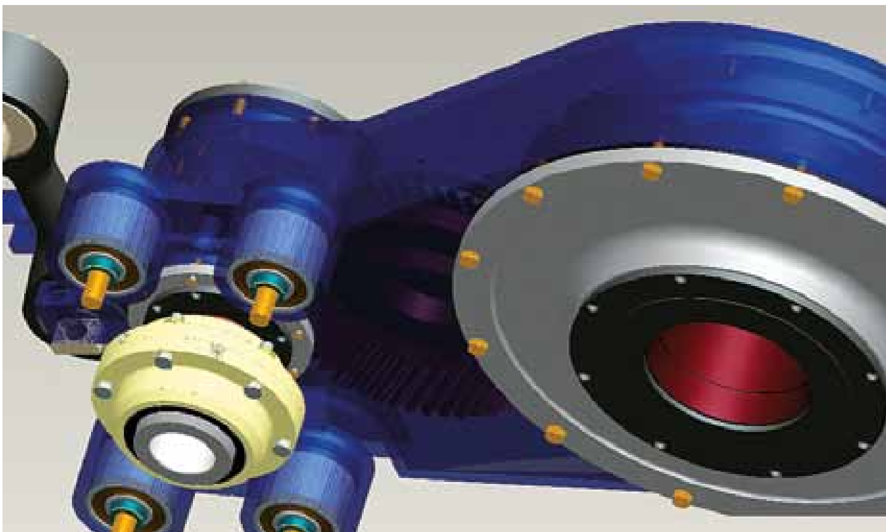
Renold manufactures chain for many applications. Heavy duty, high precision, indoor or outdoor, clean or contaminated, high or low temperature environments; these are all in a day's work.

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. Renold is also a market leader in lifting chain used in many of the forklift trucks produced worldwide.

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



Renold's industry-recognised engineers design systems using the latest Solid 3-D parametric design technology.

Delivering millions of passenger miles in New York, USA.

Tension release backstop in a conveyor.

Renold Torque Transmission

£52.0m

External revenue

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

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.

Renold Torque Transmission also provides a range of freewheel clutches featuring both sprag and roller ramp technology. Sprag clutches are used in a wide range of safety-critical applications such as keeping riders safe on some of the world's most thrilling roller coasters.

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

Overview

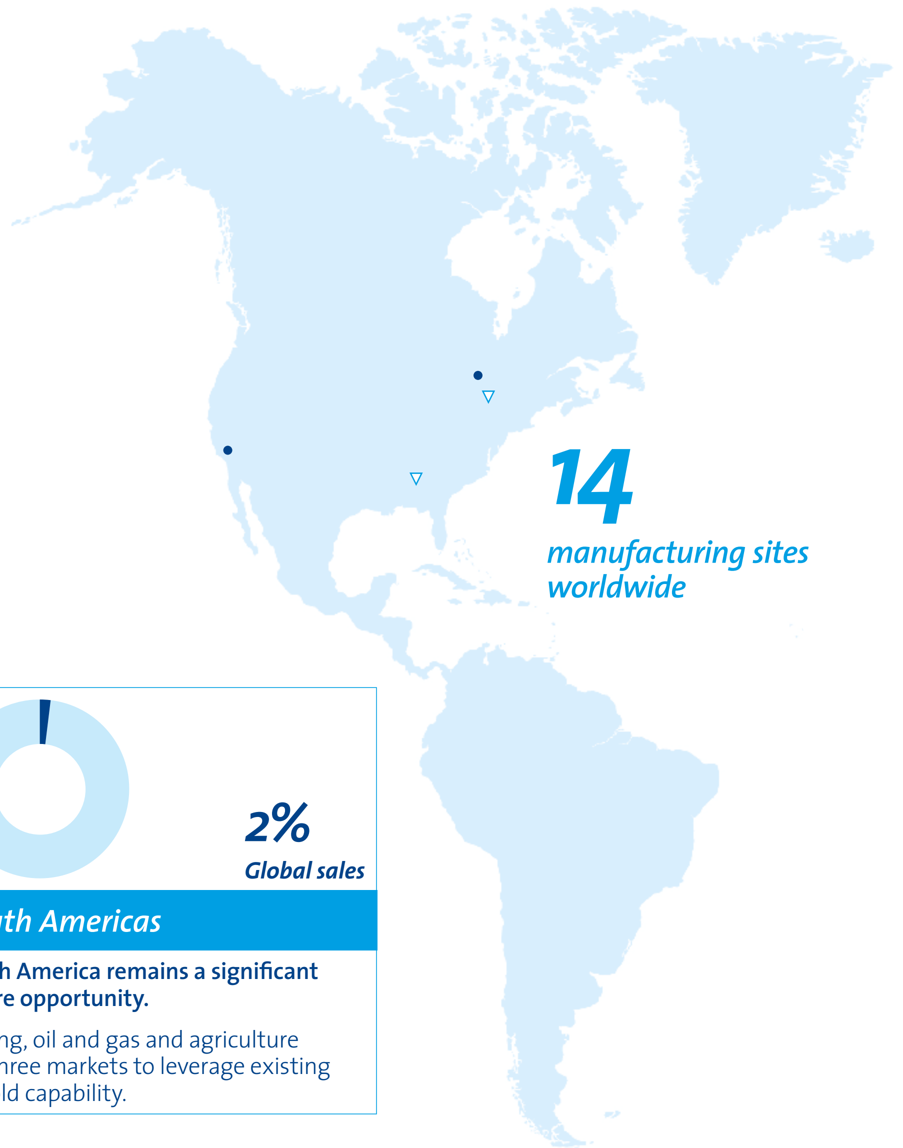
The world of Renold

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

North America

North America saw continuing strong growth with underlying sales 11% ahead of the prior year.

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.



14
manufacturing sites worldwide

20
Selling locations in 20 countries

South Americas

South America remains a significant future opportunity.

Mining, oil and gas and agriculture are three markets to leverage existing Renold capability.

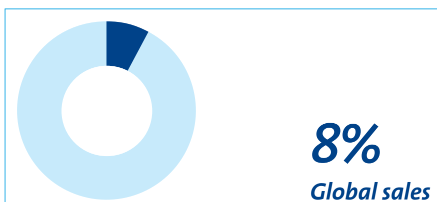
Key
▽ Manufacturing location and sales company
● Sales location

Operating globally in diverse sectors

Europe

Our European businesses saw a 7% increase in sales in the year.

Renold Chain operates from two principal manufacturing locations in Europe (the UK and Germany). Renold Torque Transmission operates three plants in the UK exporting to various destinations worldwide.

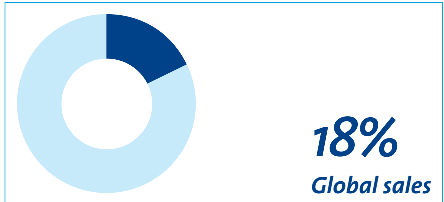


Emerging economies

Recent investments in China and India have created access to fast growing local markets and expanded our product offering in all overseas markets.

China and India have experienced significant growth in activity levels over the last year, with China focused on exports and India focused on domestic demand.

2,569
Employees



Asia Pacific

The expansion in natural resource industries in the region has led to sales growth of 8% in the year.

Extractive industries in Australia and natural oils in other parts of Asia have seen a significant increase in activity levels.

Chairman's statement

In this my final report as Chairman, I look back on our performance against the key objectives we set for the Group in 2007. We have made excellent progress despite the global economic and financial uncertainty.

***Matthew Peacock** Chairman*

Overview
In this my final report as Chairman, I look back on our progress against the key objectives we set for the Group in 2007. I am pleased to report on a robust set of results achieved in challenging economic conditions, with significant growth in operating profit and earnings per share for the second consecutive year.

1. Sales growth driven by accessing the opportunities in emerging markets

In the current year, underlying Group sales grew by 9% to £209.5m. A strong first half was followed by more moderate growth in the second half when our diversified portfolio exposure to North America and the emerging economies offset the challenges in the European markets arising from the Eurozone crisis and southern European sovereign debt issues. Our exposure to a wider range of geographical markets and also the broader addressable market created by having an established manufacturing presence in low cost countries has facilitated a significant proportion of this growth.

We are now leveraging, for the benefit of the wider Group, our Chain operations in Hangzhou, China and Gudalur, India. This year we have also invested in Torque Transmission opportunities in China: we established a new jointly controlled entity to address the opportunities in the fast-expanding Chinese domestic mass transit market and we also initiated a large capital program in our existing couplings facility in Beicai, China.

2. Enhancing operating margins[1] and overall profitability

We increased operating margins to 6.7% from 3.7% in the prior year. This is only slightly below the pre-recessionary level of 7% despite underlying sales still being approximately 10% lower.

In the current year we are pleased to report adjusted earnings of 4.2 pence per share, more than double the 2.0 pence reported in 2011. This was driven by a 100% increase in adjusted operating profit before exceptional items to £14.1m. We continue to improve and optimise our cost base and are making good progress with the restructuring of our European back office infrastructure; the latter will add £1.8m to annual operating profitability when complete in 2014/15.

Torque Transmission had another particularly good year with its operating margins improved further to 16.0% while still allowing for increased investment in business development capability in four key markets: Mass Transit, Quarrying and Mining, Metals and Energy. This was achieved at the same time as growing the business at an underlying rate of 10%.

3. Improving cash generation

The current year has seen a continued improvement in working capital management with average levels of working capital now 22.4% of sales, a 9% improvement on the prior year. The business has added £47.5m of underlying sales in the period since March 2010 but has only required £2.8m extra working capital to fund this.

1 Operating profit before exceptional items as a percentage of total external revenue.

4. Reducing the exposure to UK pension deficits
In a year when most businesses with UK pension deficits have reported increases in liabilities due to lower corporate bond yields caused largely by Quantitative Easing (QE) reducing yields on gilts, Renold has taken a number of steps to significantly reduce its impact. Without the impact of QE, which is generally accepted to have reduced gilt yields by around 100 basis points[2], the underlying UK deficits, all else being equal, would now be less than £10m.

The Board
I announced my intention to stand down from the Board on 1 May 2012. At the same time we welcomed Mark Harper as a Non-Executive Director. Mark will formally take on the role of Chairman at the closing of the Annual General Meeting on 12 July 2012. In addition, our Senior Independent Director, David Shearer, has indicated that he will not seek re-election to the Board at the Annual General Meeting following over five years service to the Board. A process has begun to seek a replacement for David in due course. I wish Mark and David every success.

I would like to take this opportunity to thank the Board, and all Renold staff, for their support over the last five years. We have worked constructively to overcome an extremely challenging period in Renold's history and the fact that the business continues to grow strongly with improving prospects is testament to the effectiveness of those efforts.

2 Bank of England: 'The United Kingdom's quantitative easing policy: design, operation and impact'.

Outlook
The Board has focused on continuing the path of profitable growth throughout the year under review.

Operating margins are nearing pre-recessionary levels while gearing as a ratio of net debt to EBITDA has achieved the lowest level in the last five years at 1.2 times. The Board has decided to recommend that no dividend be paid, but it will consider future dividend policy in the light of performance and, in particular, free cash flow from the business.

Renold remains well placed to exploit its manufacturing base, strong technical capabilities and internationally respected brand. The business has a number of opportunities for new investment and the Board are confident that we will continue to deliver further growth and improving profitability.

Matthew Peacock
Chairman

£209.5m
Underlying Group sales grew by 9% to £209.5m

99%
Increase in adjusted underlying operating profit to £14.1m

Business review

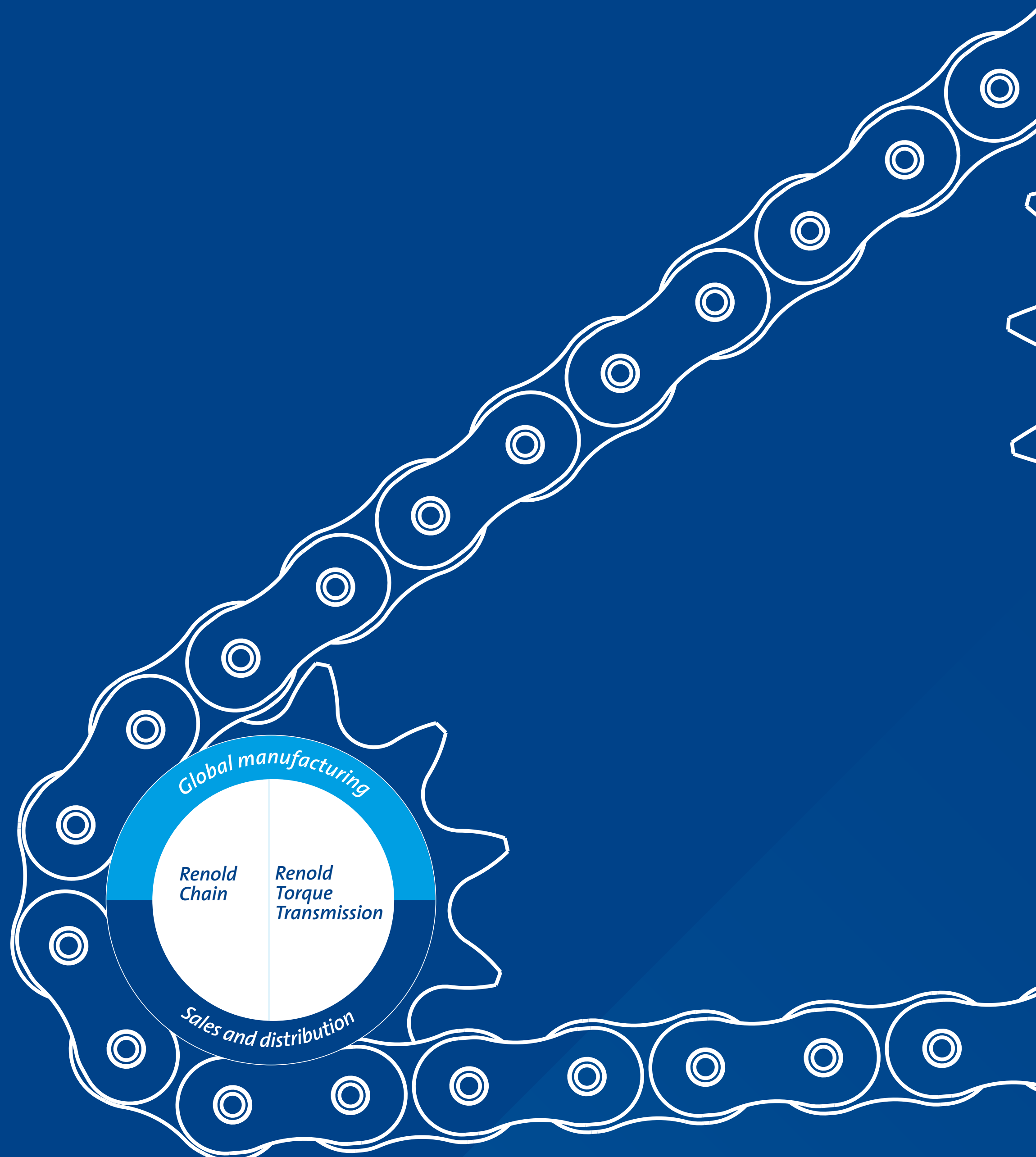
Our business model

Engineering value through our business model

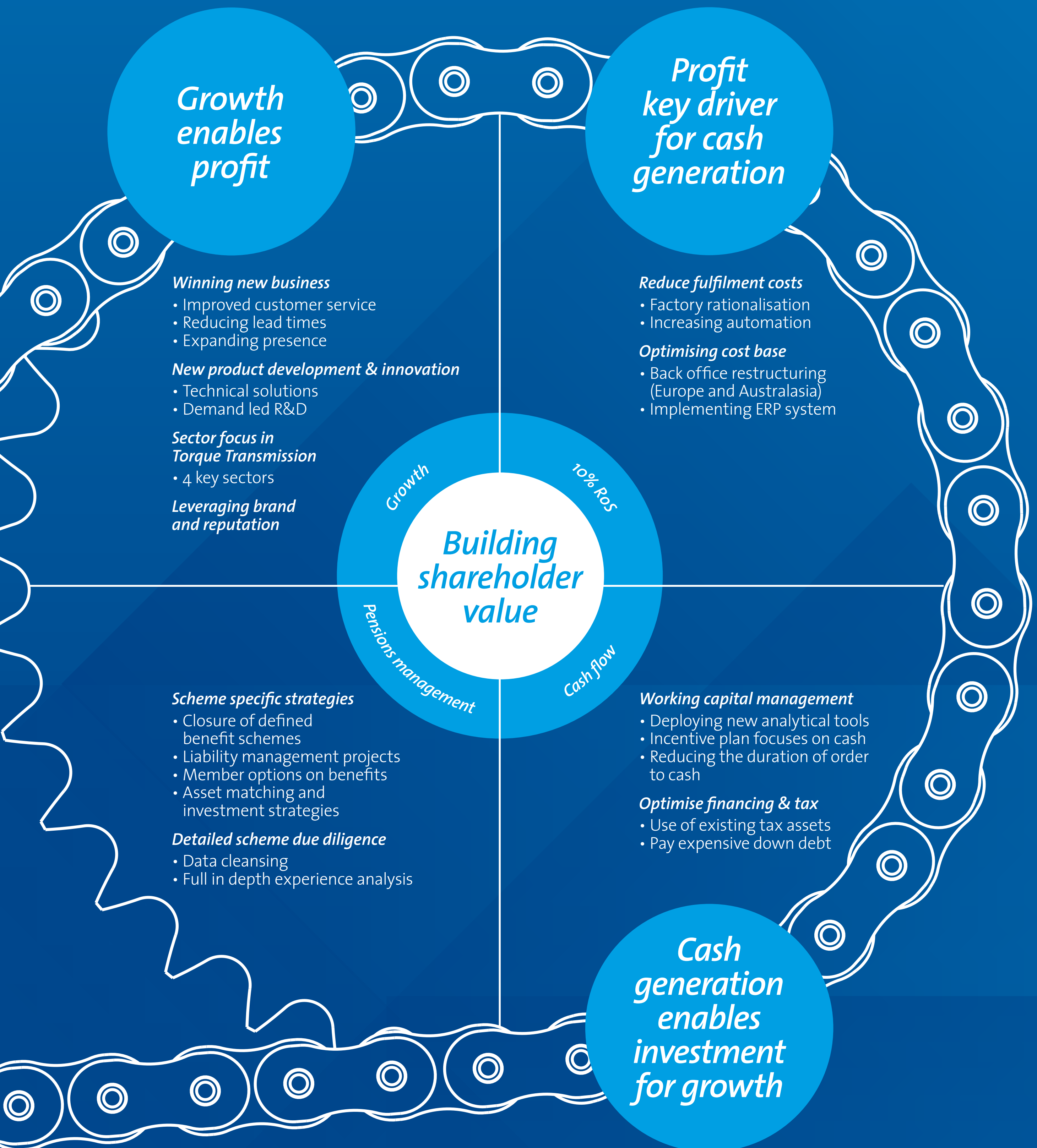
Over recent years we have been implementing changes to our business model by reshaping our business and cost base for greater efficiency.

Through our focus on migration to low-cost countries we have significantly reduced our cost base during the recession by around £10m, whilst expanding our market opportunities.

Our business



How we create shareholder value



Winning new business
- Improved customer service
- Reducing lead times
- Expanding presence

New product development & innovation
- Technical solutions
- Demand led R&D

Sector focus in Torque Transmission
- 4 key sectors

Leveraging brand and reputation

Reduce fulfilment costs
- Factory rationalisation
- Increasing automation

Optimising cost base
- Back office restructuring (Europe and Australasia)
- Implementing ERP system

Scheme specific strategies
- Closure of defined benefit schemes
- Liability management projects
- Member options on benefits
- Asset matching and investment strategies

Detailed scheme due diligence
- Data cleansing
- Full in depth experience analysis

Working capital management
- Deploying new analytical tools
- Incentive plan focuses on cash
- Reducing the duration of order to cash

Optimise financing & tax
- Use of existing tax assets
- Pay expensive down debt

Business 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	*Progress*
10% Return on Sales (RoS)[3]	▶ Chain division Return on Sales[3] increased to 5.9% (2011: 3.3%) ▶ Chain benefited from £1.5m of cost reduction initiatives completed in Q4 of the prior year ▶ TT margin improvement continued with RoS reaching 16.0% ▶ Group RoS improved again from 3.7% to 6.7%
10% sales growth per year	▶ Group achieved underlying sales growth of 9% in the year ▶ Chain achieved underlying sales growth of 9% in the year ▶ Chain addressable markets increased with products from our China, India and Malaysia facilities ▶ Torque Transmission underlying sales growth of 10% in the year with 18% growth in key sectors ▶ Chinese mass transit JV achieved ISO certification
Cash generation	▶ Reduced average working capital ratio[4] by 2.3% compared to 2011 (a 9% gain) ▶ Working capital management enhancement initiatives rolled out in the year ▶ Business cash flows sustained £5.9m of capital investment and £5.2m pension payments
Reduce exposure to volatile pension liabilities	▶ A number of initiatives cut almost £7m from underlying UK liabilities (adding to significant reduction in the prior year) ▶ Offset by £9m increase from net impact of market driven discount rate and inflation changes

3 Operating profit before exceptional items as a percentage of sales.
4 The average of each month's absolute working capital as a percentage of rolling annual sales.

Actions	2013 targets
▶ Restructuring Chain Europe back office will improve customer service while cutting costs and improving working capital ▶ Capital investment programmes with attractive short payback periods	▶ A further increase in RoS ▶ European overhead savings of £1.0m per annum delivered in 2012/13 ▶ Mitigate the slowing of growth in Europe by actively seeking market share gains
▶ Torque Transmission is investing in additional equipment and business development capability to maintain growth momentum ▶ Further investment in Torque Transmission target markets ▶ Chain continue to invest in R&D and innovative products ▶ Leveraging low cost country sources of production to expand addressable market	▶ Torque Transmission to maintain double digit growth rate with emphasis on four key markets ▶ Chain to continue to grow sales
▶ Refinance Group's main banking facility post 30 June 2013 ▶ Optimise use of existing tax basis and assets ▶ Continued roll out of Enterprise Resource Planning (ERP) system ▶ Adoption of new working capital tools	▶ Reduce the Group's overall cost of debt ▶ Maintain an effective tax rate below standard rate ▶ Cash tax to be maintained at around half of the effective tax rate through utilisation of tax assets ▶ Implement ERP system in main UK location for Torque Transmission, Canada and European trading hub ▶ Positive free cash flow
▶ UK Pension scheme Triennial Review (Jones & Shipman scheme) ▶ Detailed review of overseas schemes to match UK actions	▶ Continue implementation of UK liability management strategies ▶ Review and develop existing asset management strategy in UK (see Finance Director's review pages 20 to 23) ▶ Develop and implement medium term strategic plans for major overseas defined benefit schemes and their liabilities

Progress in motion

Focusing on improving margins and customer service in Chain.

Chain Europe transformation – developing and reshaping our business.

Work began in September 2011 to implement a new operating model across the European Chain business. The project is expected to run through to the end of 2013.

The design objectives for the new model are:

- Simplification of organisational structures, to better serve our customers.
- Deliver responsive, efficient, customer focused and consistent customer service through centres of excellence.
- Create more efficient and cohesive management units focused on clearly articulated business objectives.
- Eliminate duplication across functional areas to reduce waste and cost by £1.8m p.a. by 2014/15.
- Enhance the connection between product demand and supply management, with benefits for on time delivery and working capital management.
- Developing improved and standardised processes and controls to ensure consistency of service delivery, leveraging the new ERP system as part of a continuous improvement programme.

Headline transformation benefits:
- ***Savings of £1.8m p.a. by 2014/15***
- ***Improved working capital management***
- ***A model to improve customer service***

European trading hub launch.

£9.3m

Chain adjusted operating profit grew by 98% to £9.3m

Focusing on innovation and investment in technology.

Renold is at the forefront of creating the latest innovative designs for its customers driven by demand to reduce costs, shorten lead times and deal with increasingly challenging working environments.

The Group has taken a leading role in the industry for more than a century and chairs the ISO Standards Committee for Chain. 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.

Despite the relative maturity of the industry, ongoing work with key customers has resulted in a number of new solutions to old problems. Customers rely on the latest Renold technologies to keep machines running reliably in extreme environments to maximise performance. We often work on a collaborative basis with customers to design bespoke solutions to specific business challenges. The design team uses a global engineering system, enabling our international teams to work round the clock on time critical projects.

Renold has pioneered Smart Chain technology to measure system dynamics, enabling improvements to drive efficiency which ensures real cost savings for customers. Through this range of Smart Products, Renold provides visibility of the actual loads and wear in a chain drive system via an on-line portal and works in partnership with the customer to deliver maximum working life.

Renold offers a number of industry leading 'solution products' targeting specific customer requirements such as high performance Renold Synergy chain, lubricant free 'Renold Syno' chain and corrosion resistant 'Renold Hydro-Service' chain.

Palm oil production.

Lumber reclamation.

Renold design and manufacture chains for use in a wide variety of demanding applications.

Progress in motion
continued

Focusing on growth markets and innovation in Torque Transmission.

Leveraging our established expertise into new growth regions and market sectors.

Growth markets

The expansion of government funded infrastructure projects for mass transit systems and emerging market demand for energy and commodities have created a strong and sustainable growth platform on which Renold can gain market share.

Mass transit

Sales £4.3m *Addressable market[5] £300m*

Renold specialise in gearboxes and couplings for mass transit applications, delivered from our plant in Westfield, New York.

We currently serve markets in North America, Europe and are making headway in other regions. Our Chinese joint venture is actively tendering on rapidly expanding transport infrastructure projects designed to serve 100 cities with over one million people. This also creates additional opportunities for our escalator gears and chains.

Renold has won the contract to supply the drives for 17 high rise escalators for the East Side Access project at Grand Central Station in New York. Renold was selected because of our ability to custom design a compact drive package to optimise power density, efficiency, operational noise levels and running temperatures, enabling a long and reliable service life with ease of maintenance.

Escalator Drives

Metals

Sales £7.3m *Addressable market[5] £350m*

We operate in the niche market for highly engineered spindles and couplings for steel rolling mills.

Refurbishment and after-sales service is an attractive growth market and we are leveraging existing capabilities into new geographies such as Africa, Mexico and Europe.

Renold have supplied a Hi-Tec rubber-in-compression coupling to Talley Metals in McBee, South Carolina. This coupling replaced a competitor's gear coupling which was proving both costly and problematic, leaking grease and causing vibration on the wire draw works.

The mill was so impressed with the reduction in vibration and lack of maintenance required that they made the decision last year to install Hi-Tec couplings on all similar applications.

The result is that the mill has been running smoothly with significantly reduced vibration and both downtime and maintenance have been cut.

RB Coupling

5 Renold estimates.

Innovation

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 manufactured exclusively by Renold, are a highly valuable core competency which we are seeking to leverage.

Renold also continues to invest in state of the art engineering tools enabling rapid creation of 3D models integrating the Engineering and Manufacturing environment through a state of the art product lifecycle management system. Any innovations adopted go through rigorous testing before they are available to customers.

The ongoing commitment to investment in R&D facilities and growing Engineering expertise in all of the major Renold geographies across Europe, Asia and the Americas ensures that Renold will continue to provide solutions for the next generation.

Energy

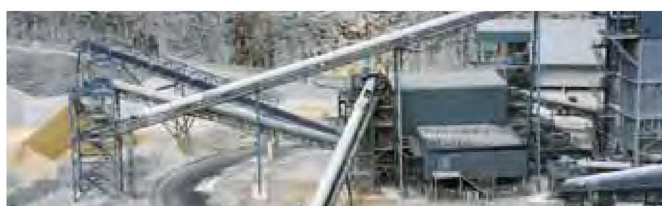
Sales £12.7m Addressable market[5] £300m

Increasing demand for energy and the need for dependable supplies in the emerging economies is a continuing opportunity. Rapid economic expansion in Asia has created huge demands on electrical power which has, in turn, led to a massive increase in the construction of new fossil fuel power stations across the continent. Renold Gears manufactures and supplies drives for air pre-heater and boiler applications in power stations.

High quality Renold products reduce the overall cost of ownership for manufacturers of mobile electricity generation equipment, who increasingly sell energy rather than equipment.

The ability to design and manufacture to customer specific dimensions and project manage from concept to supply means that Renold is specified by many global manufacturers.

Pre-heater drive



Quarrying and mining

Sales £6.1m Addressable market[5] £150m

World demand for extracted commodities such as coal, iron ore, copper and precious metals remains a key driver of growth.

We are well placed with established business to service the extractive industries in South Africa and Australia and are increasing sales and logistics capabilities to build on our quality engineering. Similar opportunities are being explored in South America and other African nations.

Renold have replaced rubber-in-shear couplings on underground mine trucks with the HTB rubber-in-compression coupling.

The original V type rubber-in-shear couplings were plagued by constant failure, causing the mine trucks to come to a complete stop, often blocking important access points. Renold's coupling is intrinsically fail safe and maintenance free with severe shock load protection properties and can operate in temperatures up to 200 deg. C.

Hi-Tec HTB Coupling

Business review

Q&A with the Chief Executive

Robert Davies discusses the progress of the Group and the opportunities for growth.

***Robert Davies** Chief Executive*

Q
Another successful performance in challenging market conditions. How have you achieved it?
A
We started the year with a clear set of targets and initiatives to grow the business, improve overall profitability and ultimately to improve our cash generation. Our performance is the result of focussing on delivering those targets and objectives: in Torque Transmission we have invested in additional business development and customer support capability; in Chain we have embedded the previous year cost reduction initiatives and followed that up with the acceleration of the European back office restructuring.

Q
Why do customers choose Renold?
A
At the core of any customer buying decision is the fundamental question – does this product solve my problem and will it perform to my expectations? Renold's reputation for product quality and performance is our single biggest advantage in persuading customers to buy Renold. When quality is backed up with excellent customer service and competitive pricing you then have a genuine competitive advantage.

Q
Torque Transmission looks an exciting opportunity. What are your plans for growing that business?
A
Growing Torque Transmission to equal the scale of the Chain division is a medium term goal. There are four clearly defined market sectors to focus on – mass transit, quarrying and mining, energy and metals. In all four markets Renold has already established capability and reputation that can be leveraged into expansion of our product range and geographical presence.

Q
What about the pension deficit – should shareholders be concerned?
A
We have carried out a number of projects this year to better understand the full extent of the actual pension liabilities but also to reduce their ongoing risk. We are pleased to report reductions in the underlying UK deficits of c. £7m that partly offset the net movements in market based bond yields and inflation rates. The movement in bond yields is in no small part due to the impact of Quantative Easing, which is estimated to have reduced yields by 100 basis points. The key message is our liabilities are well understood and are being actively managed alongside the asset portfolio to reduce the deficit and ultimately the annual cash costs of the schemes.

Q
And finally, where will the growth and gains come from in the year ahead?
A
We will continue on the current approach of growing the Torque Transmission business while protecting its attractive margins. In Chain the clear focus remains on improving profitability and the ongoing European restructuring will support that objective. We have also deployed new working capital management tools in the business which will combine with the ongoing ERP roll out to enhance our overall cash performance.

Chief Executive's review

We have made significant progress on all four of our key strategic objectives in what has been, at times, a difficult trading environment.

Overview
Improving economic conditions in most of our world markets assisted sales growth throughout the year with Europe seeing a more moderate growth in the second half. Margins improved in both Chain (75% of Group sales) and Torque Transmission (25% of Group sales). Our focus on optimising our cost base continued as we accelerated a project to restructure our Chain Europe back office to deliver better customer service and more efficient business processes. A number of working capital management initiatives were also deployed during the year.

Our objectives for this year included a recovery to pre-recession levels of underlying profitability while underlying revenues were expected to still be approximately 10% below their peak. The drop through rate of incremental revenue to incremental operating profit was strong at 41% (compared to 30% in the prior year) and reflects the existing operational gearing in the business but also the success of further cost reduction initiatives implemented during the year. Operating profit before exceptional items has doubled in the year from £7.0m to £14.1m. This in turn has resulted in adjusted earnings per share more than doubling to 4.2 pence.

This was achieved in large part due to our geographically diverse sales presence which saw strong growth continuing in the Americas, South East Asia and India throughout the year, offsetting a difficult trading environment in Europe in the second half where the European sovereign debt crises led to significant volatility in underlying sales growth. A further complication of the Eurozone crisis itself was a significant strengthening in the Swiss Franc which led to a year on year reduction in underlying sales in our third largest European market in the second half of the year.

During the year the business successfully reduced gearing levels (measured as a ratio of net debt to rolling 12 month EBITDA) to 1.2 times from 1.7 times last year. In the year, net debt increased by £2.9m to £22.9m from £20.0m in the prior year. The Group was able to fund significant sales growth with only limited increases in working capital for a second year in succession. Average working capital has continued to be managed down during the period under review. Continuous improvement was made in average working capital levels, which finished the year at 22.4% of sales compared to 24.7% last year.

With regard to pensions, we have been actively reviewing and improving the overall funding of the UK schemes and so, despite an adverse change in gilt yields of around 100 basis points from QE that drove down corporate bond yields and contributed to an increase in liabilities of £16m, offsetting actions and lower inflation have limited the UK deficit increase to £1.7m.

More detail on the pension position and actions taken can be found on pages 22 and 23.

During the year we achieved the first implementation of our global Enterprise Resource Planning (ERP) system at our Morristown facility in the USA. There were a number of operational and working capital issues that arose in the early stages of the project but these were resolved by the end of the first half. The opportunity was taken to establish a series of lessons learned and the experience in Morristown will undoubtedly help in subsequent implementations of the system in further parts of our business. Over the next 12 months the Torque Transmission facility at Milnrow in the UK will transfer onto the new system, as will the Chain business in Canada and the Chain Europe back office.

The new operating model for our European businesses is set out in more detail on page 12. We have created a standardised shared service model for our finance, payroll and inside sales functions, based at the headquarters of our Chain Europe business in Manchester, UK. This model will bring benefits to customer service, working capital management and cost savings which are expected to be £1.8m p.a. following completion of the project in 2013/4. The prolonged timetable reflects the utmost importance attached to maintaining customer service during the integration process.

Chief Executive's review continued

Renold Torque Transmission
Renold Torque Transmission is focused on growth while maintaining or improving the current strong operating margins. Government led investment in transport and energy infrastructure accompanied by private sector demand for commodities such as iron ore, steel and electricity have supported sales growth across our key geographies throughout the year.

Torque Transmission, which was already our highest operating margin division, performed particularly well this year in delivering 10% growth in underlying revenue but also increasing operating margins to 16.0% from 13.5% in the prior year. The business benefits from a portfolio of products and services that are customer specific and solution focussed and which therefore demonstrate the bespoke, specialised nature of our value-add services.

We have also added capability to our Torque Transmission division in the shape of additional production capability in our large manufacturing cell in Beicai, China which was one of the year's larger capital investments. In addition, we have invested in more business development and service support capability to underpin the four key markets targeted for growth by Torque Transmission: Mass Transit, Metals, Quarrying and Mining and Energy. These markets represent approximately 60% of the division's revenues and three of the four grew strongly during the year. In Mass Transit, revenues are driven by timing of customer tender processes which can vary in duration. We are participating in a number of major mass transit tenders in North America and Europe and have reached shortlisting stage in several which are expected to lead to contract awards in 2012/13.

Our Chinese joint venture, which targets the rapidly expanding and significant Chinese mass transit market, now has a fully installed assembly facility that has passed ISO 9001 certification (Quality Management Systems). Often aligned to the mass transit market for vehicle gears and couplings is the demand for high performing safety critical escalator drives. This opportunity exists on new mass transit systems but also on the refurbishment, upgrade and expansion of existing stations such as the Lower East Side Access at Grand Central Station in New York.

Renold Chain
Renold Chain is focussed on improving profitability with growth as an important facilitator. Chain delivered an operating margin of 5.9% (2011: 3.3%). This was the result of underlying sales growth of £12.5m and the full year benefit of the prior year projects to close the French manufacturing facility in Seclin and the US warehouse in Hebron, which together reduced our cost base by approximately £1.5m.

As noted above, growth in regions outside Europe was good for most of the year. The second half in Europe was volatile and the specific impact of currency strength in Switzerland negatively impacted sales growth. Growth of 7% in the second half in the rest of Europe was offset by falls in underlying Swiss revenues in the same period.

Summary and outlook
A 10% Return on Sales margin aligned to regaining pre-recessionary levels of underlying sales remains our firm goal.

Our Torque Transmission business is making excellent progress in leveraging existing skills, capabilities and reputation. Torque Transmission has achieved double digit growth while further enhancing already attractive operating margins. The business is now expanding its geographical reach by focussing on four key target markets which show strong underlying growth prospects. Our aim for Torque Transmission is to maintain the double digit level of growth in the year ahead and ultimately equal the revenue scale of Chain.

Chain is rapidly improving its operating profitability and the European back office restructuring project is a clear sign of the continued focus on improving our cost base and business processes while enhancing customer service for future growth. Prospects in most of the world remain good with some under-exploited opportunities still remaining in large markets such as South America. Since the performance of the Chain division is more closely linked to global economic activity, the current uncertainty in Europe will reduce growth prospects below the strong double digit levels seen in the last two years.

Nevertheless, Renold benefits from market leading positions, a good geographic portfolio and superior products, all of which are driving growth from an increasingly optimised cost base. We remain very confident about the long term future of Renold.

Key performance indicators
The Group's key performance indicators are set out on page 45 of the Statutory information section of the Directors' report and are incorporated by reference here.

Robert Davies
Chief Executive Officer

10%
Growth in underlying revenue for our Torque Transmission division

5.9%
Chain delivered operating margin of 5.9% which was a significant increase on the previous year result of 3.3%

Finance Director's review

The momentum we created in 2011 continued into the current year, with significant growth in sales and profitability. Heightened focus on the effective management of working capital and our cost base will provide a strong platform for sustained future growth and cash generation.

***Brian Tenner** Finance Director*

Our performance

Overview
Revenues and profitability saw significant growth during the year ended 31 March 2012, building on the achievements of the previous year. Cash generation was sufficient to fund the European reorganisation, £5.9m of capital investment and £5.2m of ongoing pension payment obligations. At the same time, the Group took advantage of a number of pension deficit reduction opportunities that should ultimately result in a significant fall in our underlying UK pension scheme deficits after the effects of Quantitative Easing on corporate bond and gilt yields have diminished.

Revenue
Revenue for the year increased by 9.7% to £209.5m following a 22% increase in the preceding year to £191.0m. On an underlying basis, excluding the impact of foreign exchange, the increase was 8.9%. Underlying revenue growth in the second half was negatively impacted by the weak macro-economic situation in Europe.

Operating result
The Group generated £6.3m of operating profit before exceptional items in the first half (2011: £3.1m) and £7.8m in the second half (2011: £3.9m) with a full year result of £14.1m (2011: £7.0m). The improved result was due to the combination of increased sales and benefits from cost reduction initiatives implemented at the end of the prior year. The incremental revenue resulted in a strong 'drop through' to the profit line of approximately 41%.

During the year, the Group continued to streamline its operations to achieve greater efficiency. The reorganisation of our Chain Europe business is now at an advanced stage and the business is already benefitting from the cost savings and operational efficiencies of this project to create a standardised shared service model for finance, payroll and inside sales. This project was the main constituent of the exceptional charges of £2.1m for the year (2011: £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 £2.5m (2011: £2.1m). Net IAS 19 finance charges (which are a non-cash item) were £1.8m (2011: £3.6m); the movement being due to lower interest charges on pension plan liabilities in the UK and overseas. The fall in discount rates this year means that we expect next year's net IAS 19 financing charge to fall further by around £1.5m.

Result before tax
Profit before tax and exceptional items was £9.7m (2011: £1.4m). The profit before tax after exceptional items was £7.6m (2011: loss of £1.3m).

Taxation
The current year tax charge of £1.2m (2011: tax credit of £0.4m) is made up of a current tax charge of £1.0m (2011: charge of £0.8m) and a deferred tax charge of £0.2m (2011: credit of £1.2m). The charge represents an effective adjusted rate of approximately 17% (2011: 10%). The Group cash tax paid was much lower at £0.5m (2011: £0.1m) and the difference is due to the utilisation of tax losses and other tax assets in various parts of the Group.

Group results for the financial period
Profit for the financial year ended 31 March 2012 was £6.4m (2011: loss of £0.9m); the basic earnings per share and the diluted earnings per share were 2.8p (2011: loss 0.4p). The basic adjusted earnings per share and diluted adjusted earnings per share were 4.2p (2011: 2.0p).

Balance sheet
Net assets at 31 March 2012 were £53.2m (2011: £56.9m). The net liability for retirement benefit obligations was £45.2m (2011: £42.0m) after allowing for a net deferred tax asset of £10.5m (2011: £9.5m). Overseas schemes now account for £21.3m (47%) of the post tax pension deficits and £19.1m of this is in respect of the German scheme which is not required to be prefunded (see Pensions section on pages 22 and 23).

Cash flow and borrowings
Cash generated from operations was £5.9m (2011: £6.6m). Capital expenditure was reduced to £5.6m (2011: £6.6m), to partially mitigate £4.3m working capital increases supporting sales growth of £18.5m. Group net borrowings at 31 March 2012 were £22.9m (2011: £20.0m) comprising cash and cash equivalents of £4.8m (2011: £7.4m) and borrowings, including preference stock, of £27.7m (2011: £27.4m).

Bank facility
During the period, the Group reached an agreement to extend its principal banking facility with the existing syndicate members led by The Royal Bank of Scotland plc, with Fortis Bank S.A./N.V. The key terms of this facility were effective from 13 August 2009 with a Multi-Currency Revolving Credit Facility (MRCF) of £20.0m and a Sterling overdraft facility of £5m. The facility expires on 30 June 2013. The Group expects to agree new banking facilities in the coming year.

This is the Group's principal credit facility although the Group also benefits from numerous overseas facilities totalling £21.1m.

At 31 March 2012 the Group had unused credit facilities totalling £19.8m and cash balances of £4.8m. Total Group credit facilities amounted to £46.1m with £30.6m being committed.

Treasury and financial instruments
The Group's 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 24. Note 25 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 2012, this hedge was fully effective. The carrying value of these borrowings at 31 March 2012 was £8.1m (2011: £8.1m).

At 31 March 2012, the Group had 4% (2011: 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.

Contracts essential to the business of the Company
The section on Contractual or other arrangements essential to the business on page 48 of the Statutory information section of the Directors' report is incorporated by reference here.

Business review

Finance Director's review continued

Pensions
Detailed information on the Group's pension schemes is set out in Note 18 to the Group financial statements, including the key assumptions used by the actuaries in arriving at the IAS 19 funding position.

The Group's three UK defined benefit 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 replacement arrangement set up at that time is the Renold Personal Pension Plan, a defined contribution plan which is administered by Fidelity International.

During the year ended 31 March 2012, total UK assets were unchanged at £149.1m. UK asset performance reflects actual asset returns of £7.4m (circa 5%) and employer contributions of £3.4m less the funding of £10.8m of pension benefits.

Overseas asset values rose by £0.1m and include a residual scheme surplus of £1.6m in South Africa which will be returned to the sponsoring company when the official scheme liquidator completes the formal wind up process. The overseas asset portfolio earned an average annual return of 1%.

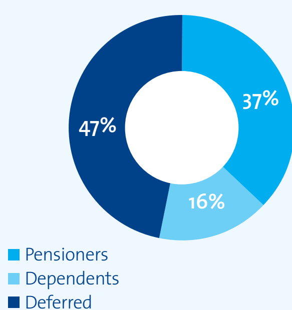
The Group is currently conducting the latest triennial review process with the trustees of the J&S UK pension scheme with a valuation date of 5 April 2012. Results of the triennial review should be available at the time of the Group's final results in May 2013. This scheme currently accounts for £0.3m of the total £2.5m annual UK deficit repair payments and has the best funding position of the three UK schemes.

Brian Tenner
Finance Director

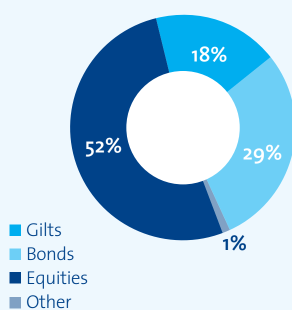
Pensions
The Group has a mix of UK (82% of gross liabilities) and overseas (18%) defined benefit pension obligations as shown below.

	2012 Assets £m	2012 Liabilities £m	2012 Deficit £m	2011 Assets £m	2011 Liabilities £m	2011 Deficit £m
Defined benefit schemes						
UK funded	**149.1**	**(180.6)**	**(31.5)**	149.1	(178.9)	(29.8)
Overseas funded	**14.3**	**(17.3)**	**(3.0)**	14.2	(15.4)	(1.2)
Overseas unfunded	**–**	**(21.2)**	**(21.2)**	–	(20.5)	(20.5)
	163.4	**(219.1)**	**(55.7)**	163.3	(214.8)	(51.5)
Deferred tax asset			**10.5**			9.5
Net deficit			**(45.2)**			(42.0)

UK Membership

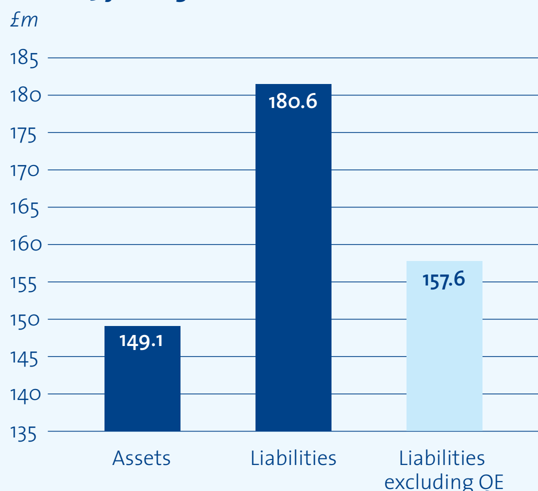


UK Assets



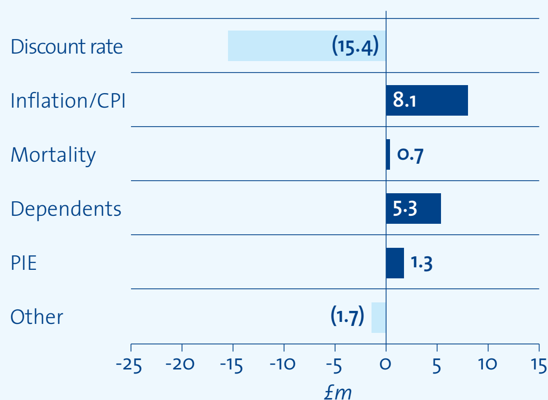
- The pie charts show the current make up of UK pension scheme membership and asset allocation as at 31 March 2012.
- Given the relative maturity of the scheme 47% of assets are now invested in gilts and corporate bonds. It is expected that these are held to maturity and they are held primarily to generate an income stream that supports the ongoing annual pension payments made (currently circa £10.8m per annum including cash lump sums on retirement).
- The overall target for UK portfolio returns is 6.6% less an allowance of 0.5% for expenses.
- The membership profile has changed over the last decade with 53% of members being either pensioners or dependents today compared to 48% in 2002.
- The total number of scheme members has fallen by 39% since 2002 to 5,478 today. Of this reduction, net mortality explains 51% with a further 8% due to net leavers from the schemes (whether through the recent Trivial Commutation exercises or members opting to transfer their entitlements elsewhere).

UK IAS 19 funding basis



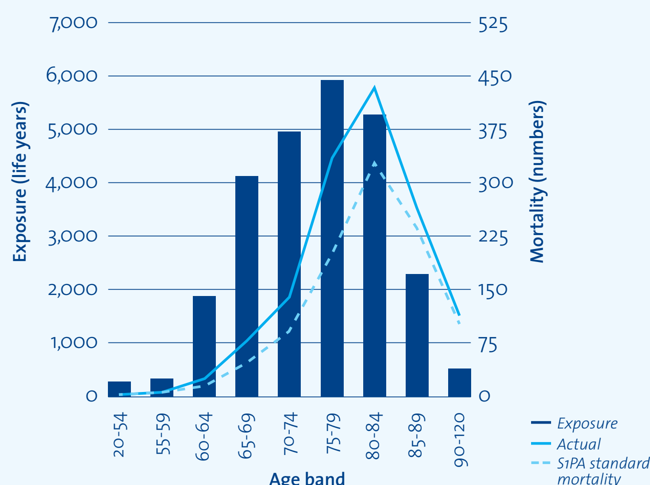
- The chart shows the assets and liabilities of the Group's UK defined benefit pension schemes. The chart also shows the estimated impact on liabilities of the Bank of England's program of Quantitative Easing (QE).
- The impact of QE on bond yields (and hence pension discount rates) has been estimated by the Bank and the National Association of Pension Funds at 100 basis points (or 1%).
- This suggests that without the impact of QE the UK pension schemes would have an IAS 19 funding ratio of 95%. In other words the UK pension deficit excluding the impact of QE would be around £8.1m.
- Note 18 to the financial statements explains that a 0.1% change in discount rate reduces deficit by £2.3m.

Drivers for change in UK Deficit



- The chart shows the key drivers of change for the Group's UK defined benefit pension schemes over the last year.
- The Group has undertaken a number of proactive initiatives including an offer to members of a Pension Increase Exchange (PIE) where uncertain future inflation rises on some benefits are swapped for an immediate one off increase.
- The Group has also conducted extensive reviews of actual member experience over the last decade on mortality and proportions of members leaving a dependent pension liability. Actual experience has been significantly favourable to the scheme funding positions and the gains shown reflect this history and expected continuation.
- The Group has increased the assumed CPI discount to RPI from 0.75% to 1.0% which is in line with consensus views.
- The chart also shows the impact of lower discount rates driven by QE and underlying market inflation rates on the schemes deficits.

Pensioner mortality experience 2002-2012



- For the Group's largest UK pension scheme, the RGPS which represents 81% of UK members and 65% of UK liabilities, the chart shows the numbers of pension years liabilities in each 5-year age bracket of membership (denoted by the bars).
- The lines on the chart show the expected mortality experience for the last decade based on UK standard assumptions compared to the actual experience of the scheme.
- The scheme clearly has significantly higher mortality experience than the UK average and hence the use of heavy mortality tables in the actuarial assumptions.
- The area between the two lines has an approximate liability value of £10m if applied across all members.

Principal risks and uncertainties

Renold's risk management framework is designed to identify and assess the likelihood and consequences of risk and to manage the actions necessary to mitigate their impact.

Set out below are the known principal risks and uncertainties which could have a material impact on the Group together with the corresponding mitigating actions that have been taken by the Group. Additional risks not currently known or which are currently regarded as immaterial could also affect future performance.

Status	Risk	Nature of risk and potential impact	Mitigation
Market risks			
△	***Economic and political***	We operate in 20 countries and sell to customers in over 100 and therefore we are necessarily exposed to significant economic, political and business risks such as a global recession, sudden changes in regulation, imposition of trade barriers and wage and currency controls, security risk and volatility of taxes. Perceived increase in risk due to the current macro-economic climate particularly in the Eurozone.	Our diversified geographic footprint mitigates against over-exposure in any one country. Executive team monitor macro-economic trends, industry specific and internal leading indicators. Contingency planning and scenario modelling.
◁▷	***Raw material price volatility***	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. 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 effect on the Group's business, financial condition, prospects, customer retention and results of operations.	Continual monitoring of different international steel price indices for alternate types and grades of steel. Where contractually possible, we pass price increases on to our customers but this ability is, to some extent, dependent upon market conditions. Stock holdings are managed to maintain a forward hedge on input costs and time buffer to allow negotiations with customers and suppliers.
◁▷	***Competitive markets and technology advancements***	Renold operates in highly competitive markets with customer decisions based typically on price, quality, technology and service. New entrants or consolidation of existing competitors could restrict our ability to delivery strategic objectives. Renold may lose customers to competitors if we are unable to adapt to market developments due to changes in consumer preferences, regulatory or industry requirements or competitive technologies.	Continual review of market trends and competition in monthly executive sessions. Investment in new technology and engineering capabilities. Maintain strong customer relationships and high service levels.
Operational risks			
▽	***Manufacturing disruption***	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 material 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.	Dedicated production and supply chain teams focused on demand fulfilment. Preventative maintenance programme. Inventory maintained to absorb and flatten out raw material supply and production volatility. 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. 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. Risks have reduced by virtue of the experience gained and lessons learned during the US implementation. This will enable us to resolve issues in advance of future implementations.	Use of specialist external consultants to advise on the project. Recruitment of experienced personnel. Phased implementation. Project plan is in place with agreed milestones reviewed by the Board.
◁▷	***Product liability and warranty claims***	Product quality issues could lead to exposure to product liability and warranty claims in the event that a product fails.	Quality assurance embedded in robust manufacturing systems. Policy of contractually limiting liability and duration of warranties. Maintenance of product liability insurance.

Status	Risk	Nature of risk and potential impact	Mitigation
Operational risks *continued*			
◁▷	***Environmental risks***	Unforeseen legislative changes may increase manufacturing costs but we believe that they can also drive change to make operations more efficient.	Monitor environmental legislation at a local level in order to anticipate the effect on our businesses and customers.
◁	***Health and safety in the workplace***	A lack of robust safety processes and procedures could result in accidents involving Renold employees and others on Renold premises potentially causing damage to Renold's reputation and financial performance.	Groupwide health and safety policies and procedures. Health and safety audits and reporting at all sites. Continual risk assessments and to ensure education of risks. Regular tracking of accident rates and root cause analysis via a new risk system.
◁▷	***People***	A lack of technical expertise or management skills could adversely impact the Group's ability to serve its customers and damage financial performance.	Competitive reward programmes, and focused training and development. Ongoing reviews of succession plans based on business need.
Financial risks			
△	***Liquidity***	In the present economic climate, all companies face risk in relation to the availability of debt to fund their ongoing operations. In order to manage this risk, the Group maintains a mix of short and medium term facilities to ensure that it has sufficient funds available.	The Group engages in active dialogue with various banks to match funding needs with appropriate facilities. Cash deposits are placed short term with banks where security and liquidity are the primary objectives. Constant management focus to enhance working capital management processes. Our global ERP system implementation is a part of that working capital improvement plan.
△	***Foreign exchange rate volatility***	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. Translational exposure: arises due to exchange rate fluctuations in the translation of the results of overseas subsidiaries into Sterling.	The Board has approved a net cash flow hedging strategy for major currencies that extends for four quarters on a rolling diminishing coverage basis. Transactions are covered primarily by forward foreign exchange contracts or cash flow hedges. 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 rate volatility***	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.	Facility in place for interest rate swaps to manage part of this exposure if volatility arises.
▽	***Pensions deficit volatility***	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 longevity of members.	Continual review of the risks in relation to the Group's pension schemes tracked in the risk management system. See Financial Director's review on pages 20 to 23 for details of actions taken in the year. Group is represented by a Company nominated trustee on the investment committee which sets the asset strategies of its pension plans.

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.

Following implementation of the UK Bribery Act, the Group has put in place training for all members of staff whose roles involve working in environments or activities where there is a perceived risk. Other control processes and revisions to formal contractual arrangements with agents and distributors have also been put in place in order to comply with the requirements of the Act.

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 2012 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 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

Renold is committed to managing its activities to provide appropriate levels of care for the environment, for customers and for employees. In particular, Renold seeks to develop and manufacture products that 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 operations in compliance with relevant statutory provisions concerning environmental matters.

Four sites within the group have become accredited with the ISO 14001 Environmental Management standard and a further site recently began to implement the standard. The systems introduced will assist in ensuring that Renold meets all legal requirements, continues its efforts in preventing pollution and improves its environmental performance across all its activities.

Renold remains compliant with the Government's Carbon Reduction Commitment scheme and has submitted both a carbon footprint report and annual return to the environmental agency on behalf of the impacted UK sites.

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 has been a number of energy saving initiatives during the year ended 31 March 2012, including the following:

- An energy saving programme at the UK Gears facility highlighted the need to update the power factor correction equipment that dated back to the 1980s, with the project paying back in less than a year.
- Our Morristown site in the USA is in the process of replacing outdated and inefficient metal halide lights with more efficient electronic ceramic fittings. The project is subject to 70% rebate from the utility supplier, resulting in a six month return on a significant investment.
- The UK Chain facility carried out a full review of the entire waste disposal system, which has resulted in one contractor providing a total waste management service. This will result in improved waste management and a reduction in waste going to landfill, as more opportunities for recycling have been identified.
- Arrangements are being made for energy management consultants to undertake energy saving surveys at two more of our UK sites to assist in producing energy saving programmes.
- Renold's facility in India has significantly improved an outside area where a large amount of waste 'husk' material was stored. The product is used in the de-burring and polishing operations to absorb coolant. The product is now stored in barrels prior to being disposed of by licensed contractors.
- As part of the manufacture of 'sprag' clutches, bar material has to be drawn through dies and as a result becomes work hardened, that then requires an annealing process to soften the material. This process was carried out on all bar material irrespective of hardness values which has now been changed to only anneal based on hardness values and has resulted in gas furnace savings.

We will continue to explore further energy saving and environmental projects in the future.

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.

Responsibilities continued

Developing capability

We strongly believe it is essential to maintain our skill pool. A good example of this is the commitment to a healthy flow of apprentices being recruited, trained and then permanently employed across our factories in the UK. For example, at our Bredbury factory two apprentices have recently completed their apprenticeship and went into permanent skilled engineering roles with other apprentices reaching completion with a view to securing design engineer roles within the business.

At the Renold Gears facility we have an Apprentice Training School where apprentices spend their first year learning basic engineering skills, before transferring to the shopfloor and other areas of the business such as planning, quality, purchasing and distribution so that they also gain an appreciation and awareness of the wider business operations and how these work together.

The apprentices themselves value this mix of formal learning and the 'hands on' experience they gain from working alongside their colleagues. There are currently 20 apprentices in the training school at various stages of a four year programme with plans to recruit more in September 2012.

We have also sponsored two ex-apprentices to undertake degrees in engineering at a local university. Renold also participates 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.

Health and safety

Renold is committed to providing a safe workplace for all its employees and those affected by its activities.

The Board regularly reviews health and safety performance and monitors that any issues identified are promptly addressed. The following charts show the Group's health and safety performance for the five years to 31 March 2012. Further details of the lost time accident frequency rate and reportable injury rate can be found on page 45 of the statutory information section of the Directors' report.

Renold recognise that a strong performance in health and safety is important to the business, to the employees and to those who may be affected by Renold's activities. Critically, a safe business is more likely to be a profitable one. Towards the end of 2011, Renold commissioned a third party to benchmark two sites against relevant legislation and industry standards. This exercise has helped Renold to review its existing management systems and highlight where they can be improved. As a result, Renold are piloting a culture development programme at the main UK chain manufacturing site and further reviews are planned to assess three other sites.

Further, the Group is completing the introduction of an integrated risk management system, whereby incidents from all sites are logged, investigated and actioned accordingly. The system allows the collection, review and analysis of health, safety and environmental data globally, further heightening awareness throughout the Group.

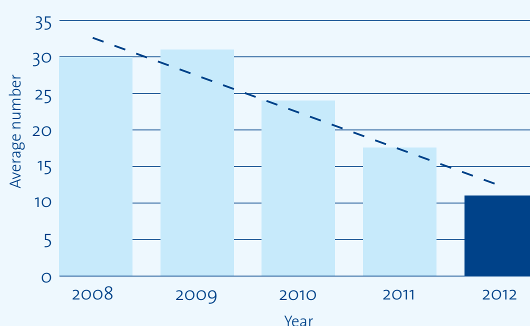
Our Hi-Tec Couplings site in the UK became the first within Renold to successfully achieve OHSAS 18001, the management system for Occupational Health and Safety and a second site will begin working towards the standard in 2012. All sites develop specific health and safety plans to highlight areas that require particular attention and are monitored on a regular basis by the health and safety team. Where accidents do occur, Renold are keen that any lessons are learned swiftly and that findings are shared throughout the Group to prevent recurrence. Root cause analysis of incidents is carried out to identify common issues and solutions.

The Group aims to achieve zero accident and incident levels by identifying and mitigating occupational health hazards and raising awareness at all levels. During the year ended 31 March 2012, Renold delivered a 39% reduction in the average lost time accident frequency rate within the Group, which reflects the focus given to this key risk area by management. In addition, a number of sites have recorded zero reportable injuries in the year.

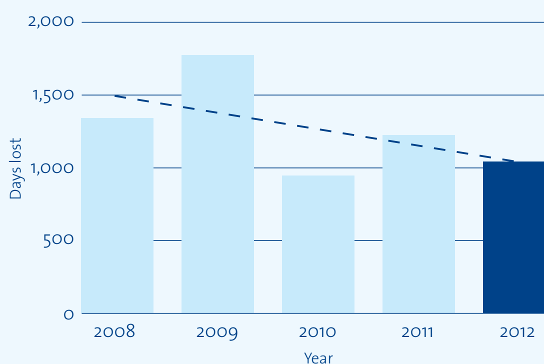
Working days lost are the direct result of workplace injuries and accidents. They also have a clear impact on business performance and productivity. Management actively engage with affected employees to ensure a healthy return to work plan that delivers lower days away from the work place.

The Group uses the UK average manufacturing index for Reportable Incident Rates (RIR) as the performance benchmark for each of our locations. That benchmark is a score of 1,500 or lower. Sites with a score in excess of 1,500 are required to implement remediation actions to improve their performance.

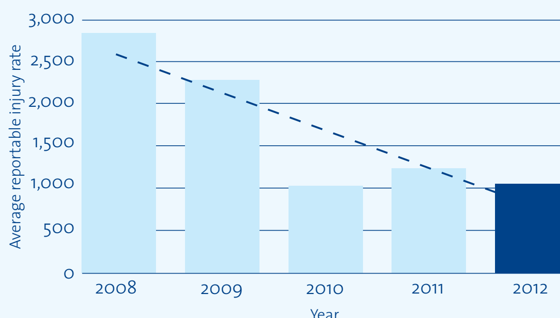
Average lost time accident frequency rates



Working days lost



Reportable injury rates (average trend)



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 year and multiplied by 1,000,000 thus providing the lost time accident rate per 1,000,000 hours worked.

Governance

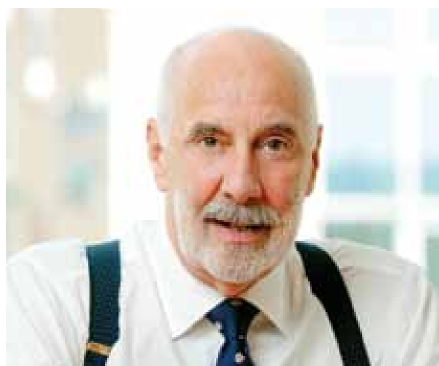
Board of Directors

Matthew Peacock
Chairman

Robert Davies
Chief Executive

Brian Tenner
Finance Director

David Shearer
Senior Independent Non-Executive Director



John Allkins
Non-Executive Director

Ian Griffiths
Non-Executive Director

Mark Harper
Non-Executive Director

Matthew Peacock
Chairman
Matthew, aged 50, 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 and Regenersis plc. Matthew will be standing down from the Board at the Annual General Meeting on 12 July 2012.

Robert Davies
Chief Executive
Robert, aged 58, 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 Vice Chairman 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 12 years spent in the US.

Brian Tenner
Finance Director
Brian, aged 43, joined the Group in September 2010 as Finance Director and was also appointed Company Secretary on 3 January 2012. 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 53, was appointed to the Board in May 2007 as the Senior Independent Non-Executive Director. He is an experienced corporate financier and turnaround specialist and was previously Senior Partner of Deloitte LLP for Scotland & Northern Ireland and a UK Executive Board member of Deloitte LLP. He is Chairman of Mouchel Group plc, Deputy Chairman of Aberdeen New Dawn Investment Trust plc, Senior Independent Director of Martin Currie (Holdings) Limited, STV Group plc and Superglass Holdings plc and a Non-Executive Director of Mithras Investment Trust plc. He was previously Chairman of Crest Nicholson plc and a Non-Executive Director of City Inn Limited where he stood down after successfully completing the financial restructuring of these businesses, was a Non-Executive Director of Scottish Financial Enterprise and a Governor of The Glasgow School of Art. David will be standing down from the Board at the Annual General Meeting on 12 July 2012. A process to select a new Senior Independent Non-Executive Director is underway.

John Allkins
Non-Executive Director
John, aged 62, 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 Linpac Senior Holdings Limited and was previously a Non-Executive Director of Intec Telecom Systems plc and Molins plc. Prior to this he was Group Finance Director of MyTravel Group plc and was also Chief Financial Officer of Equant NV.

Ian Griffiths
Non-Executive Director
Ian, aged 61, 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.

Mark Harper
Non-Executive Director
Mark, aged 56, was appointed to the Board as a Non-Executive Director and Chairman-elect on 1 May 2012. He will take on the role of Chairman in succession to Matthew Peacock at the close of the Annual General Meeting on 12 July 2012. Mark became the Chief Executive of Filtrona plc at the time of its demerger from Bunzl plc in June 2005 and led a successful period of growth until his retirement in May 2011. Prior to this, he held a number of senior operational management positions within Bunzl plc and was appointed to the Bunzl plc Board in September 2004. Mr Harper is currently a Non-Executive Director of BBA Aviation plc.

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 UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 (the **Governance Code**), to which the Company is subject for the year ended 31 March 2012, have been applied. The Governance Code is available to view on the Financial Reporting Council's website at www.frc.org.uk.

Compliance with the Governance Code

The Board considers that the Company has complied with all relevant provisions set out in the Governance Code throughout the year ended 31 March 2012 except where highlighted below.

Leadership and Effectiveness

Composition

During the year ended 31 March 2012, the Board comprised 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 as at the date of this report appear on pages 30 and 31.

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. Appropriate ongoing training is provided for the Board and individual directors as required.

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 B.6 of the Governance 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 2012.

Board independence

The Chairman, Matthew Peacock, is and has been throughout the year ended 31 March 2012 a principal of Hanover Investors Limited, which until 17 November 2011 was a significant shareholder of the Company.

Matthew Peacock was, until 30 July 2011 the Chairman of the Company's former broker and financial adviser, Singer Capital Markets Limited (**Singer**). The Board had discussed and approved this appointment and had agreed that until this date he would 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 31.

David Shearer, the Senior Independent Director, is, and has been throughout the year ended 31 March 2012, a director of STV Group plc, a company of which Matthew Peacock was a director until his resignation on 19 January 2012.

John Allkins is, and has been throughout the year ended 31 March 2012, 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 B.1.1 of the Governance 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 12 July 2012 (**Annual General Meeting**), Matthew Peacock will be stepping down from the Board and David Shearer will not be offering himself for re-election. Therefore the requirement for one-third of the Directors to retire at the Annual General Meeting has been met.

Mark Harper will be elected as a Director at the Annual General Meeting in accordance with the Company's articles of association. Biographical details of Mark Harper 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				
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Monitoring Committee
Matthew Peacock	8	–	–	1	–
Robert Davies[1]	8	4	–	2	4
Brian Tenner[1]	8	4	–	–	4
David Shearer	8	3	–	3	–
John Allkins	8	4	–	3	–
Ian Griffiths	7	4	–	3	–
Mark Harper[2]	–	–	–	–	–
Total number of meetings	8	4	–	3	4

1 Robert Davies and Brian Tenner attended Remuneration Committee and Audit Committee meetings by invitation.
2 Mark Harper was appointed to the Board with effect from 1 May 2012 and therefore attended no meetings during the year.

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. Hannah Woodcock, as Company Secretary, acted as secretary to all of these committees except the Remuneration Committee until Brian Tenner's appointment as Company Secretary on 3 January 2012. Maggie Hurt (the Group Human Resources Director) acts as secretary to the Remuneration Committee. The terms of reference for each of these committees are available on the Company's website at www.renold.com.

Corporate governance continued

	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.	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. 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, is 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. 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 discussed in further detail on page 36 under 'Review of the work of the external auditor' and is available on the Company's website at www.renold.com. The Audit Committee met four times during the year ended 31 March 2012. In the course of these meetings the Audit Committee considered matters which included the following: • 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. • Risk monitoring: The Risk Monitoring Committee reported the results of its discussions to the Audit Committee. • 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. • Whistleblowing: The Audit Committee review the Group's procedures for staff to raise concerns about financial reporting or other misconduct in confidence. The Audit Committee consider any and all 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.	There were no new appointments during the year ended 31 March 2012. Mark Harper was appointed to the Board as a Non-Executive Director and Chairman-elect on 1 May 2012. Mark Harper was appointed following an evaluation of a number of candidates. Mark Harper's appointment was made on merit and against objective criteria based upon his skills experience, independence and knowledge of the company and the process for his appointment was led by the Nomination Committee through the use of experienced external recruitment consultants, which recommended the appointment to the Board.
Remuneration Committee	Ian Griffiths (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 38 to 43. Robert Davies is and has been throughout the year ended 31 March 2012 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 2012 is contained within the Directors' remuneration report on pages 38 to 43 which is incorporated by reference here.
Risk Monitoring Committee	Robert Davies (Chairman) Brian Tenner Maggie Hurt Mike Christmas Stephen Gates Mike McClure 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 Group Human Resources Director, the Group Engineering Director, the Managing Director of European Chain, the Group IT Director and the Group Head of Business Process and Assurance. Prior to Hannah Woodcock's resignation as Company Secretary on 3 January 2012, the Company Secretary was also a member of the Risk Monitoring Committee. The Risk Monitoring Committee meets and reports to the Audit Committee at least twice each year. For the year ended 31 March 2012, 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.

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 2012, 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 ending 31 March 2013.

A full breakdown of the audit and non-audit related fees is set out in Note 2(b) to the financial statements on page 65. 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 2012 and up to the date of approval of this report and the financial statements. Internal controls and the risk management process 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 2012, 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; 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;
- 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; 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 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 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 2012, the Group has undertaken a review of its policies and procedures in preparation for the implementation of the Bribery Act 2010, including appropriate employees having undertaken training.

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 50 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 29.

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.

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 E1.1 of the Governance 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 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 99. 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 2012 are contained in the Corporate governance section of the Directors' report on pages 30 to 37 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 Shearer, none of whom has any personal financial interest other than as a shareholder, in the matters to be decided.

The Chief Executive and the Chairman attend meetings of the 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 2012, the Remuneration Committee appointed and received advice from Ernst & Young LLP in respect of the payment of Executive Directors' bonuses in shares.

The Remuneration Committee meets as often as necessary to discharge its duties, which during the year ended 31 March 2012 was on three 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 39 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 2012, 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 2012 was 0.78% (2011: 0.83%).

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 2012 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' and Brian Tenner's base salary in the context of the overall business performance. The current salary levels of the Executive Directors who served on the Board during the year ended 31 March 2012, effective from the date shown, are set out below:

- Robert Davies £290,700 effective from 1 January 2011; and
- Brian Tenner £185,000 effective from 1 January 2011

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 42 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 and Brian Tenner, the maximum annual bonus during the year ended 31 March 2012 was 100% (£290,700 and £185,000 respectively) of base salary.

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 (with 34% based on adjusted EBIT and 33% on average ratios of working capital to sales each quarter). The balance of 33% is based on specific individual targets derived from critical business objectives.

For the year ended 31 March 2012, a bonus was awarded to Robert Davies of £127,181 and to Brian Tenner of £80,938. In both cases this reflects achievement of bonus targets of 35%. It also includes a matching purchase of shares for the quarter of the bonus award that is paid in shares. The bonus mechanism and metrics set for the year ended 31 March 2012 will remain in place for the forthcoming year with 50% of potential awards based on cash and working capital improvements, 30% based on EBIT and 20% based on specific individual targets.

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 2012 and in future years, a significant portion (25% of the bonus payable in respect of the year ended 31 March 2012) 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. The Company makes an additional matching purchase of shares on behalf of each Executive Director and these are subject to the same conditions.

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.

At 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.

Directors' remuneration report continued

2004 Option Plans continued

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 EPS[3] 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 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[4]
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. 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 2012 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 20 to the financial statements.

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

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

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. 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 Sept 2010	No specified term/ terminable on 12 months' notice

Other than normal payments due during the notice period, there are no express provisions for compensation payable upon early termination of the Executive Directors' contracts. In the event of early termination, the Company's policy is to act fairly in all circumstances. The Remuneration Committee has noted the 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 2012 are set out on the next page.

Matthew Peacock	£80,000[5]
David Shearer	£40,500[6]
John Allkins	£40,500
Ian Griffiths	£38,000

Appointment details

The details of the appointments of the Chairman and Non-Executive Directors who have served during the year ended 31 March 2012 are as follows:

	Date of appointment	Unexpired term (approximate months from 31 May 2012)	Date of election/ last re-election
Matthew Peacock	21 Sept 2006	5	21 Sept 2009
David Shearer	1 May 2007	12	21 Sept 2009
John Allkins	17 April 2008	23	15 July 2010
Ian Griffiths	13 Jan 2010	7	15 July 2010

The letters of appointment of the Chairman and 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.

5 Matthew Peacock's fee is paid to Hanover Investors Management LLP for the provision of his services as Non-Executive Director.
6 David Shearer's fee was paid to Buchanan Shearer Associates LLP for the provision of his services as Non-Executive Director from 1 January 2012.

Directors' remuneration report continued

Directors' remuneration (audited information)

The remuneration for each of the Directors for the year ended 31 March 2012 is as set out below:

	Year ended 31 March 2012					Year ended 31 March 2011
	Salaries and fees (£000)	Annual bonus (£000)	Benefits Cash (£000)	Benefits Non-cash (£000)	Total (£000)	Total (£000)
Executive Directors						
Robert Davies[7]	291	127	44	32	494	631
Brian Tenner[8]	185	81	10	1	277	162
Peter Bream[9]	–	–	–	–	–	96
	476	208	54	33	771	889
Non-Executive Directors						
Matthew Peacock[10]	70	–	–	–	70	50
David Shearer[11]	39	–	–	–	39	36
John Allkins[12]	39	–	–	–	39	35
Ian Griffiths[13]	36	–	–	–	36	31
	660	208	54	33	955	1,041

The Company did not provide separate pension contributions for Robert Davies during the year ended 31 March 2012, his pension contributions were paid as a cash allowance of £43,605 (£35,696 for the year ended 31 March 2011). Pension contributions of £27,750 were paid during the year ended 31 March 2012 for Brian Tenner (£14,183 for the year ended 31 March 2011 for the period from commencement of this employment on 27 September 2010) and £nil for Peter Bream (£13,500 for the year ended 31 March 2011 for the period to termination of his employment on 30 September 2010), in each case, being 15% of base salary.

Robert Davies received a non-cash benefit of £32,000 for his company car and private healthcare. Brian Tenner received a cash benefit of £10,000 for his company car allowance and £1,000 non-cash benefit for private healthcare.

Mark Harper's fee as a Non-Executive Director was equivalent to £40,000 per annum and will increase to £110,000 per annum when he becomes Chairman at the Annual General Meeting.

Directors' beneficial interests in shares (unaudited information)

The beneficial interests of the Directors who held office at 31 March 2012 and their connected persons in the ordinary shares of the Company were as follows:

	31 March 2012	31 March 2011
Matthew Peacock[14]	Nil	24,688,990
Robert Davies	924,409	723,669
Brian Tenner	240,831	50,000
David Shearer	68,442	68,442
John Allkins	Nil	Nil
Ian Griffiths	Nil	Nil

No Directors held non-beneficial interests in the ordinary shares of the Company as at 31 March 2012 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 2012 and the date of this report.

7 £43,605 was agreed to be paid to Robert Davies as salary instead of his contractual pension contribution.
8 Brian Tenner was appointed as Finance Director with effect from 27 September 2010.
9 Peter Bream resigned as Finance Director with effect from 27 September 2010.
10 Matthew Peacock's fee is paid to Hanover Investors Management LLP for the provision of his services as Non-Executive Director. Matthew Peacock's fee was increased from £50,000 to £80,000 with effect from 1 August 2011.
11 David Shearer's fee was increased from £35,000 to £40,500 with effect from 1 August 2011.
12 John Allkins' fee was increased from £35,000 to £40,500 with effect from 1 August 2011.
13 Ian Griffiths' fee was increased from £32,500 to £38,000 with effect from 1 August 2011.
14 Matthew Peacock was indirectly interested in all of these shares through Hanover I Master Fund LP/Vidacos Nominees Limited. Hanover sold 12,000,000 shares on 29 September 2011 and 12,688,990 shares on 21 November 2011.

Directors' share options as at 31 March 2012 (audited information)

Robert Davies

	Options held at 1 April 2011	Number of share options: Granted	Lapsed	Options held at 31 March 2012	Option price (p)	Date from which exercisable	Expiry date
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
	2,456,896	–	–	2,456,896	23.20	05.02.2013	04.02.2020
	–	779,356	–	779,356	37.30	08.06.2014	07.06.2021
Total	3,396,408	779,356	–	4,175,764			

Brian Tenner

	Options held at 1 April 2011	Number of share options: Granted	Lapsed	Options held at 31 March 2012	Option price (p)	Date from which exercisable	Expiry date
Executive Scheme	678,898	–	–	678,898	27.25	27.09.2013	26.09.2020
	–	495,978	–	495,978	37.30	08.06.2014	07.06.2021
Total	678,898	495,978	–	1,174,876			

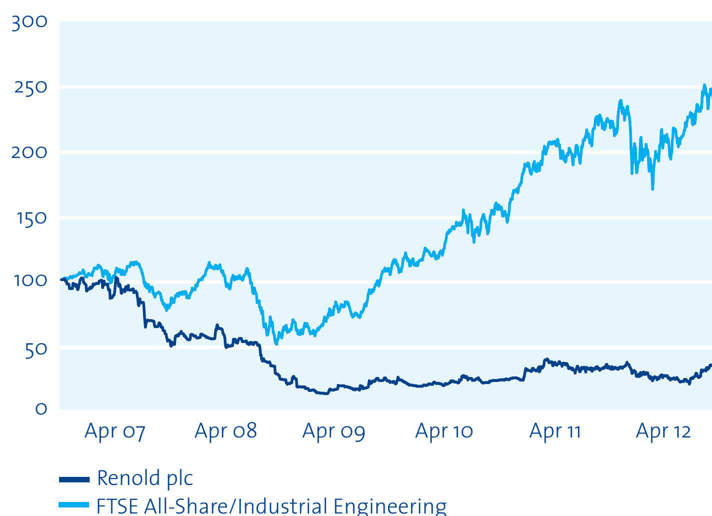
There have been no other changes in the interests of Directors in the share options between 31 March 2012 and the date of this report.

The performance conditions to which the share options are subject are disclosed on pages 39 and 40 and are included in this audited information section by reference. None of the terms and conditions of the share options were varied in the year.

The market value of shares in the Company at 31 March 2012, was £80.1m and the highest and lowest values during the year were 22p and 42p respectively.

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 All-Share/ Industrial Engineering 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

Brian Tenner
Finance Director and Company Secretary
28 May 2012

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

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the directors to prepare Group financial statements for each financial year. Under that law, the directors are required to prepare Group financial statements under IFRSs as adopted by the European Union.

Under Company Law the directors must not approve the Group financial statements 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. In preparing the Group financial statements the directors are required to:

- Present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union 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; and
- state whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to 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 Group 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 are also responsible for preparing the Directors' Report, the Directors' Remuneration Report and the Corporate Governance Statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

The Directors who were members of the Board at the time of approving the Directors' report are listed on pages 30 and 31. 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 Director 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 30 and 31 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 29) 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 and the financial statements as set out on pages 49 to 88. The Directors' Report, which comprises pages 17 to 48, incorporates the management report and corporate governance statement required under the Financial Services Authority's Disclosure and Transparency rules for listed companies. 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.

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 29.

Results

Profit for the year ended 31 March 2012 before tax is £7.6m compared with a loss of £1.3m for the year ended 31 March 2011. The profit for the year is £6.4m (a loss of £0.9m for the year ended 31 March 2011).

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:

	2012	2011
Operating profit before exceptional items	£14.1m	£7.0m
Return on sales[15]	6.7%	3.7%
Average working capital as a percentage of sales[16]	22.4%	24.7%
Adjusted earnings per share[17]	4.2p	2.0p
Group reportable injury rate (RIR)[18]	960	1,227

15 Operating profit before exceptional items as a percentage of sales.
16 Working capital is the sum of inventories, trade and other receivables and trade and other payables.
17 This is basic earnings per share from continuing operations before exceptional items after tax.
18 The RIR is calculated by dividing the number of reportable injuries in a year by the average number of Group employees for the year and multiplying by 100,000. The figures show an improved RIR in the year compared to RIR of 1,227 for the year ended 31 March 2011. There has also been a 39% reduction in the average lost time accident frequency rate compared to the rate for the year ended 31 March 2011 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 30 and 31 and are incorporated by reference here. All Directors were Directors throughout the year.

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.

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 32 to 37.

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 38 to 43. 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 44 for the statement of Directors' responsibilities in respect of the Annual Report and for the Directors' statement as to disclosure of information to auditors.

Employees

As at 31 March 2012, the Group employed 2,569 people, including 644 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.

Statutory information continued

Employment policies continued
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
These disclosures are included in Note 18 to the Group financial statements on page 76 and incorporated by reference here.

The 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 boards 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 2012, 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 2011 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 2012 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 22,106,445 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 19 to the Group financial statements on page 79.

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 31 March 2012, 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
Henderson Global Investors Limited	32,077,466	14.60
Prudential plc group of companies	30,007,234	13.66
M&G Investment Funds 3[19]	21,977,803	10.00
JPMorgan Asset Management Holdings Inc.	11,979,586	5.46
Blackrock, Inc.[20]	11,582,295	5.28
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
Rights and Issues Investment Trust plc	7,180,000	3.27
Legal & General Group plc	6,755,100	3.07

19 M&G Investment Funds 3 Open Ended Investment Company (OEIC) and is not a Prudential group company and must be separately disclosed. The Prudential plc group holding of 13.66% includes the 10% holding of M&G Investment Funds 3 as M&G Investment Management Ltd is a wholly owned subsidiary of Prudential plc.

20 Subsequent to the year ended 31 March 2012, the Company was notified by Blackrock, Inc. of a reduction in its shareholding to 10,736,840 ordinary shares.

The Company allotted 1,499,750 fully paid ordinary shares on 16 May 2012 pursuant to the exercise of Warrants by Fortis Bank UK Branch at a price of 21.06p per share. Following this allotment, the number of ordinary shares in issue increased to 221,064,453 ordinary shares of 5p each.

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 56 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 2012, 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 2011 and 1 January 2012.

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 2011 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 £552,661.13.

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 2011 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 £7,361,446.28, representing approximately 66.6% of the issued ordinary share capital as at the date of the notice of the Annual General Meeting.

Statutory information continued

Transfer of shares

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

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

There are no other restrictions on the transfer of shares in the Company other than certain restrictions which may from time to time be imposed by laws and regulations (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 pages 24 and 25, and in Note 25 to the Group financial statements on pages 83 to 87.

Policy on payment of suppliers

Under the supervision of the head office of the Group, 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 2013.

As at 31 March 2012, trade creditors of the Group's businesses in the UK and overseas represented 86 days' purchases, compared with 99 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 18 to the Group financial statements on pages 76 to 79 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 2012 are set out in Note (xii) to the Company financial statements on page 97 which are incorporated by reference here.

Important events affecting the Group since 31 March 2012

Note 27 to the financial statements refers to post balance sheet events and is incorporated by reference here.

Brian Tenner
Group Finance Director and Company Secretary
28 May 2012

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 2012 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 27. 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 44, 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 2012 and of its profit 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 37, 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 2012 and on the information in the Directors' remuneration report that is described as having been audited.

Gary Harding
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
28 May 2012

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 89 to 98. The financial statements were approved by the Board on 28 May 2012.

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 29.

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 29. In addition Note 25 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to foreign exchange, credit and interest rate risk. Further details of the Group's cash balances and borrowings are included in Notes 13, 14 and 24 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 twelve 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.

The Group has adopted all applicable amendments to standards with an effective date from 1 April 2011. Adoption of these revised standards and interpretations did not have any material impact on the financial performance or position of the Group.

No standards or interpretations have been adopted before the required implementation date.

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 2012.

International Accounting Standards (IAS/IFRSs)		*Effective date*[1]
IAS 1	Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 12	Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets	1 January 2012
IAS 19	Employee Benefits (revised)	1 January 2013
IAS 27	Separate Financial Statements	1 January 2013
IAS 28	Investments in Associates and Joint Ventures	1 January 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 7	Financial Instruments: Disclosures (amendment)	1 July 2011
IFRS 7	Disclosures Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2015
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

With regard to the specific change in IAS 19 relating to the restriction on the expected rate of return on scheme assets to the interest rate on post-employment obligations, the impact on current year profit after tax would have been a reduction of £0.8m. However, adjusted profit after tax, which is the metric commonly used in assessing financial performance and which excludes exceptional items and IAS 19 financing charges, would have been unchanged.

The Group is currently assessing the impact of IFRS 11 on the financial position but it is not expected to be material.

All other revisions and amendments to standards and interpretations are not expected to have a material impact on the Group's results or financial position.

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 being 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.

Basis of consolidation – The consolidated financial statements incorporate the financial statements of the Company and entities 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.

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. 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 re-translation of net assets in overseas subsidiaries at the beginning of the year, borrowings used to finance or provide a hedge against those investments and from the translation of the results at average rates are taken directly to 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.

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.

Accounting policies continued

Business combinations and goodwill – prior to 1 April 2010
The purchase method of accounting was used to account for the acquisition of subsidiaries of the Group. 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 reserves under former UK GAAP will not be taken into account when determining the gain or loss on disposal of previously acquired businesses after 4 April 2004.

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 or in other comprehensive income.

Interests in joint ventures
The Group has a contractual arrangement with another party which represents a joint venture whereby there is an agreement to share control over a jointly controlled entity. The Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of individual investments. The Group income statement reflects the share in the jointly controlled entity's results after tax.

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 seven years. Costs associated with 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.

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 its expected useful life. The useful lives of assets are as follows:

Freehold buildings: 50 years

Leasehold properties: 50 years or the period of the lease if less

Plant and equipment: various according to type of asset, the principal categories being:

	Years
General plant and equipment	15
Fixtures	15
Precision cutting and grinding machines	10
Motor vehicles	3

Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

As permitted by IFRS 1, at 4 April 2004, the Group has measured its freehold properties on a fair value basis and used that value as 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 market place. The subsequent measurement of financial assets depends on their classification, as follows:

(i) Financial assets at fair value through the income statement:
Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. 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.

Accounting policies continued

(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.

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 – Includes 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.

Accounting policies continued

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.

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

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

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

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

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

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the net present value of those cash flows. Further details are included in Note 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 17.

c) Retirement benefit obligations
The valuation of the Group's defined benefit plans are determined by using actuarial valuations. These involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 18.

Consolidated income statement
for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Revenue	1	**209.5**	191.0
Operating costs	2	**(197.5)**	(186.7)
Operating profit		**12.0**	4.3
Operating profit before exceptional items		**14.1**	7.0
Exceptional items	2	**(2.1)**	(2.7)
Operating profit		**12.0**	4.3
Share of post-tax loss of jointly controlled entity		**(0.1)**	–
Financial costs		**(2.5)**	(2.1)
Financial revenue		**–**	0.1
Net IAS 19 financing costs		**(1.8)**	(3.6)
Net financing costs	3	**(4.3)**	(5.6)
Profit/(loss) before tax		**7.6**	(1.3)
Taxation	4	**(1.2)**	0.4
Profit/(loss) for the financial year		**6.4**	(0.9)
Attributable to:			
Owners of the parent		**6.2**	(0.9)
Non-controlling interests		**0.2**	–
		6.4	(0.9)
Earnings/(loss) per share	5		
Basic earnings/(loss) per share		**2.8p**	(0.4)p
Diluted earnings/(loss) per share		**2.8p**	(0.4)p
Adjusted earnings per share[2]		**4.2p**	2.0p
Diluted adjusted earnings per share[2]		**4.2p**	2.0p

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 2012

	2012 £m	2011 £m
Profit/(loss) for the year	**6.4**	(0.9)
Other comprehensive income/(expense):		
Reclassification of losses on cash flow hedges to the income statement	**–**	0.1
Net gains on cash flow hedges	**0.1**	–
Foreign exchange translation differences	**(1.1)**	(0.1)
Foreign exchange differences on loans forming part of the net investment in foreign operations	**(0.5)**	(1.0)
Actuarial (losses)/gains on retirement benefit obligations	**(9.9)**	20.3
Actuarial gain on retirement benefit obligations – restriction removed	**–**	0.1
Tax on components of other comprehensive income	**1.4**	(7.0)
Other comprehensive (expense)/income for the year, net of tax	**(10.0)**	12.4
Total comprehensive (expense)/income for the year, net of tax	**(3.6)**	11.5
Attributable to:		
Owners of the parent	**(3.8)**	11.5
Non-controlling interest	**0.2**	–
	(3.6)	11.5

Consolidated balance sheet as at 31 March 2012

	Note	2012 £m	2011 £m
ASSETS			
Non-current assets			
Goodwill	7	**22.3**	22.4
Other intangible assets	7	**5.8**	4.1
Property, plant and equipment	8	**47.2**	48.9
Investment property	9	**1.9**	2.1
Investment in jointly controlled entity	10	**0.2**	–
Other non-current assets	12	**0.2**	0.4
Deferred tax assets	17	**18.1**	16.9
		95.7	94.8
Current assets			
Inventories	11	**45.5**	44.1
Trade and other receivables	12	**33.4**	32.8
Retirement benefit surplus	18	**1.6**	1.7
Cash and cash equivalents	13	**4.8**	7.4
		85.3	86.0
TOTAL ASSETS		**181.0**	180.8
LIABILITIES			
Current liabilities			
Borrowings	14	**(13.6)**	(13.6)
Trade and other payables	15	**(38.6)**	(39.6)
Current tax		**(1.4)**	(0.9)
Derivative financial instruments	25	**(0.1)**	(0.2)
Provisions	16	**(1.5)**	(1.2)
		(55.2)	(55.5)
NET CURRENT ASSETS		**30.1**	30.5
Non-current liabilities			
Borrowings	14	**(13.6)**	(13.3)
Preference Stock	14	**(0.5)**	(0.5)
Trade and other payables	15	**(0.4)**	(0.6)
Deferred tax liabilities	17	**(0.8)**	(0.8)
Retirement benefit obligations	18	**(57.3)**	(53.2)
		(72.6)	(68.4)
TOTAL LIABILITIES		**(127.8)**	(123.9)
NET ASSETS		**53.2**	56.9
EQUITY			
Issued share capital	19	**26.4**	26.4
Share premium account		**29.4**	29.4
Currency translation reserve	21	**4.3**	5.9
Other reserves	21	**1.5**	1.4
Retained earnings	21	**(10.7)**	(8.3)
Equity attributable to equity holders of the parent		**50.9**	54.8
Non-controlling interests		**2.3**	2.1
TOTAL SHAREHOLDERS' EQUITY		**53.2**	56.9

Approved by the Board on 28 May 2012 and signed on its behalf by:

Matthew Peacock
Chairman

Robert Davies
Director

Consolidated statement of changes in equity
for the year ended 31 March 2012

	Share capital £m Note 19	Share premium account £m	Retained earnings £m Note 21	Currency translation reserve £m Note 21	Other reserves £m Note 21	Attributable to owners of parent £m Note 21	Non-controlling interests £m	Total equity £m
At 1 April 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**
Profit for the year	–	–	6.2	–	–	6.2	0.2	6.4
Other comprehensive income	–	–	(8.5)	(1.6)	0.1	(10.0)	–	(10.0)
Total comprehensive income for the year	–	–	(2.3)	(1.6)	0.1	(3.8)	0.2	(3.6)
Employee share options:								
– value of employee services	–	–	(0.1)	–	–	(0.1)	–	(0.1)
At 31 March 2012	**26.4**	**29.4**	**(10.7)**	**4.3**	**1.5**	**50.9**	**2.3**	**53.2**

Consolidated statement of cash flows for the year ended 31 March 2012

	2012 £m	2011 £m
Cash flows from operating activities (Note 24)		
Cash generated from operations	**5.9**	6.6
Income taxes paid	**(0.5)**	(0.1)
Net cash from operating activities	**5.4**	6.5
Cash flows from investing activities		
Acquisition of subsidiary undertaking	**–**	(0.7)
Investment in jointly controlled entity (Note 10)	**(0.3)**	–
Purchase of property, plant and equipment	**(3.7)**	(3.6)
Purchase of intangible assets	**(1.9)**	(3.0)
Proceeds from non-controlling interests capital injection	**–**	0.3
Net cash from investing activities	**(5.9)**	(7.0)
Cash flows from financing activities		
Financing costs paid	**(2.7)**	(2.0)
Proceeds from borrowings	**10.7**	9.5
Repayment of borrowings	**(10.9)**	(7.9)
Payment of finance lease liabilities	**(0.1)**	(0.1)
Net cash from financing activities	**(3.0)**	(0.5)
Net decrease in cash and cash equivalents	**(3.5)**	(1.0)
Net cash and cash equivalents at beginning of year	**4.9**	5.9
Effects of exchange rate changes	**(0.2)**	–
Net cash and cash equivalents at end of year (Note 13)	**1.2**	4.9

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 Companies (**NSC**s); 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 2012	Chain £m	Torque Transmission £m	Head Office costs and eliminations £m	Consolidated £m
Revenue				
External customer	157.5	52.0	–	**209.5**
Inter-segment	1.5	5.9	(7.4)	**–**
Total revenue	159.0	57.9	(7.4)	**209.5**
Operating profit/(loss) before exceptional items	9.3	8.3	(3.5)	**14.1**
Exceptional items	(1.6)	(0.1)	(0.4)	**(2.1)**
Operating profit/(loss)	7.7	8.2	(3.9)	**12.0**
Share of post-tax loss of jointly controlled entity				**(0.1)**
Net financing costs				**(4.3)**
Profit before tax				**7.6**
Other disclosures				
Inventories	35.4	10.8	(0.7)	**45.5**
Working capital	27.0	9.1	3.8	**39.9**
Capital expenditure	2.4	1.2	2.0	**5.6**
Depreciation and amortisation	3.4	1.0	0.2	**4.6**

i. Inter-segment revenues are eliminated on consolidation.
ii. Capital expenditure consists of additions to property, plant and equipment, and intangible assets including assets from the acquisition of subsidiaries.
iii. Included in Chain external sales is £12.3m of Torque Transmission product sold through the Chain NSCs. The Torque Transmission businesses 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.
iv. The measures of segment assets reviewed by the CODM are inventories and total working capital.
v. Working capital includes inventories, trade and other receivables, less trade and other payables.

1. Segmental information continued

The segment results for the year ended 31 March 2011 have been restated due to the re-categorisation of a business unit from the Chain segment to the Torque Transmission segment.

The results were as follows:

Year ended 31 March 2011 (restated)	Chain £m	Torque Transmission £m	Head Office costs and eliminations £m	Consolidated £m
Revenue[4]				
External customer	143.0	48.0	–	**191.0**
Inter-segment	2.5	5.1	(7.6)	**–**
Total revenue	145.5	53.1	(7.6)	**191.0**
Operating profit/(loss) before exceptional items[5]	4.7	6.4	(4.1)	**7.0**
Exceptional items	(2.7)	–	–	**(2.7)**
Operating profit/(loss)	2.0	6.4	(4.1)	**4.3**
Net financing costs				**(5.6)**
Loss before tax				**(1.3)**
Other disclosures				
Inventories	33.6	10.5	–	**44.1**
Working Capital	23.1	9.9	3.7	**36.7**
Capital expenditure	2.8	1.1	3.2	**7.1**
Depreciation and amortisation	3.6	0.9	0.4	**4.9**

4 The effect on revenue of the re-categorisation is a reduction in Chain sales of £2.3m and a corresponding increase in Torque Transmission.
5 The effect on operating profit before exceptional items of the re-categorisation is a £0.1m reduction in Chain, and a corresponding increase in Torque Transmission.

i. Inter-segment revenues are eliminated on consolidation.
ii. Capital expenditure consists of additions to property, plant and equipment, and intangible assets including assets from the acquisition of subsidiaries.
iii. Included in Chain external sales is £12.6m of Torque Transmission product sold through the Chain NSCs. The Torque Transmission businesses 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.
iv. The measures of segment assets reviewed by the CODM are inventories and total working capital.
v. Working capital includes inventories, trade and other receivables, less trade and other payables.

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 2011 (restated)	Chain £m	Torque Transmission £m	Head Office costs and eliminations £m	Consolidated £m
Revenue				
External customer	143.0	48.0	–	**191.0**
Foreign exchange	2.0	(0.7)	–	**1.3**
Underlying external sales	145.0	47.3	–	**192.3**
Operating profit/(loss) before exceptional items	4.7	6.4	(4.1)	**7.0**
Foreign exchange	0.1	–	–	**0.1**
Underlying operating profit/(loss) before exceptional items	4.8	6.4	(4.1)	**7.1**

Overview Business review Governance Financial statements

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	
	2012 £m	2011 £m	**2012 £m**	2011 £m
United Kingdom	**20.3**	16.5	**16.9**	15.0
Rest of Europe	**61.3**	56.0	**14.0**	15.3
North America	**66.7**	65.3	**24.7**	24.8
Other countries	**61.2**	53.2	**21.8**	22.4
	209.5	191.0	**77.4**	77.5

All revenue relates to the sale of goods. No individual customer, or group of customers, represents more than 10% of Group revenue (2011: none).

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

2. Operating costs and exceptional items

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

	2012 £m	2012 £m	2011 £m	2011 £m
Change in finished goods and work in progress		(2.5)		0.3
Raw materials and consumables		92.8		79.7
Other external charges		28.5		28.8
Employee costs				
Gross wages and salaries	61.0		57.7	
Social security costs	8.1		8.2	
Pension costs				
– defined benefit (Note 18)	(0.8)		0.4	
– defined contribution (Note 18)	1.9		1.8	
Cost of share-based incentive plans	0.1		(0.1)	
		70.3		68.0
Depreciation of property, plant and equipment				
– owned assets		4.3		4.3
– leased assets		0.1		0.1
Amortisation of intangible assets		0.2		0.5
Operating leases – minimum lease payments				
– plant and machinery	0.4		0.5	
– property	2.0		2.1	
		2.4		2.6
Other operating income		(2.4)		(1.9)
Loss on disposal of property, plant and equipment		–		0.1
Research and development expenditure		0.6		0.5
Auditors' remuneration (Note 2(b))		0.6		0.6
Trade receivables impairment		0.2		0.1
Foreign exchange		0.3		0.3
Exceptional items (Note 2(c))		2.1		2.7
		197.5		186.7

(b) Auditors' remuneration

	2012 £000 Total	2011 £000 Total
Audit of the Group's annual financial statements	60	59
Audit of the Company's subsidiaries pursuant to legislation	226	221
Total audit fees	286	280
Taxation services	97	188
Corporate finance services	156	–
All other services	31	105
	570	573
This is analysed in the following captions in the financial statements:		
Exceptional abortive acquisition costs	156	–
Operating costs	414	573
	570	573

The Group's auditors also received fees of £31,000 for audit services provided to Group pension schemes (2011: £29,000). 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

	2012 £m	2011 £m
Included in operating costs		
Reorganisation and redundancy costs	**1.7**	2.7
Abortive acquisition costs	**0.4**	–
	2.1	2.7

Exceptional costs associated with the restructuring of the Group's European back office support functions as well as global manufacturing and distribution facilities have originated as follows: UK £0.8m (2011: £1.1m), Rest of Europe £0.7m (2011: £1.2m), North America £0.2m (2011: £0.2m) and other countries £nil (2011: £0.2m).

Costs of £0.4m (2011: £nil) were also incurred in relation to a potential acquisition which was ultimately unsuccessful.

(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:

	2012 £000	2011 £000
Short term employee benefits[6]	**872**	858
Social security costs	**126**	54
Post employment benefits	**28**	63
Share-based payments	**163**	82
	1,189	1,057

6 2011 short term employee benefits updated to include the cash paid in relation to bonus declared in that year but paid in the current financial year as shown in the Directors Remuneration section of the 2011 Annual Report and Accounts.

Further details of the remuneration of Directors are provided in the auditable part of the Directors' Remuneration Report on pages 38 to 43.

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

	2012	2011
United Kingdom	**649**	614
Rest of Europe	**441**	454
North America	**333**	386
Other countries	**1,161**	1,058
	2,584	2,512

3. Net financing costs

	2012 £m	2011 £m
Financial costs:		
Interest payable on bank loans and overdrafts	(2.4)	(2.1)
Amortised financing costs	(0.1)	–
Total financing costs	(2.5)	(2.1)
Financial revenue:		
Ineffectiveness of net investment hedge	–	0.1
Total financing revenue	–	0.1
IAS 19 financing costs:		
Interest cost on plan balances	(11.6)	(12.7)
Expected return on pension plan assets	9.8	9.1
Net IAS 19 financing costs	(1.8)	(3.6)
Net financing costs	(4.3)	(5.6)

4. Taxation

Analysis of tax charge/(credit) in the year

	2012 £m	2011 £m
United Kingdom		
UK corporation tax at 26% (2011: 28%)	–	–
Less: double taxation relief	–	–
	–	–
Overseas taxes		
Corporation taxes	0.9	0.7
Withholding taxes	0.1	0.1
Current income tax charge	1.0	0.8
Deferred tax		
UK – origination and reversal of temporary differences	0.7	(0.1)
Overseas – origination and reversal of temporary differences	(0.5)	(1.1)
Total deferred tax charge/(credit)	0.2	(1.2)
Tax charge/(credit) on profit/(loss) on ordinary activities	1.2	(0.4)

	2012 £m	2011 £m
Tax on items taken to other comprehensive income		
Deferred tax on changes in net pension deficits	(1.4)	7.0
Tax (credit)/charge in the statement of other comprehensive income	(1.4)	7.0

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 21 March 2012 that the main rate of corporation tax is to be reduced from 26% to 24% with effect from 1 April 2012 and then 1% per year to 22%. Only the first 2% reduction above has been substantively enacted at the balance sheet date and hence only this change has been recognised in the accounts. This has resulted in a £0.2m deferred tax charge to the income statement and a £0.6m 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 24% to 22% would reduce the deferred tax asset by approximately £0.8m (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 profit/(loss) before tax differs from the theoretical amount using the UK corporation tax rate as follows:

	2012 £m	2011 £m
Profit/(loss) on ordinary activities before tax	7.6	(1.3)
Theoretical tax credit at 26% (2011: 28%)	2.0	(0.4)
Effects of:		
Permanent differences	0.1	(0.3)
Overseas tax rate differences	–	(0.2)
Utilisation of previously unrecognised tax losses	0.1	0.2
Other temporary differences	(1.2)	–
Change in tax rate	0.2	0.3
Total tax charge/(credit)	1.2	(0.4)

5. Earnings/(loss) per share

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

	2012			2011		
	Earnings £m	Shares (thousands)	Per share amount (pence)	Loss £m	Shares (thousands)	Per share amount (pence)
Basic EPS						
Earnings/(loss) attributed to ordinary shareholders	6.2	219,565	2.8	(0.9)	219,565	(0.4)
Basic EPS	6.2	219,565	2.8	(0.9)	219,565	(0.4)

	2012			2011		
	Earnings £m	Shares (thousands)	Per share amount (pence)	(Loss)/ earnings £m	Shares (thousands)	Per share amount (pence)
Adjusted EPS						
Basic EPS	6.2	219,565	2.8	(0.9)	219,565	(0.4)
Effect of exceptional items, after tax:						
Redundancy and restructuring	1.8		0.8	2.8		1.2
Net pension financing costs	1.3		0.6	2.6		1.2
Adjusted EPS	9.3	219,565	4.2	4.5	219,565	2.0

Inclusion of the dilutive securities, comprising 1,357,000 (2011: 1,293,000) additional shares due to share options and 1,246,000 (2011: 1,107,000) additional shares due to warrants over shares, in the calculation of adjusted EPS does not change the amounts shown above (2011: no change).

Further details in relation to the warrants can be found in Note 21 and Note 27.

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 some of the exceptional charges and in these instances 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 2010	23.5	4.4	27.9
Exchange adjustment	(1.1)	–	(1.1)
Additions	–	3.0	3.0
At 1 April 2011	22.4	7.4	29.8
Exchange adjustment	(0.1)	(0.1)	(0.2)
Additions	–	1.9	1.9
Disposals	–	(0.3)	(0.3)
At 31 March 2012	**22.3**	**8.9**	**31.2**
Accumulated amortisation and impairment			
At 1 April 2010	–	2.8	2.8
Amortisation charge	–	0.5	0.5
At 1 April 2011	–	3.3	3.3
Exchange adjustment	–	(0.1)	(0.1)
Amortisation charge	–	0.2	0.2
Disposals	–	(0.3)	(0.3)
At 31 March 2012	**–**	**3.1**	**3.1**
Net book amount at 31 March 2012	**22.3**	**5.8**	**28.1**
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

Goodwill is tested for impairment at least annually. No impairment charge has been recognised in the period (2011: £nil). The table below sets out the cash generating units (CGUs), their associated carrying amounts of goodwill and assumed levels of growth and discount rates used to assess value in use:

	Growth rates		Discount rates		Carrying values	
	2012 %	2011 %	**2012 %**	2011 %	**2012 £m**	2011 £m
Jeffrey Chain, US	**3.1**	2.8	**14.2**	15.2	**18.2**	18.1
Renold Hangzhou, China	**8.7**	10.7	**13.7**	12.4	**1.5**	1.5
Ace Chains, Australia	**3.5**	3.5	**15.7**	14.1	**0.5**	0.5
Renold Chain, India	**7.3**	6.9	**23.5**	21.3	**2.1**	2.3
					22.3	22.4

The recoverable amount of each CGU has been determined on a value in use basis. Value in use is calculated as the net present value of cash flows derived from detailed financial plans for the next financial year as approved by the Board. Cash flows beyond this are extrapolated using the long term country growth rates disclosed above.

Notes to the consolidated financial statements continued

7. Intangible assets continued

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 financial year. 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 2012.

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. 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.

Management believe 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 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 1 April 2011	23.6	121.4	145.0
Exchange adjustment	(0.5)	(2.6)	(3.1)
Additions	0.3	3.4	3.7
Disposals	–	(1.7)	(1.7)
At 31 March 2012	**23.4**	**120.5**	**143.9**
Accumulated depreciation			
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 1 April 2011	3.5	92.6	96.1
Exchange adjustment	(0.1)	(2.0)	(2.1)
Charge for the year	0.4	4.0	4.4
Disposals	–	(1.7)	(1.7)
At 31 March 2012	**3.8**	**92.9**	**96.7**
Net book amount at 31 March 2012	**19.6**	**27.6**	**47.2**
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

The book amount for plant and equipment includes £nil (2011: £0.1m) in respect of assets acquired under finance leases.

Future capital expenditure

At 31 March 2012 capital expenditure contracted for but not provided for in these accounts amounted to £0.4m (2011: £1.3m).

9. Investment property

	£m
Cost	
At 1 April 2010	2.2
Exchange adjustment	–
At 1 April 2011	2.2
Exchange adjustment	(0.2)
At 31 March 2012	**2.0**
Accumulated depreciation	
At 1 April 2010	0.1
Charge for the year	–
At 1 April 2011	0.1
Charge for the year	–
At 31 March 2012	**0.1**
Net book amount at 31 March 2012	**1.9**
Net book amount at 31 March 2011	2.1
Net book amount at 31 March 2010	2.1

The present sub-lease 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 (2011: £0.3m). The total future minimum lease payments under the non-cancellable term amount to £0.3m (2011: £0.6m) and of this £0.3 (2011: £0.3m) is due within one year and £nil (2011: £0.3m) 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 £1.4m in respect of land and £0.6m 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. Investment in jointly controlled entity

	2012 £m	2011 £m
Group share of net book amount		
Investment in jointly controlled entity	**0.3**	–
Share of post-tax loss of jointly controlled entity	**(0.1)**	–
At 31 March	**0.2**	–

During the period the Group formed a joint venture with Changzhou Baiyidar Railway Carparts Co., Ltd, a Chinese entity, to establish the jointly controlled entity, Renold Transmission Technology (Jiangsu) Inc. 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 jointly controlled entity was granted on 20 April 2011. Each shareholder holds 50% of the shares and voting rights in the jointly controlled entity and has the right to appoint three directors. The agreement provides that each shareholder will invest £0.3m (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. The Group is not exposed to any further significant contingent liabilities as a result of the joint venture.

During the year the business has achieved ISO 9001 certification and customer approval following the establishment of an assembly facility. At 31 March 2012, expenditure is expected to be minimal until customer supply contracts are obtained at which point activity levels and costs and revenues will increase in proportion to the contracts won.

Notes to the consolidated financial statements continued

11. Inventories

	2012 £m	2011 £m
Materials	**7.7**	8.4
Work in progress	**9.3**	9.7
Finished products	**28.5**	26.0
	45.5	44.1

Inventories pledged as security for liabilities amounted to £18.4m (2011: £17.4m). Write-offs taken to the income statement amount to £1.0m (2011: £1.2m).

12. Trade and other receivables

	2012 Current £m	2012 Non-current £m	2011 Current £m	2011 Non-current £m
Trade receivables[7]	**31.4**	**–**	30.0	–
Less: impairment provision	**(0.7)**	**–**	(0.6)	–
Trade receivables: net	**30.7**	**–**	29.4	–
Other receivables[7]	**0.9**	**0.2**	1.4	0.3
Prepayments and accrued income	**1.8**	**–**	2.0	0.1
	33.4	**0.2**	32.8	0.4

7 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 25(d) for credit risk policy.

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

			Past due but not impaired			
	Total £m	Neither past due nor impaired £m	< 30 days £m	30-60 days £m	60-90 days £m	> 90 days £m
2012	**30.7**	**25.3**	**3.3**	**0.7**	**0.5**	**0.9**
2011	29.4	24.8	2.8	0.6	0.3	0.9

	2012 £m	2011 £m
Movement on impairment provision		
Opening provision	**0.6**	0.7
Exchange adjustment	**–**	0.1
Net charge to income statement	**0.2**	0.1
Utilised in year through assets written off	**(0.1)**	(0.3)
Closing provision	**0.7**	0.6

13. Cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	**4.8**	7.2
Short term bank deposits	**–**	0.2
Cash and cash equivalents	**4.8**	7.4

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

	2012 £m	2011 £m
Cash and cash equivalents (as shown above)	**4.8**	7.4
Less: Overdrafts (Note 14)	**(3.6)**	(2.5)
Net cash and cash equivalents	**1.2**	4.9

14. Borrowings

	2012 £m	2011 £m
Amounts falling due within one year:		
Overdrafts	**3.6**	2.5
Bank loans	**9.9**	11.0
Obligations under finance leases	**0.1**	0.1
	13.6	13.6
Amounts falling due after more than one year:		
Bank loans	**13.6**	13.2
Obligations under finance leases	**–**	0.1
	13.6	13.3
Preference Stock	**0.5**	0.5
	14.1	13.8
Total borrowings (Note 25(d))	**27.7**	27.4

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. This facility was extended in the year from June 2012 for an additional 12 months to expire in June 2013. This facility is reduced by £2.0m in June 2012 and a further £2.0m in December 2012. At the year end the undrawn facility was £7.0m (2011: £8.6m). 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 4% (2011: 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 £20.9m (2011: £19.8m). 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.

	2012 £m	2011 £m
Obligations under finance leases		
Amounts payable within one year	**0.1**	0.1
Amounts payable between two and five years	**–**	0.1
Total gross payments	**0.1**	0.2
Allocated as:		
Current obligations	**0.1**	0.1
Non-current obligations	**–**	0.1
	0.1	0.2

Preference Stock

At 31 March 2012 there were 580,482 units of Preference Stock in issue (2011: 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.

Notes to the consolidated financial statements continued

15. Trade and other payables

	2012 Current £m	2012 Non-current £m	2011 Current £m	2011 Non-current £m
Trade payables[8]	**21.9**	**–**	21.6	–
Other tax and social security	**2.8**	**–**	2.0	–
Other payables[8]	**1.6**	**–**	1.9	0.1
Accruals and deferred income[8]	**12.3**	**0.4**	14.1	0.5
	38.6	**0.4**	39.6	0.6

8 Financial liabilities carried at amortised cost.

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

16. Provisions

	Business restructuring £m	Contingent consideration £m	Total provisions £m
At 1 April 2011	0.6	0.6	1.2
Arising during the year	1.7	–	1.7
Utilised in year	(1.4)	–	(1.4)
At 31 March 2012	**0.9**	**0.6**	**1.5**

Allocated as:	2012 £m	2011 £m
Current provisions	**1.5**	1.2
Non-current provisions	**–**	–
	1.5	1.2

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

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.

17. Deferred tax

	Assets		Liabilities		Net	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Accelerated capital allowances	**0.4**	0.8	**(0.2)**	(0.3)	**0.2**	0.5
Pension plans	**10.9**	10.0	**(0.4)**	(0.5)	**10.5**	9.5
Tax losses	**7.7**	6.4	**0.1**	0.1	**7.8**	6.5
Other temporary differences	**(0.9)**	(0.3)	**(0.3)**	(0.1)	**(1.2)**	(0.4)
Tax assets/(liabilities)	**18.1**	16.9	**(0.8)**	(0.8)	**17.3**	16.1
Net off (liabilities)/assets	**(0.8)**	(0.8)	**0.8**	0.8	**–**	–
Net deferred tax assets	**17.3**	16.1	**–**	–	**17.3**	16.1

The net deferred tax asset recoverable after more than one year is £17.3m (2011: £16.1m).

17. Deferred tax continued

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

2012	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	**Closing balance £m**
Accelerated capital allowances	0.8	(0.1)	(0.3)	–	**0.4**
Pension plans	10.0	–	(0.5)	1.4	**10.9**
Tax losses	6.4	0.1	1.2	–	**7.7**
Other temporary differences	(0.3)	–	(0.6)	–	**(0.9)**
	16.9	–	(0.2)	1.4	**18.1**

2011	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
Accelerated capital allowances	1.3	–	(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

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

2012	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	**Closing balance £m**
Accelerated capital allowances	(0.3)	–	0.1	–	**(0.2)**
Pension plans	(0.5)	–	0.1	–	**(0.4)**
Tax losses	0.1	–	–	–	**0.1**
Other temporary differences	(0.1)	–	(0.2)	–	**(0.3)**
	(0.8)	–	–	–	**(0.8)**

2011	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
Accelerated capital allowances	(0.3)	–	–	–	(0.3)
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)

During the year the Group has reported an operating profit of £14.1m, 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 £17.4m (2011: £18.8m) arising from unrecognised losses of £14.8m (2011: £16.5m) (representing losses of £48.4m (2011: £52.4m)) and other timing differences of £2.6m (2011: £2.3m). 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.

Notes to the consolidated financial statements continued

18. Pensions

The Group operates a number of pension plans throughout the world covering many of its employees. The principal funds are those in the UK: (i) the Renold Group Pension Scheme (**RGPS**); (ii) the Jones & Shipman plc Retirement Benefits Plan (1971) (**J&S RBP**); and (iii) the Renold Supplementary Pension Scheme 1967 (**RSPS**). These three plans are funded plans of the defined benefit type with assets held in separate trustee administered funds. The Trustees are chaired by an independent professional trustee firm. Future accrual to the J&S RBP 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 triennial valuation of the J&S scheme is now underway with a valuation date of 5 April 2012. The valuation will be carried out by Barnett Waddingham, professionally qualified actuaries. Future annual contributions to the schemes are as follows: J&S scheme £0.3m, RGPS £1.7m and RSPS £0.5m per annum all indexed by RPI for the remainder of the deficit recovery plans ending in December 2019, July 2024 and July 2024 respectively. The Group also funds the annual UK scheme administration costs (£0.6m per annum) and Pension Protection Fund (PPF) levies (2012: £0.3m).

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 below are presented on a weighted average basis where appropriate.

The principal financial assumptions used to calculate plan liabilities as at 31 March 2012 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	
	2012	2011	**2012**	2011
Rate of increase in pensionable salaries[9]	**–**	–	**1.5%**	2.0%
Rate of increase in pensions in payment and deferred pensions	**1.7%**	2.6%	**1.9%**	1.5%
Discount rate	**4.9%**	5.6%	**4.1%**	5.6%
Inflation assumption[10]	**2.0%**	2.75%	**1.7%**	1.7%
Expected return on plan assets	**6.1%**	6.25%	**7.7%**	7.2%

9 No increase applies following the closure of the UK defined benefit pension schemes to future accrual.
10 Inflation assumption used for UK schemes was changed to a blend of RPI and CPI in 2011.

The expected rates of return on UK plan assets shown above is 6.6% less 0.5% for expenses.

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 UK government announced in 2010 its intention to adopt the consumer price index (**CPI**) rather than the retail price index (**RPI**) for statutory minimum pension revaluations/indexation from 1 January 2011. The reduction in liability at 31 March 2011 from applying the CPI assumption where relevant was £6.4m (before tax). This was accounted for as an assumption change and recognised through the statements of comprehensive income in 2011 (CPI assumed to be 0.75% lower than RPI) with no impact in the current period.

The predominant defined benefit obligation for funded plans within the Group resides in the UK (£180.6m of the £197.9m 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 smaller RSPS and the J&S RBP).

	2012	2011
Retiring today		
Males	**18.5**	19.1
Females	**21.9**	21.2
Retiring in 20 years		
Males	**19.5**	20.5
Females	**23.1**	22.8

18. Pensions continued

The post-retirement mortality tables used for the plan are the Heavy series tables with a 10% uplift published by the UK actuarial profession (2011: S1PA series tables with a 40% uplift). 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. The uplift of 10% to the Heavy tables has been estimated based on ten 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.

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 £1.8m
Rate of mortality	Increase by 1 year[11]	Increase by £7.2m

11 Calculated using a reduction to assumed mortality rates of 12.5% at all ages. This is broadly equivalent to an increase in life expectancy of 1 year at age 65.

It should be noted that in Australia and New Zealand where no deep market for high quality corporate bonds exists or where government bonds of appropriate duration do not exist, that liabilities have been discounted using available rates on existing actual government bonds in accordance with the requirements of IAS 19. If discount rates in those territories reflected the typical spreads seen over government bonds in high quality corporate bonds in more developed markets the reported overseas liabilities would be reduced. 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:

	2012			2011		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Equities	**77.5**	**6.9**	**84.4**	85.2	7.6	92.8
Corporate bonds	**43.2**	**3.1**	**46.3**	40.5	3.1	43.6
Gilts	**26.9**	**0.8**	**27.7**	25.3	0.9	26.2
Other	**1.5**	**3.5**	**5.0**	(1.9)	2.6	0.7
Total market value of assets	**149.1**	**14.3**	**163.4**	149.1	14.2	163.3

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:

	2012			2011		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Opening obligation	**(178.9)**	**(35.9)**	**(214.8)**	(197.4)	(40.8)	(238.2)
Current service cost	**–**	**(0.5)**	**(0.5)**	–	(0.5)	(0.5)
Interest cost	**(9.8)**	**(1.8)**	**(11.6)**	(10.8)	(1.9)	(12.7)
Contributions by plan participants	**–**	**(0.1)**	**(0.1)**	–	(0.1)	(0.1)
Actuarial (losses)/gains	**(4.0)**	**(3.6)**	**(7.6)**	19.9	0.2	20.1
Curtailments gains	**–**	**–**	**–**	–	0.1	0.1
Negative past service cost	**1.3**	**–**	**1.3**	–	–	–
Benefits paid	**10.8**	**2.4**	**13.2**	9.4	2.2	11.6
Liabilities extinguished on settlement	**–**	**–**	**–**	–	4.5	4.5
Exchange adjustment	**–**	**1.0**	**1.0**	–	0.4	0.4
Closing obligation	**(180.6)**	**(38.5)**	**(219.1)**	(178.9)	(35.9)	(214.8)

The total defined benefit obligation can be analysed as follows:

Funded pension plans	**(180.6)**	**(17.3)**	**(197.9)**	(178.9)	(15.4)	(194.3)
Unfunded pension plans	**–**	**(21.2)**	**(21.2)**	–	(20.5)	(20.5)
	(180.6)	**(38.5)**	**(219.1)**	(178.9)	(35.9)	(214.8)

Notes to the consolidated financial statements continued

18. Pensions continued

Pension assets

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

	2012			2011		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Opening assets	**149.1**	**14.2**	**163.3**	147.7	17.5	165.2
Expected return	**8.9**	**0.9**	**9.8**	8.4	0.7	9.1
Actuarial (losses)/gains	**(1.5)**	**(0.8)**	**(2.3)**	(0.3)	0.6	0.3
Employer contributions	**3.4**	**1.1**	**4.5**	2.7	0.9	3.6
Participant contributions	**–**	**0.1**	**0.1**	–	0.1	0.1
Benefits paid	**(10.8)**	**(1.2)**	**(12.0)**	(9.4)	(1.0)	(10.4)
Assets distributed on settlement	**–**	**–**	**–**	–	(4.5)	(4.5)
Exchange adjustment	**–**	**–**	**–**	–	(0.1)	(0.1)
Closing assets	**149.1**	**14.3**	**163.4**	149.1	14.2	163.3
Balance sheet reconciliation:						
Plan obligations	**(180.6)**	**(38.5)**	**(219.1)**	(178.9)	(35.9)	(214.8)
Plan assets	**149.1**	**14.3**	**163.4**	149.1	14.2	163.3
Net deficit	**(31.5)**	**(24.2)**	**(55.7)**	(29.8)	(21.7)	(51.5)
Analysed as follows:						
Current assets						
Retirement benefit surplus	**–**	**1.6**	**1.6**	–	1.7	1.7
Non-current liabilities						
Retirement benefit obligations	**(31.5)**	**(25.8)**	**(57.3)**	(29.8)	(23.4)	(53.2)
Net deficit	**(31.5)**	**(24.2)**	**(55.7)**	(29.8)	(21.7)	(51.5)

The negative past service cost relates to the impact of the Pension Increase Exchange Scheme in the year (see Finance Director's Report pages 22 and 23 for details).

The retirement benefit surplus shown above is a net £1.6m (2011: £1.7m) 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 that 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:

	2012			2011		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
(Losses)/gains arising on plan obligations	**(4.0)**	**(3.6)**	**(7.6)**	19.9	0.2	20.1
(Losses)/gains arising on plan assets	**(1.5)**	**(0.8)**	**(2.3)**	(0.3)	0.6	0.3
Net (losses)/gains	**(5.5)**	**(4.4)**	**(9.9)**	19.6	0.8	20.4

The actual return on plan assets was £7.5m (2011: gain £9.4m).

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

	2012 £m	2011 £m
Operating costs		
Current service cost	**(0.5)**	(0.5)
Gains on curtailments	**–**	0.1
Negative past service costs	**1.3**	–
	0.8	(0.4)

18. Pensions continued

History of experience gains and losses

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

	UK				
	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience on plan assets (£m)	**(1.5)**	(0.3)	17.7	(31.5)	(11.0)
Percentage of plan assets	**(1.0%)**	(0.2%)	12.0%	(24.1%)	(6.9%)
Actuarial (losses)/gains on plan liabilities (£m)	**(4.0)**	19.9	(40.9)	12.5	26.8
Percentage of present value of plan liabilities	**(2.2%)**	11.1%	(20.7%)	7.9%	16.0%
Present value of plan liabilities (£m)	**(180.6)**	(178.9)	(197.4)	(157.8)	(168.0)
Fair value of plan assets (£m)	**149.1**	149.1	147.7	130.7	158.5
Deficit (£m)	**(31.5)**	(29.8)	(49.7)	(27.1)	(9.5)

	Overseas				
	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience on plan assets (£m)	**(0.8)**	0.6	1.0	(3.7)	(0.9)
Percentage of plan assets	**(5.6%)**	4.2%	5.7%	(23.7%)	(5.9%)
Actuarial (losses)/gains on plan liabilities (£m)	**(3.6)**	0.2	2.2	0.4	1.1
Percentage of present value of plan liabilities	**(9.4%)**	0.6%	5.4%	0.9%	3.0%
Present value of plan liabilities (£m)	**(38.5)**	(35.9)	(40.8)	(43.6)	(36.9)
Fair value of plan assets (£m)	**14.3**	14.2	17.5	15.6	15.2
Deficit (£m)	**(24.2)**	(21.7)	(23.3)	(28.0)	(21.7)

	Total				
	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience on plan assets (£m)	**(2.3)**	0.3	18.7	(35.2)	(11.9)
Percentage of plan assets	**(1.4%)**	0.1%	11.3%	(24.1%)	6.9%
Actuarial (losses)/gains on plan liabilities (£m)	**(7.6)**	20.1	(38.7)	12.9	27.9
Percentage of present value of plan liabilities	**(3.5%)**	9.4%	(16.2%)	6.4%	13.6%
Present value of plan liabilities (£m)	**(219.1)**	(214.8)	(238.2)	(201.4)	(204.9)
Fair value of plan assets (£m)	**163.4**	163.3	165.2	146.3	173.7
Deficit (£m)	**(55.7)**	(51.5)	(73.0)	(55.1)	(31.2)

The cumulative amount of actuarial losses recognised in other comprehensive income since 4 April 2004 was £36.1m (2011: £26.2m).

The Group operates a number of defined contribution plans. The cost for the period was £1.9m (2011: £1.8m) and were fully paid up.

19. Called up share capital

	Issued	
	2012 £m	2011 £m
Ordinary shares of 5p each	**11.0**	11.0
Deferred shares of 20p each	**15.4**	15.4
	26.4	26.4

At 31 March 2012, the issued ordinary share capital comprised 219,564,703 ordinary shares of 5p each (2011: 219,564,703) and 77,064,703 deferred shares of 20p each (2011: 77,064,703).

During the year the Company issued no ordinary shares (2011: nil).

Notes to the consolidated financial statements continued

20. Share-based payments

Details of the share-based payment arrangements are provided in the Directors' Remuneration Report on pages 38 to 43.

At 31 March 2012, unexercised options for ordinary shares amounted to 9,737,599 (2011: 7,335,447).

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

	2012 Executive share option scheme	2011 Executive share option scheme
Grant date	**8.6.11**	27.9.10
Share price at date of grant	**37.1p**	27.0p
Exercise price	**37.3p**	27.3p
Number of employees	**9**	1
Shares under option	**3,653,062**	678,898
Vesting period (years)	**3**	3
Expected volatility	**54%**	50%
Option life (years)	**10**	10
Expected life (years)	**6**	6
Risk free interest rate	**1.6%**	1.2%
Assumed dividends expressed as a dividend yield	**Zero**	Zero
Possibility of ceasing employment before vesting	**Zero**	Zero
Fair value per option	**19.1p**	12.8p
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 2012 is shown below:

Executive share option schemes

	2012		2011	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	**7,335,447**	**34.3p**	10,903,517	41.2p
Granted	**3,653,062**	**37.3p**	678,898	27.3p
Lapsed	**(102,172)**	**57.3p**	(1,641,760)	65.1p
Forfeited	**(1,148,738)**	**35.2p**	(2,605,208)	42.1p
Outstanding at 31 March	**9,737,599**	**35.1p**	7,335,447	34.3p
Exercisable at 31 March	**1,392,849**	**69.8p**	1,586,604	69.9p

20. Share-based payments continued

Executive share option schemes

Range of exercise prices	2012 Weighted average exercise price	2012 Number of shares	2012 Weighted average remaining life Expected	2012 Weighted average remaining life Contractual	2011 Weighted average exercise price	2011 Number of shares	2011 Weighted average remaining life Expected	2011 Weighted average remaining life Contractual
23.2p to 63.3p	**30.8p**	**8,803,959**	**4.2**	**8.2**	27.1p	6,307,855	4.4	8.2
64.6p to 80.5p	**72.8p**	**745,737**	**–**	**2.3**	72.7p	792,713	–	3.3
85.2p to 100.9p	**97.2p**	**187,903**	**0.8**	**4.8**	97.2p	234,879	1.8	5.8

No options have been exercised in the period (2011: nil). The total charge for the year relating to employee share-based payment plans was £0.1m (2011: credit £0.3m), all of which related to equity settled share-based transactions. After deferred tax, the total charge was £0.1m (2011: credit £0.3m).

A £0.1m charge has been made in the year in relation to the equity portion of the Executive bonus scheme's (2011: £0.2m). The terms of the scheme are outlined in the Directors' report on pages 39 and 40.

The middle market price of ordinary shares at 31 March 2012 was 36.5p and the range of prices during the year was 22p to 42p.

21. Reserves

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

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

Cumulative goodwill written off directly to Group reserves at 31 March 2012, subsequent to the capital reorganisation in January 1985, amounted to £2.0m (2011: £2.0m).

Other reserves include £0.4m being the fair value of a warrant 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) (2011: £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.

Notes to the consolidated financial statements continued

22. 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:

	2012		2011	
	Properties £m	Equipment £m	Properties £m	Equipment £m
Within one year	**1.8**	**0.4**	1.8	0.5
Between two and five years	**7.3**	**0.4**	6.1	0.6
Over five years	**15.1**	**–**	18.3	–
	24.2	**0.8**	26.2	1.1

Certain of the leased properties have been sublet and the future minimum sublease payments expected to be received under non-cancellable sublease agreements is £1.8m (2011: £1.2m).

23. Contingent liabilities and commitments

Performance guarantees given to third parties in respect of Group companies were £3.4m (2011: £3.7m) associated with the disposal of the Automotive business in 2006 expiring in August 2012. The Group is also committed to invest US$2.55m by 20 April 2013 in relation to further investment in the jointly controlled entity Renold Transmission Technology (Jiangsu) Inc. – see Note 10.

24. Additional cash flow information

Reconciliation of operating profit to net cash flows from operations:

	2012 £m	2011 £m
Cash generated from operations:		
Operating profit	**12.0**	4.3
Depreciation and amortisation	**4.6**	4.9
Impairment charge included in exceptional items	**–**	0.2
Loss on plant and equipment disposals	**–**	0.1
Equity share plans	**(0.1)**	(0.1)
Increase in inventories	**(2.0)**	(1.6)
Increase in receivables	**(1.2)**	(4.6)
(Decrease)/increase in payables	**(1.1)**	7.7
Increase in provisions	**0.3**	–
Movement on pension plans	**(6.5)**	(4.4)
Movement in derivative financial instruments	**(0.1)**	0.1
Cash generated from operations	**5.9**	6.6

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

	2012 £m	2011 £m
Decrease in cash and cash equivalents	**(3.5)**	(1.0)
Change in net debt resulting from cash flows	**0.2**	(1.6)
Foreign currency translation differences	**0.4**	0.5
Change in net debt during the period	**(2.9)**	(2.1)
Net debt at start of year	**(20.0)**	(17.9)
Net debt at end of year	**(22.9)**	(20.0)
Net debt comprises:		
Cash and cash equivalents (Note 13)	**4.8**	7.4
Total borrowings (Note 14)	**(27.7)**	(27.4)
	(22.9)	(20.0)

25. Financial instruments

These notes should be read in conjunction with the narrative disclosures in the Finance Director's review on pages 20 to 23.

Foreign currency risk and sensitivity

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.

The following table 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 result before tax (due to the effect of foreign exchange on monetary assets and liabilities denominated in a different currency to the functional currency of operation) and the Group's equity (due to the effect on other comprehensive income of changes in the fair value of forward exchange contracts and the effect of hedging borrowings). The impact of translating the net assets of foreign operations into Sterling is excluded from the sensitivity analysis.

Change in US Dollar rate:

	Increase/ (decrease) in US$ rate	Effect on profit/(loss) before tax £m	Effect on shareholders' equity £m
2012	**25%**	**0.4**	**2.1**
	(10%)	**(0.2)**	**(1.1)**
2011	25%	0.4	2.7
	(10%)	(0.3)	(1.5)

Change in Euro rate:

	Increase/ (decrease) in Euro rate	Effect on profit/(loss) before tax £m	Effect on shareholders' equity £m
2012	**25%**	**(0.4)**	**0.3**
	(10%)	**0.2**	**(0.2)**
2011	25%	0.3	2.1
	(10%)	(0.2)	(1.2)

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	**2012 Effect on profit before tax £m**	2011 Effect on loss before tax £m
US Dollar	**+150**	**(0.2)**	(0.2)
Euro	**+150**	**(0.1)**	(0.1)
Other	**+150**	**(0.1)**	(0.2)
		(0.4)	(0.5)

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

	2012 £m	2011 £m
Current liabilities:		
Forward foreign currency contracts: cash flow hedge	**(0.1)**	(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 (2011: £nil) was transferred to operating costs in the income statement in the period.

(b) Short term receivables and payables

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

Notes to the consolidated financial statements continued

25. Financial instruments continued

(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 2012 was £8.1m (1 April 2011: £8.1m). No foreign exchange difference (2011: gain £0.4m) 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.

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

	2012			2011		
Currency	**Fixed rate £m**	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Sterling						
– Financial liabilities	**0.1**	**1.4**	**1.5**	0.2	1.1	1.3
– Preference Stock	**0.5**	**–**	**0.5**	0.5	–	0.5
US Dollar	**–**	**10.7**	**10.7**	–	10.3	10.3
Euro	**–**	**4.8**	**4.8**	–	3.8	3.8
Other	**–**	**10.2**	**10.2**	0.4	11.1	11.5
	0.6	**27.1**	**27.7**	1.1	26.3	27.4

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.

Credit risk

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

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

(e) Currency and interest rate profile of financial assets at 31 March 2012

	2012			2011		
Currency	**Cash at bank and in hand £m**	**Short term deposits £m**	**Total £m**	Cash at bank and in hand £m	Short term deposits £m	Total £m
Euro	**1.6**	**–**	**1.6**	3.8	–	3.8
US Dollar	**0.9**	**–**	**0.9**	1.0	–	1.0
Other	**2.3**	**–**	**2.3**	2.4	0.2	2.6
	4.8	**–**	**4.8**	7.2	0.2	7.4

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.

25. Financial instruments continued

(f) Maturity of financial liabilities

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

2012	One year or less on demand £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Interest bearing loans and borrowings	**14.4**	**14.1**	**–**	**–**	**28.5**
Leases	**0.1**	**–**	**–**	**–**	**0.1**
Trade payables	**21.9**	**–**	**–**	**–**	**21.9**
Forward foreign exchange contracts – outflow	**4.1**	**–**	**–**	**–**	**4.1**
Preference Stock[12]	**–**	**–**	**–**	**0.5**	**0.5**
	40.5	**14.1**	**–**	**0.5**	**55.1**

2011	One year or less on demand £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Interest bearing loans and borrowings	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[12]	–	–	–	0.5	0.5
	55.6	12.7	1.0	0.5	69.8

12 No fixed repayment date.

The Group has contracted forward contracts consisting of Euro forward contracts of £3.0m (2011: £12.2m) and US Dollar forward contracts of £4.4m (2011: £7.3m) and has contracted to buy foreign currency consisting of Euro swap contracts for £3.3m (2011: £nil) 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:

	2012 £m	2011 £m
Expiring within one year or less, or on demand	**12.8**	14.7
Expiring between one and two years	**7.0**	–
	19.8	14.7

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 2013.

Notes to the consolidated financial statements continued

25. 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	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Financial assets				
Cash	**4.8**	7.4	**4.8**	7.4
Financial liabilities				
Bank overdraft (floating rate borrowing)	**3.6**	2.5	**3.6**	2.5
Interest bearing loans and borrowings				
Floating rate borrowing	**23.5**	23.8	**23.5**	23.8
Fixed rate borrowing	**0.1**	0.6	**0.1**	0.6
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 2012, the Group held the following financial instruments measured at fair value:

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Liabilities measured at fair value				
Forward foreign currency contracts: cash flow hedge	0.1	–	0.1	–

As at 31 March 2011:

	Total £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	–

25. 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 2012 and 31 March 2011.

The Group monitors capital using two gearing ratios, one of which is net debt divided by total capital plus net debt and the other is the ratio of net debt to adjusted EBITDA.

	2012 £m	2011 £m
Net debt (Note 24)	**22.9**	20.0
Total debt	**22.9**	20.0
Total capital	**50.9**	54.8
Capital and net debt	**73.8**	74.8
Gearing ratio	**31%**	27%
Adjusted EBITDA (£m)	**18.7**	11.9
Net debt to adjusted EBITDA	**1.2 times**	1.7 times

26. Business combinations

There were no acquisitions in the current or prior year.

27. Post balance sheet events

Exercise of warrants and allotment of ordinary shares

On 17 May 2012, the Company allotted 1,499,750 fully paid new ordinary shares pursuant to the exercise of warrants held by Fortis Bank at a price of 21.06p per share. Following this allotment, the total number of ordinary shares in issue increased to 221,064,453 ordinary shares of 5p each. The number of remaining warrants is 2,000,250 held by Royal Bank of Scotland and these are exercisable up to 13 August 2016 at the same price of 21.06p.

Group five year financial review (unaudited)

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Group revenue	**209.5**	191.0	156.1	194.7	172.6
Operating profit/(loss) before exceptional items	**14.1**	7.0	(2.1)	10.0	12.0
Operating profit/(loss)	**12.0**	4.3	(4.8)	7.6	12.2
Profit/(loss) before tax	**7.6**	(1.3)	(13.6)	2.9	9.3
Taxation	**(1.2)**	0.4	3.9	(0.8)	(3.1)
	6.4	(0.9)	(9.7)	2.1	6.2
Discontinued operations:					
Profit from discontinued operations	**–**	–	–	–	1.5
Profit/(loss) for the year	**6.4**	(0.9)	(9.7)	2.1	7.7
Net assets employed					
Tangible and intangible fixed assets	**54.9**	55.1	53.6	54.4	42.6
Working capital and other net assets	**40.2**	36.9	37.9	42.9	33.2
Operating assets	**95.1**	92.0	91.5	97.3	75.8
Goodwill	**22.3**	22.4	23.5	24.5	16.3
Net debt	**(22.9)**	(20.0)	(17.9)	(37.2)	(23.9)
Deferred and current taxation	**15.9**	15.2	21.8	14.0	8.4
Provisions	**(1.5)**	(1.2)	(1.1)	(3.4)	(4.4)
Net assets excluding pension obligations	**108.9**	108.4	117.8	95.2	72.2
Pension obligations	**(55.7)**	(51.5)	(73.0)	(55.1)	(31.2)
Total net assets	**53.2**	56.9	44.8	40.1	41.0
Other data and ratios					
Return on capital employed (%)[13]	**15.2**	7.6	(2.2)	11.6	17.4
Return on sales (%)[14]	**6.7**	3.7	(1.3)	5.1	7.0
Capital expenditure (£m)	**5.6**	6.6	4.2	5.8	8.2
Basic earnings/(loss) per share (p)	**2.8**	(0.4)	(8.0)	2.8	11.0
Employees at year end (continuing)	**2,569**	2,521	2,257	2,301	2,536

13 Being operating profit before exceptional items divided by average operating assets.
14 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 2012 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 90, 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 2012;
- 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 matters
We have reported separately on the Group financial statements of Renold plc for the year ended 31 March 2012.

Gary Harding
(Senior statutory auditor) for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
28 May 2012

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 Company 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 25.

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: 10 to 15 years
- Motor vehicles: 25% per annum for 3 years leaving 25% residual value.

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

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

Investments – Investments in subsidiary companies are accounted for at cost and 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 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 Company 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.

Equity-settled share based payments granted to employees of the Group providing services to subsidiary undertakings are treated as an investment in the company's balance sheet.

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 2012

	Note	2012 £m	2011 £m
Fixed assets			
Tangible assets	i	**6.7**	4.8
Investments in subsidiary undertakings	ii	**61.1**	65.6
		67.8	70.4
Current assets			
Debtors	iii	**15.4**	12.6
Cash and short term deposits		**17.5**	15.7
		32.9	28.3
Creditors: amounts falling due within one year			
Other creditors	iv	**(1.9)**	(2.7)
Derivative financial instruments	vi	**–**	(0.1)
Net current assets		**31.0**	25.5
Total assets less current liabilities		**98.8**	95.9
Creditors: amounts falling due after more than one year			
Bank borrowings	v	**(11.2)**	(8.1)
Preference Stock	v	**(0.5)**	(0.5)
Net assets		**87.1**	87.3
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	**31.3**	31.5
Shareholders' funds		**87.1**	87.3

Approved by the Board on 28 May 2012 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 2012

	2012 £m	2011 £m
(Loss)/profit for the year	**(0.1)**	1.0
Total recognised (losses)/gains for the year	**(0.1)**	1.0

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	5.6	6.0
Additions at cost	–	2.0	2.0
At end of year	**0.4**	**7.6**	**8.0**
Depreciation			
At beginning of year	0.2	1.0	1.2
Depreciation for the year	0.1	–	0.1
At end of year	**0.3**	**1.0**	**1.3**
Net book value at end of year	**0.1**	**6.6**	**6.7**
Net book value at beginning of year	0.2	4.6	4.8

Future capital expenditure

At 31 March 2012, contracted capital expenditure not provided for in these financial statements for which contracts have been placed amounted to £nil (2011: £0.8m).

(ii) Investments in subsidiary undertakings

	Shares £m	Advances £m	Total £m
Subsidiary undertakings			
Cost or valuation			
At beginning of year	43.0	22.6	65.6
Net repayments	–	(4.5)	(4.5)
At end of year	43.0	18.1	61.1

The principal subsidiary undertakings of the Company at 31 March 2012 are set out in Note (xiii).

(iii) Debtors

	2012 £m	2011 £m
Amounts owed by subsidiary undertakings	**14.9**	12.0
Deferred tax asset	**0.2**	0.2
Other debtors	**–**	0.1
Prepayments and accrued income	**0.3**	0.3
	15.4	12.6

The analysis of the deferred tax asset is as follows:

	2012 £m	2011 £m
All amounts falling due after more than one year:		
Decelerated capital allowances	**0.2**	0.2
	0.2	0.2

(iv) Other creditors

	2012 £m	2011 £m
Amounts falling due within one year:		
Trade creditors	**1.0**	1.4
Amounts owed by subsidiary undertakings	**0.1**	0.4
Other taxation and social security	**0.2**	0.2
Accruals	**0.6**	0.7
	1.9	2.7

(v) Borrowings

	2012 £m	2011 £m
Amounts falling due after one year:		
Bank loans repayable in one to two years	**11.2**	8.1

Summary of total borrowings:		
Bank loans	**11.2**	8.1
Preference Stock	**0.5**	0.5
Total borrowings	**11.7**	8.6

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 14 to the consolidated financial statements.

(vi) Derivative financial instrument

	2012 £m	2011 £m
Forward foreign currency contracts – cash flow hedge	**–**	(0.1)

The Group has contracted forward contracts to sell foreign currency consisting of Euro forward contracts £3.0m (2011: £12.2m) and US Dollar forward contracts £4.4m (2011: £7.3m), and has contracted to buy foreign currency consisting of Euro swap contracts for £3.3m (2011: £nil) 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 18 in 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 2012 £m	2011 £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 borrowings – see Note (v).

At 31 March 2012, the issued ordinary share capital comprised 219,564,703 ordinary shares of 5p each (2011: 219,564,703) and 77,064,703 deferred shares of 20p each (2011: 77,064,703). During the year the Company issued no ordinary shares (2011: nil).

Details of the Preference Stock are set out in Note 14 of the consolidated financial statements.

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

Share options

At 31 March 2012, unexercised options for ordinary shares amounted to 9,737,599 (2011: 7,335,447) made up as follows:

	Option price (p per share)	Number of shares 2012	Number of shares 2011
Date normally exercisable			
Executive Share Option Schemes			
Within seven years from:			
28 November 2004 (1995 Scheme)	57.3	**–**	125,660
27 November 2005 (1995 Scheme)	49.8	**50,499**	100,998
27 November 2006 (1995 Scheme)	71.1	**41,104**	88,079
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	**111,568**	123,312
26 July 2009 (2004 Scheme)	52.5	**275,982**	334,702
2 January 2010 (2004 Scheme)	97.2	**187,903**	234,879
25 November 2011 (2004 Scheme)	31.5	**21,160**	21,160
5 February 2013 (2004 Scheme)	23.2	**4,280,885**	4,923,125
27 September 2013 (2004 Scheme)	27.3	**678,898**	678,898
8 June 2014 (2004 Scheme)	37.3	**3,384,966**	–
		9,737,599	7,335,447

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

(ix) Reserves

	Profit and loss account £m	Share premium £m	Total reserves £m
At beginning of year	**31.5**	**29.4**	**60.9**
Loss for the year	(0.1)	–	(0.1)
Employee share option schemes – value of employee services	(0.1)	–	(0.1)
At end of year	**31.3**	**29.4**	**60.7**

As permitted by section 408 of the Companies Act 2006, no profit and loss account is presented in these financial statements. The Company's loss for the financial year was £0.1m (2011: profit £1.0m).

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 from 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 £30,000 (2011: £29,000). 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:

	2012 £m	2011 £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 £9.9m (2011: £13.9m). Performance guarantees given to third parties in respect of Group companies were £3.4m (2011: £3.6m) associated with the sale of the automotive business in July 2006. This guarantee expires in August 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, its 75% owned subsidiary, Renold Chain India Private Limited and its 50% jointly controlled entity, Renold Transmission Technology (Jiangsu) Inc. Transactions entered into and trading balances outstanding at 31 March 2012 (and 2011) with Renold Chain India Private Limited and Renold Transmission Technology (Jiangsu) Inc. are not material. Transactions entered into and trading balances outstanding at 31 March with Renold (Hangzhou) Company Limited are as follows:

	2012 Renold (Hangzhou) Company Limited £m	2011 Renold (Hangzhou) Company Limited £m
Recharges of services	**–**	0.4
Amounts payable as at 31 March	**0.1**	0.7

Transactions with key management personnel

There were no transactions with key management personnel during the year.

Notes to the Company financial statements continued

(xiii) Significant undertakings as at 31 March 2012

United Kingdom
Renold Power Transmission Limited (held directly by Renold plc)
Renold Europe Limited

Europe (other than the United Kingdom)

Austria	Renold GmbH
Belgium	Renold Continental Limited (incorporated in the United Kingdom)
Denmark	Renold A/S
France	Brampton Renold SAS
Germany	Renold GmbH
Holland	Renold Continental Limited (incorporated in the United Kingdom)
Russia	Renold Russia (Obshchestvo s Ogranichennoj Otvetstvennost'u)
Sweden	Renold Transmission AB
Switzerland	Renold (Switzerland) GmbH

North America

Canada	Renold Canada Limited
USA	Renold Inc
	Jeffrey Chain LP

Other countries

Australia	Renold Australia Proprietary Limited
China	Renold Transmission (Shanghai) Company Limited
	Renold Technologies (Shanghai) Company Limited
	Renold (Hangzhou) 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 with the exception of Renold (Hangzhou) Company Limited, Renold Chain India Private Limited and Renold Transmission Technology (Jiangsu) Inc. 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.

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

	Equity shares	Voting rights
Subsidiary undertaking		
Renold (Hangzhou) Company Limited	90%	90%
Renold Chain India Private Limited	75%	75%
Jointly controlled entity		
Renold Transmission Technology (Jiangsu) Inc.	50%	50%

Our overseas companies are incorporated in the countries in which they operate except where otherwise stated.

Corporate information

Corporate calendar

Annual General Meeting	12 July 2012
Interim management statement (first)	Between 10 June 2012 and 18 August 2012
Half year end 2012/13	30 September 2012
Announcement of half year 2012/13 results	November 2012
Interim management statement (second)	Between 10 December 2012 and 17 February 2013
Year end 2012/13	31 March 2013
Announcement of annual results 2012/13	June 2013
Payment of preference dividends	1 July 2012 and 1 January 2013

Company details

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Company Secretary
Brian Tenner

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Broker and financial adviser
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34 Beckenham Road
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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)

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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

This report has been printed in the UK, our printers are Environmental Management System ISO 14001 accredited and Forest Stewardship Council (FSC) chain of custody certified. All inks are vegetable based.

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