

# Re-engineering our future.

Progress report

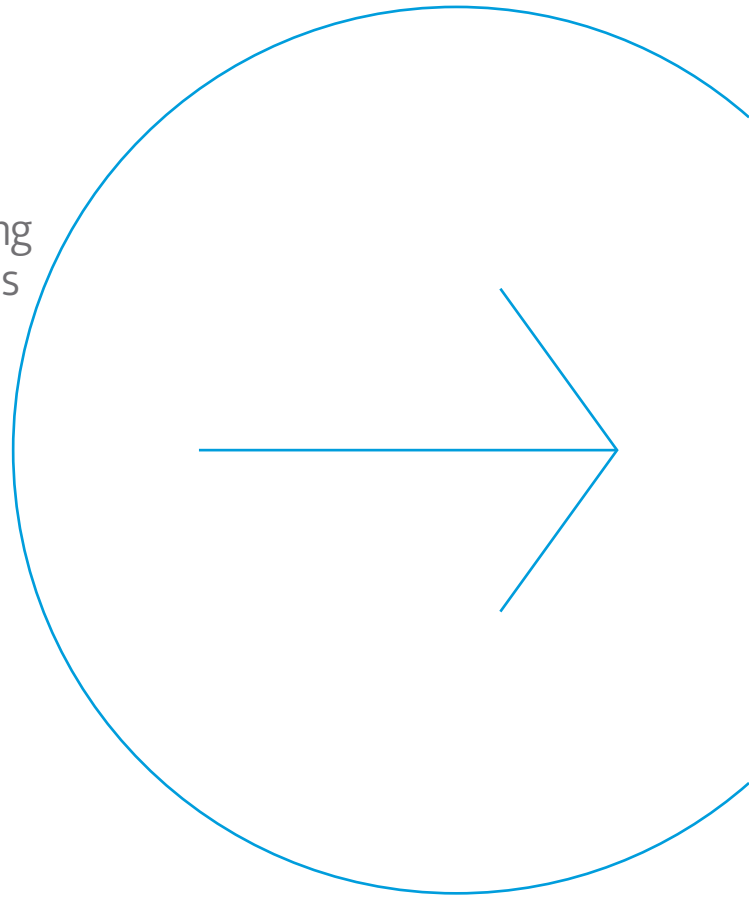
# Re-engineering our future.

**Renold plc is an international group delivering high precision engineered and power transmission products to our customers worldwide.**

Our market-leading 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.

See page 15 for

our three-phase strategic plan.



**Find out more about Renold on our website**  
visit: [www.renold.com](http://www.renold.com)



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## About this report

We have changed the way we present our Annual Report and Accounts to reflect the new legislative requirements of the Companies Act 2006 (Strategic Report and Directors' report) Regulations 2013 so as to describe strategic information and our business model in a way that we believe is easier to understand. This information is set out in our Strategic Report.

The Corporate Governance section follows the Strategic Report and includes our Corporate Governance report, Audit and Nomination Committee reports and our Directors' remuneration report. The Directors' report provides other statutory and regulatory information.

The financial statements for the Group and the Company can be found at pages 81 to 134 towards the end of the Annual Report and Accounts.

We use a number of technical terms and abbreviations within this document. Please refer to the Glossary on page 136 for the definitions and other explanatory information.

## Strategic Report

We outline our strategy and how we are taking the business forward. We then give details of our operational and financial performance across the Group. We also outline our approach to corporate responsibility and talk about our people and why they are fundamental to our success.

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### Understanding Renold

Who we are, what we do and where.



### Strategic overview

Our direction and progress.



### Case studies

See our products in action.

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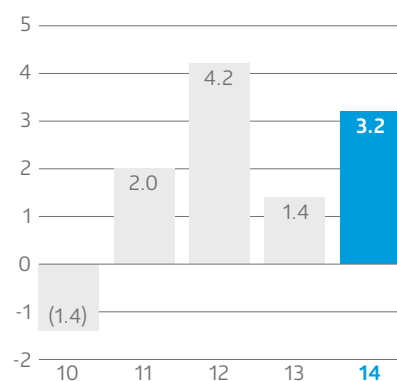
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# Highlights

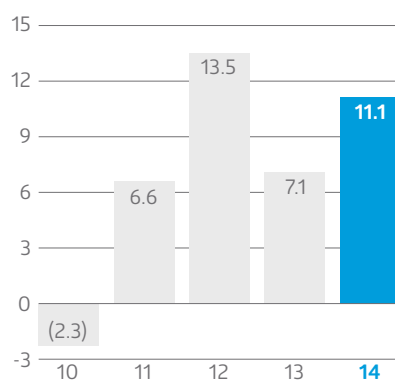
We delivered a successful first year in the turnaround phase of our strategic plan. The results were characterised by a 129% increase in adjusted earnings per share that were driven primarily by the 56% increase in underlying adjusted operating profit. The £7.2m current year cash cost of the capacity reduction project was self-financed with only a small rise in net debt.

## Financial highlights

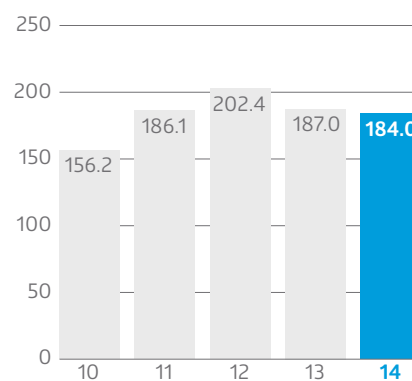
**Adjusted earnings per share**  
pence



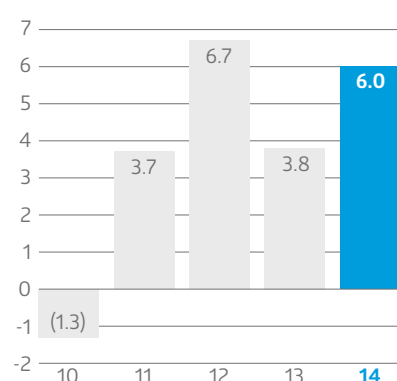
**Underlying adjusted operating profit<sup>1</sup>**  
£m



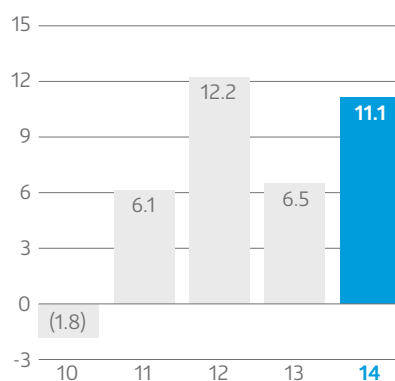
**Underlying revenue<sup>1</sup>**  
£m



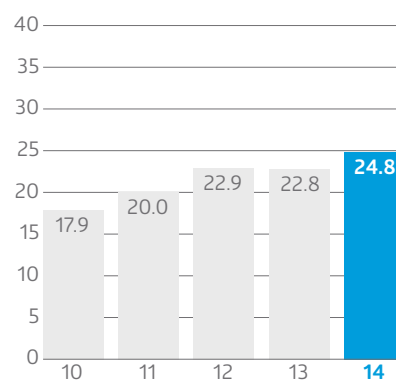
**Adjusted Return on Sales**  
%



**Return on Capital Employed (restated)**  
%



**Net debt**  
£m



<sup>1</sup> Underlying results are retranslated to current year exchange rates. Adjusted results exclude the impact of exceptional items, pension financing charges, pension administration costs and any tax thereon.

Adjusted EBITDA up

40%

Cash generated  
from operations

£7.0m

Total operating assets

£78.7m

Average working capital  
% of sales

17.7%

## Operational highlights

- > Successful closure of the Bredbury plant and transfer of production to other Renold facilities.
- > Continued improvement in lowering our cost base throughout the year.
- > Implementation of a health and safety improvement programme and associated rolling assurance programme.
- > Contribution margin gains starting to be delivered by leveraging high quality product offering.
- > Reorganisation of financing structure completed to deliver ongoing reductions in cost of capital.
- > UK pension schemes merged to complete delivery of £1.0m annual cash flow savings.
- > Senior management team reorganised and enhanced by new key hires.

### Executive summary

The year was marked by a number of significant achievements in the first phase of our turnaround plan. Our focus has been on self-help measures and these have delivered a 56% increase in underlying adjusted operating profit in the current year whilst laying strong foundations for further growth in the new financial year.

The complex project to reduce excess capacity in our Chain division saw completion of the closure of the Bredbury facility soon after the end of the financial year. Whilst project activity at the recipient sites continues during

the first quarter of the new financial year, we expect to deliver three quarters of the annualised savings of £3.2m in the new financial year.

The underlying revenue picture was mixed across the world with local macro-economic conditions being the principal drivers of the overall 1.6% fall. The Americas and India both delivered good growth while European economies were mixed with the net revenue result being broadly flat. Underlying Australasian revenues were down 7.6%. The commodity dependent Australian market was particularly weak being down 15.2%.

Underlying revenue in Torque Transmission fell 5.9% as a major mass transit contract wound down and demand in extractive industries softened.

The increase in adjusted operating profit and adjusted earnings per share without the benefit of sales growth emphasises the value accessible through our self-help measures. We remain focused on creating a continuous improvement culture in all of our locations and activities to deliver intelligent and sustainable reductions in our cost base. As these initiatives take root towards the end of the new financial year, we expect to turn our attention to the second phase of our strategic plan, the Organic Growth phase.

#### Pension deficit reduction

£4.6m

#### Biggest customer % of sales

4.6%

#### Total employees at 31 March 2014

2,208

#### Adjusted EPS year on year increase

129%

# Understanding Renold

## Who we are

Renold plc is an international group delivering high precision engineered products and solutions to our customers worldwide.



### 1 Renold Chain

A global market leading supplier of chain for many applications. Heavy duty, high precision, indoor or outdoor, high or low temperature and in clean or contaminated environments; these are all in a day's work.

We have manufacturing sites across the world including Germany, the USA, China, India, Australia and Malaysia in addition to local service capabilities in a number of other markets. We operate at the leading edge of technology, with innovative products designed to meet customers' exacting standards.

Our 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.

Conveying applications including theme park rides, water treatment plants, cement mills, agricultural machinery, mining and sugar production all rely on the 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.

Operating profit before exceptional items

£9.9m

External revenue

£139.6m

Employees at 31 March 2014

1,688



### 2 Renold Torque Transmission

A global market leading manufacturer and developer of coupling and gearbox solutions, 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.

We have manufacturing sites across the world including the UK, the USA, South Africa and China. We work closely 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. Our solutions deliver 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 rollercoasters.

Operating profit before exceptional items

£5.8m

External revenue

£44.4m

Employees at 31 March 2014

469

## Where we are

Our international network includes 13 locations where we both manufacture and sell and a further 9 sales only companies which are strategically located to support our customers within our two operating divisions.



### North America



North America delivered 1.5% growth in underlying revenue with both the US and Canada 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 chain and gear spindles and couplings.

### Europe



Europe experienced a 2.7% fall in underlying revenue. Most countries were broadly flat although the French market declined.

Renold Chain now operates from one major European manufacturing location in Germany. Renold Torque Transmission operates three plants in the UK exporting to various destinations worldwide.

### Asia Pacific



Asia Pacific experienced a 9.4% fall in underlying revenue, driven by a 15.2% fall in Australia resulting from the weak commodity sector.

We operate manufacturing plants in Australia and Malaysia with additional sales centres in New Zealand and Singapore. We also operate a distribution network in Australia and Malaysia.

### High growth economies



Our Chinese and Indian businesses both delivered growth in underlying revenue of 12.2% and 4.7% respectively.

Our Chinese chain plant primarily serves sister companies and has a smaller local focus. Our Indian chain business focuses on the local market.



# Chairman's letter

"The Group is making excellent progress in the first phase of our strategic plan. The successful delivery of the complex capacity reduction project in the Chain division is a major milestone in significantly lowering our breakeven point."

**Mark Harper**  
Chairman



## Overview

The past year has seen a huge amount of activity within the business, both above and below the surface. Above the surface, we successfully delivered a significant improvement in the Group's underlying adjusted operating profit<sup>1</sup> against a backdrop of a small decline in revenue. Below the surface we successfully executed a large scale and complex project to reduce the excess manufacturing capacity in the Chain division. That project is on time to complete in the first quarter of the new financial year and will deliver significant recurring savings. In addition, the senior operational management team was strengthened during the year with a number of new key hires made to further support the Executive team in driving forward the pace of change.

## Re-engineering our future

The Bredbury closure project has been a major undertaking for the Group. It involved the relocation of manufacturing operations representing just under 12% of the Chain division's external revenue. The project required the coordination of five of the six major chain production facilities with particular focus on the closing site in Bredbury and the principal recipient sites in Germany, the USA and China. I am pleased to report that the project is on time and on budget.

Elsewhere other key initiatives were undertaken which included some changes in the senior management team and recruitment to some newly created posts that fill capability gaps in the Group such as Product Management, Business Systems and Global Chain Manufacturing. We have continued our focus on improving existing or developing new business processes and, in particular, have rolled out new processes for hazard identification within our health and safety programme.

## Our balance sheet

Close management of our pension liabilities remains a key priority for the Board as we seek to re-build our balance sheet. The merger of the three UK defined benefit pension schemes was completed successfully in June 2013 with overall scheme membership reduced by 26% as 1,316 eligible members took the option to have their benefits paid out in full. Elsewhere, one of our three defined benefit schemes in the USA moved into surplus in January 2014, following strong performance by US equity assets, and we have now started the termination process which will fully de-risk this scheme for the Group. In South Africa, the surplus pre-tax funds of £1.4m were returned to the Group during the year.

The Group will continue to focus on measures to reduce its exposure to defined benefit pension obligations and is well placed to benefit from the anticipated rise in interest and discount rates over the coming years.





## Board priorities



- > Supporting the Chief Executive in developing the Group's strategic plan.
- > Continued monitoring and oversight of the major change initiatives being executed by the Executive team.
- > Challenge and review the performance of the business as a whole.
- > Supporting the enhanced focus on health and safety performance and further embedding of risk and opportunity management throughout the business.

Net debt and working capital have continued to be closely managed throughout the year. The Group took on the cash flow burden of the Bredbury closure project, which had a total expenditure of £7.2m, and still delivered net debt only £2.0m higher than at the start of the year. In parallel, the Group also managed to improve its average working capital ratio<sup>2</sup> to 17.7% (2013: 19.0%).

### The Board and our people

In a year of significant change initiatives within the Group, I am grateful for the extra time and commitment that the members of the Board have made available to support the Executive team. The Board has been closely involved in the governance of the major projects and further evolution of the strategic plan.

I would also like to take this opportunity to place on record my heartfelt thanks to all of Renold's employees. Change is always a challenge for any organisation and our staff responded positively and proactively in all locations. I would like to record my appreciation of the professionalism of our staff in delivering projects that, in some cases, ultimately led to a loss of employment. Their continued commitment is critical to our future success.

### Dividend

The Group has significant opportunities for investment in new capital equipment that will materially enhance our performance and support the delivery of our strategic objectives. In the current year the Board has therefore decided not to recommend the payment of a dividend but this will remain under review as performance continues to improve.

### Outlook

The difficult conditions in some of our markets has moderated somewhat over the course of the year with some markets showing signs of modest growth. Overall, the external picture remains subdued. Hence our focus remains on internal improvement. Self-help remains our watch word as we aim to create and embed a continuous improvement philosophy in all aspects of our business, whether front line sales and service, manufacturing or support functions. We are challenging all of our people to make their activities more productive and more efficient.

While we currently remain firmly focused on the turnaround phase of our strategic plan, the Executive team is starting to turn its attention to the next phase which we anticipate will begin to deliver organic

growth towards the end of the new financial year. The foundations we put in place during the turnaround phase of the strategic plan will be key enablers for robust and sustainable growth in the future, whether organic or through acquisition.

Renold enjoys a hard earned global reputation for high quality products and engineering. Our customers have demanding application requirements which we serve via a wide range of bespoke and high quality standard products. We remain well placed to leverage these key strengths with continuous improvement in business processes and disciplines that should deliver steady annual increases in earnings and shareholder value in future years.

**Mark Harper**  
Chairman

<sup>1</sup> Operating profit before pension administration costs and exceptional items at like for like foreign exchange rates.

<sup>2</sup> The annual average of each month's ratio of working capital to rolling annual sales.

# Robert Purcell discusses the strategy and development of the business

“Self-help initiatives remain the focus of our attention as we build a robust platform for growth.”

Robert Purcell  
Chief Executive



**Q** How is the turnaround plan progressing?

**A** We have a three phase plan to deliver profitable growth and shareholder value. Phase One, the Restructure phase, is on track and we are making excellent progress, concentrating on improving our processes across the board and making sure we have the right capacity and cost base for the business. A key aspect of this phase is our project to close the Bredbury facility and transfer production to other Renold sites, which remains on time and on budget.

Our aim is to create a robust and sustainable business from the improvements we are making and it is pleasing to see our breakeven point reducing as our self-help measures continue to deliver benefits. We are keenly aware that much remains to be done, even with the significant progress made this year. We still have many areas where we can further improve our business and reduce our cost base.

**Q** What other changes are you making within the business?

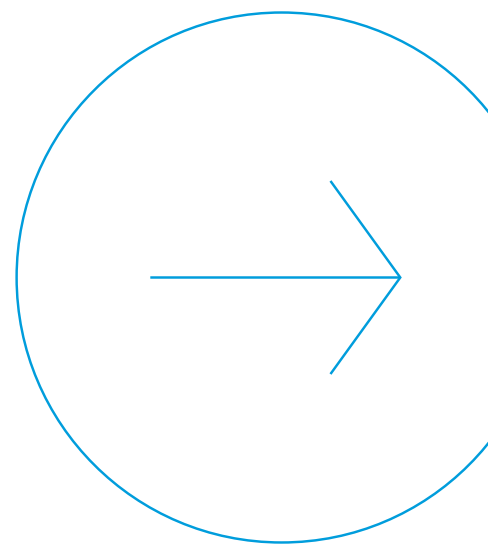
**A** Firstly, we are working hard on our health and safety performance. We have introduced the Renold Framework through which we are ensuring that we perform to the same high standards around the world. We believe a safe working environment is fundamentally aligned with high performance in the business as a whole.

We are looking to achieve superior performance in all areas of the business. Historically the business has been tolerant of average performance and has not demanded high enough standards. We are therefore working to simplify processes, to give better service and fundamentally make ourselves easier to do business with. Our simple objective is to ensure that customers receive the product and service they require.

We are focused on ensuring that the value we generate from our superior products stays within the business and delivers enhanced returns to shareholders. An important aspect of this is to understand how and where we add value for our customers and to accentuate these characteristics. In this way, we aim to generate steady and sustainable margin improvements year on year. This business is more than capable of delivering double digit operating margins.

**Q** Where do you see most opportunities – in Chain or in Torque Transmission?

**A** They are both excellent businesses, both are global market leaders and both offer excellent opportunities. In Chain we operate at the leading edge of technology with solutions for a range of complex applications and environments, from water treatment plants to rollercoasters. In Torque Transmission we manufacture a range of specialised products, from fluid couplings to worm gears and drives. We work closely alongside our customers and will often manufacture a bespoke solution to meet specific application needs.



Turn to page 15 for

## our three-phase strategic plan

**Q** The geographic picture this year seems to have been mixed. In which areas are you particularly strong or weak?

**A** We currently sell our products in over 100 countries worldwide, and our broad geographic portfolio effectively mitigates the impact of weak conditions in any one country. Although the global economy as a whole is improving, region by region the picture is more mixed and that can be seen in our performance over the year. North America, which comprises 38% of our global sales, saw good growth with underlying revenue up 1.5%. Australasia saw a decline, which reflects the particular dependence of the Australian economy on natural resources. Europe was broadly flat although the French market was more challenging and underlying revenue was down 12%.



Find out more:  
[www.renold.com](http://www.renold.com)

**Q** How are you going to strengthen your balance sheet – especially in terms of the pension liability?

**A** This is an area of major importance for the Group as we aim to reduce the impact of the economic cycle on our business. We aim to ensure that our balance sheet is robust at all stages of the cycle. This involves a number of initiatives. Throughout the year we have worked hard to manage and to reduce our cost base. The close management of working capital and capital expenditure continues and net debt remains in line with our expectations.

We are employing a number of different initiatives to reduce our pensions burden, including the completion this year of the merger of the UK defined benefit pension schemes. We are also looking at realising value from our significant tax assets. Our objective is to ensure that we have a consistent and positive cash flow which will be clear evidence that our strategy is working.

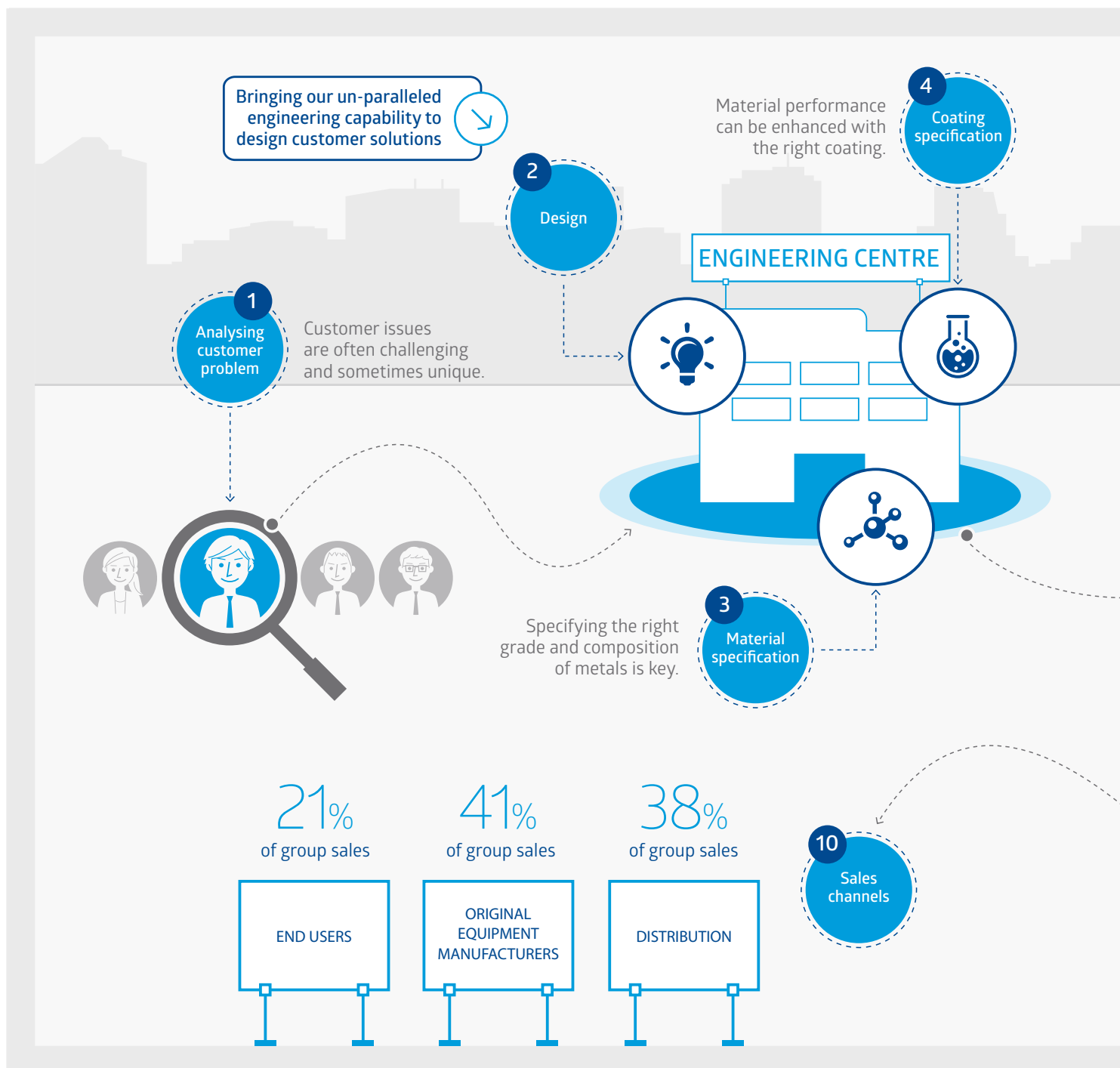
**Q** Where will future growth come from?

**A** Towards the end of the coming year and next, we aim to move into the second phase of our plan, the Organic Growth phase. We will look to leverage our excellent Chain and TT products, to capitalise on our global market leadership positions, and to drive growth from improved sales and marketing practices. We have an excellent range of products but with greater emphasis on product management we will be able to penetrate new areas of the market. Further into the future, we believe there will be opportunities to leverage our own scale through acquisitions in our fragmented market. All our focus right now, though, is on building a robust and sustainable business which delivers steady improvement in shareholder value and provides a platform for future growth.

**Robert Purcell**  
Chief Executive  
27 May 2014

# Our business model

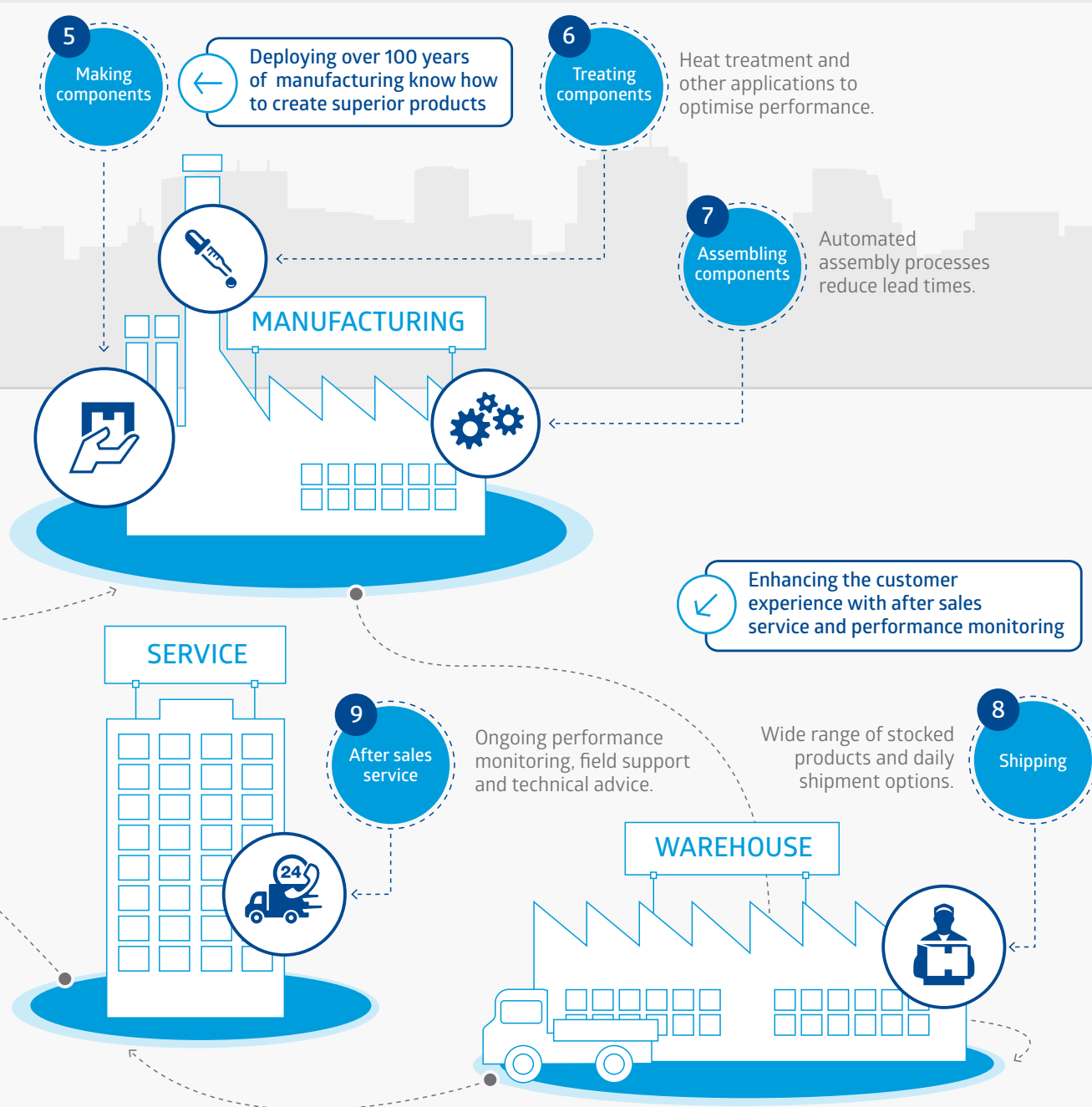
Our activities range from diagnosing our customer's specific power transmission application challenges to proposing materials and their properties, then to cutting and treating the components and finally to assembly into the final product.



## How Renold generates value

Our customers come to us with a wide range of technically challenging power transmission problems. In some cases the answer is one of our standard solution products. In other cases the solution requires proactive engagement with the customer's engineering teams to design a bespoke solution. This process will include specifying the exact materials and any additional coatings or treatment required to deliver the optimal performance solution for the customer.

Our production facilities can use unique manufacturing techniques to turn the designs into substance. Our logistics teams work with customers to get the products to the right location at the right time. The after sales service teams respond proactively to any follow on customer requests from all three major sales channels. The business model cycle can often end where it began with ongoing technical and service support that can be provided by an innovative range of performance monitoring solutions.





# Our business model

continued

## What we do



Renold manufactures and sells power transmission products and is configured as two separate operating divisions: Chain and Torque Transmission.

We operate Chain production facilities in seven countries, strategically placed to serve large or growing local markets. In re-engineering the Chain business, and with the appointment of a Chain Manufacturing Director, we are aiming to create an integrated production base that serves our customers around the globe in an efficient and effective way.

In Torque Transmission we have a number of specialised niche businesses that produce a range of technical products in both the industrial couplings and industrial gear markets. We manufacture in the UK, the USA, China and South Africa with sales and support in additional territories. Our couplings range includes fluid based systems, rubber-in-shear and rubber-in-compression products. In gears, we provide a complete range of speciality worm and helical gears and drives.

## Sales by division



## Our global presence

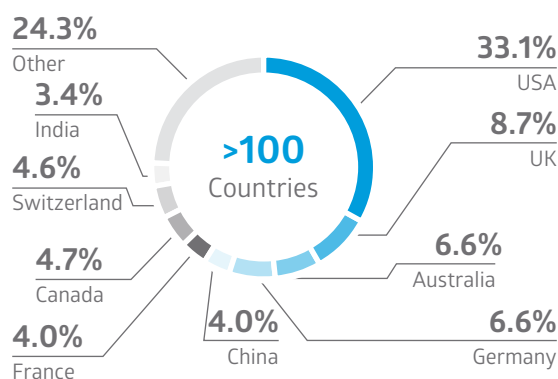


Renold currently sells products in over 100 countries. The key regions and territories are represented on the chart opposite.

Our single biggest market is the USA which represents 33.1% of external Group sales. In addition, the UK, Australia, and Germany each represent over 5% of Group sales by destination with Canada, France, Switzerland, China and India also being major contributors. The remaining 24% of sales are spread over many other countries. This geographic spread reduces our dependence on any particular market.

We currently have a limited presence in South American markets which may in future represent a growth opportunity given our industry specific knowledge of products for sectors such as food and agriculture, quarrying and mining, and other natural resources – in addition to our wide range of high performance industrial chains.

## Sales by geography



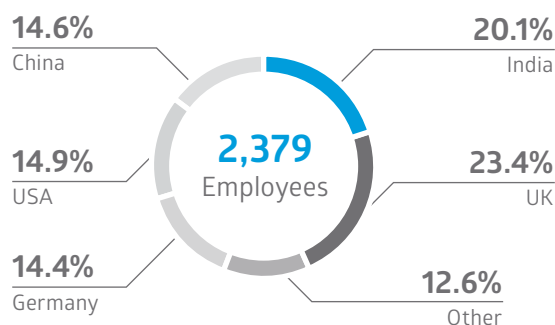
## Who we are



Renold employed an average of 2,379 people around the world in the last year, with 55% of our staff engaged in direct production activities. The divisional split of staff aligns closely with the split of sales with 78% of staff in Chain, 20% in Torque Transmission and 2% in our head office.

## Employees by country

average for the year



## The customers we serve

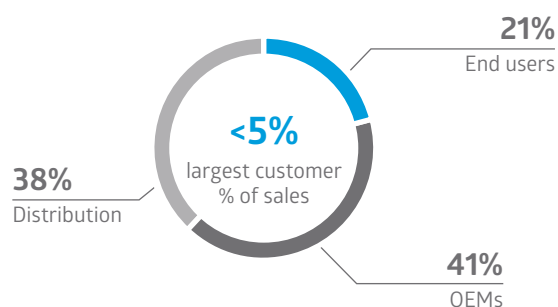


Customer concentration for Renold is relatively low. Our biggest global customer represents less than 5% of sales. Of our five largest customers, three are themselves distributors of a wide range of industrial power transmission equipment and thus even this limited concentration of our sales is effectively sub-segmented into a huge range of end-customers.

We know from market research that these end-customers often ask for Renold product by name which emphasises that we maintain customer proximity and loyalty even when dealing through indirect sales channels.

The remaining customer base is split between end users and original equipment manufacturers (OEMs). Both of these user groups give us an opportunity to bring our expert knowledge including metallurgy and chemical coatings to bear in specifying what are often bespoke solutions to specific or unique issues.

### Sales channels



End users are where Renold's customer will be the actual user of our product. OEM's are where Renold's customer places our goods in one of their products for onward sale.

## Our markets



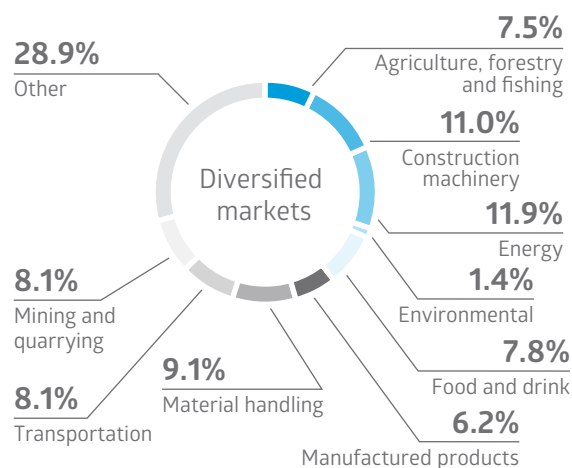
The chart opposite shows the extremely diverse markets for the approximate 62% of our sales where we serve end users and OEMs directly. Distribution sales are excluded from this analysis as visibility of the final market is somewhat limited.

It can be clearly seen that we serve a very wide range of market sectors, particularly in the Chain division, but also in the Torque Transmission division.

It is also clear that our products are often used in harsh and demanding environments where reliability and performance are key attributes required by customers. This requirement is also evident in safety critical applications. Total cost of ownership is a key purchasing criterion.

Similar to our geographical penetration, we also currently estimate that we have relatively low levels of penetration in the addressable markets for the majority of our products. This creates opportunities for growth in those product sectors where we already have an established presence.

### Markets





# Our strategic objectives

We aim to deliver consistently improving returns to shareholders by re-engineering everything we do.

## 1 Significantly improving our health and safety performance while broadening all risk management activity

We firmly believe that a safe business is a well run and profitable business. By changing our health and safety culture and developing enhanced policies and processes we aim to ensure everyone associated with our business goes home each day in the same condition that they came to work.

## 2 Generating margin enhancing growth from our superior product capability

In the markets we serve, our products are among the best in the world. We are focusing on emphasising our value proposition in their superior performance, longevity and total cost of ownership to ensure that the value generated by these characteristics stays within the business and earns a return for shareholders.

As the business moves from the turnaround phase of our strategic plan to the organic growth phase, we will selectively target those sectors and geographies where our high performance products can earn an appropriate return.

## 3 Enhancing customer service

By streamlining our business processes and making Renold easier to do business with we aim to offer a seamless route to market with shorter lead times and improved service levels.

## 4 Optimising business processes

A Group wide programme is underway aimed at implementing standardised, efficient and seamless business processes. These will cover the full range of commercial, operational and support activities. Our ultimate aim is to significantly reduce our cost to serve.

## 5 Lowering our breakeven point

The same streamlined business processes that enhance customer service will also reduce our installed fixed cost base in all of our locations. This will reduce the volatility of our profits in relation to changes in sales values.

## 6 Developing our people

We are supplementing the knowledge and experience of our existing staff with new hires who bring different, incremental skills and experience to Renold. We are also developing training solutions to support both existing and new staff.

## 7 Strengthening our balance sheet and improving financial performance

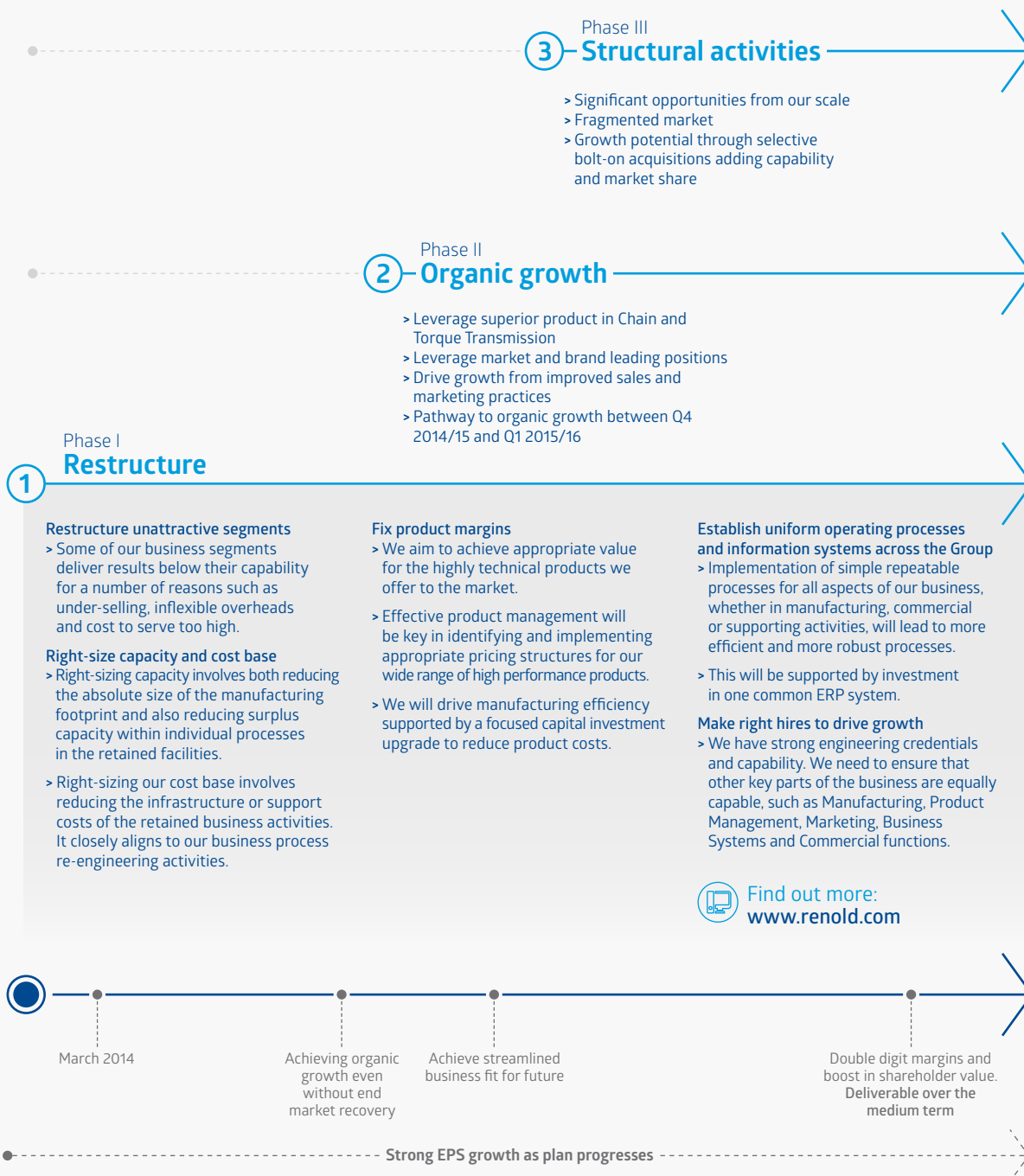
We retain our focus on improving our working capital management to support business development through stock availability while reducing the amount of cash tied up.

We are actively working to reduce the annual cash burden of legacy pension liabilities through a number of different initiatives. We also aim to realise value from significant tax assets and any surplus properties.

The overall aim of these activities combined with continuous improvement in operating results, is to significantly enhance the cash generation capability of the Group.

# Our three-phase strategic plan

## Three-phase strategic plan delivering value



# Our strategic progress

We have made a robust start to the turnaround phase of our three-phase strategic plan. This turnaround phase requires us to rebuild our foundations, to remind ourselves of the high quality and value adding products that we deliver to the market and to our customers, and, in some cases, create new disciplines and basic processes that had withered in the business. We are working to develop detailed improvement projects for all aspects of our business – whether individual geographical locations, production facilities or worldwide business support functions. We are challenging every aspect of what we do and how we do it – seeking to create a continuous improvement culture throughout Renold. Hence, we really are ‘re-engineering everything we do’.

Strategic objective	Progress in 2013/14
<b>1. Significantly improving our health and safety performance</b>	There is no simple short term solution to improving health and safety culture and performance. It requires perseverance and constant vigilance. During the year we implemented a new overarching framework for our approach to health and safety (known as ‘the Framework’). We also implemented a rolling audit programme with the recruitment of a dedicated and experienced health and safety auditor.
<b>2. Generating margin enhancing growth from our superior product capability</b>	At the current stage in our strategic plan we are not yet focused on delivering top line sales growth and hence our focus has been on margin enhancement through improving our efficiency and ensuring that our technical products achieve appropriate value in the market.  Our activities have included reviews of our product and margin mix. Through this process we have begun altering the mix to give ourselves a start in the trend towards higher margins.
<b>3. Enhancing customer service</b>	Our market research tells us that while customers value our products and technical capability, we are not always as easy to do business with as we should be.  Therefore, one of the key areas for improvement during the turnaround phase of the strategic plan is to change our business processes to deliver a faster, more efficient and seamless service proposition to our customers.  During the year we have implemented a number of new service metrics and objectives with a pilot in our European Chain business. These include target service levels to respond to customer queries and to reduce the lead times to deliver a quotation to a customer for standard or adapted chain.
<b>4. Optimising business processes</b>	Business processes have been improved in all functional areas. For example, on the commercial side, we have vastly increased the number of customer quotations coming directly from our systems, thereby cutting customer response times. In operations, as part of the Bredbury closure project, we have implemented a service cell dedicated to fast turnaround times on selected chain, assembled from a standard list of stocked components.
<b>5. Lowering our breakeven point</b>	During the year we delivered a major reduction in excess Chain manufacturing capacity and overhead burden through the closure of our Bredbury facility. The production processes were successfully transferred to other Renold locations and the remaining activities are on track to complete at the end of the first quarter of the new financial year.  Elsewhere we built on overhead reductions started in the second half of the prior year with further reductions of £0.9m to give net, year on year, reductions in underlying overheads of £3.4m.
<b>6. Developing our people</b>	We have created a number of new key positions in the Group to emphasise and underpin our drive to manage the business in a more integrated way where there are benefits to be gained from sharing best practice and eliminating unnecessary duplication. These posts include a new Chain Manufacturing Director and a Group Business Systems Director. We have also refreshed our senior management team and a number of other key leadership positions have also seen new hires. With the senior team now in place, the pace of change and number of initiatives under management can be increased.
<b>7. Strengthening our balance sheet</b>	We completed the merger of the three UK defined benefit pension schemes. This has significantly reduced the ongoing administration costs of the schemes. At the same time, 1,316 members with small pension pots opted to have their entitlements paid out as lump sums which led to a reduction in scheme liabilities and assets of £10.9m and £10.4m respectively. Fewer members in the scheme will lead to lower overall administrative costs.  In the USA one of the three defined benefit schemes moved into a surplus following strong equity asset performance and the formal termination of that scheme has now commenced to allow it to be fully de-risked.  Our working capital ratio further improved to 17.7% (2013: 19.0%), equivalent to a reduction in average net debt of £2.4m based on current annual sales.

KPIs <sup>1</sup>	Future aims	Risks and mitigation
LTAs Reportable Incident Rates Lost Time Days Safety opportunities	Our overarching objective is to achieve zero accidents every year. Each site will implement a rolling programme to identify opportunities for safety improvements each year.  We are rolling out a training programme for all managers to ensure a consistent and shared base level of relevant skills and understanding.  In the new financial year we will also introduce a Group wide Health and Safety Awards programme to raise awareness and standards.	Organisational change increases the risk of accidents, particularly when the change is on a large scale and in production environments. The Group is mitigating this risk by considering in advance of any change, full risk assessments and new safe operating procedures.  The increased focus on audit may create a false impression of a worsening trend which should be borne in mind when assessing data.
RoS% Adjusted EPS ROCE%	We are aiming to deliver steady improvements in RoS % each year to ultimately achieve double digit operating margins. We are targeting steady annual gains to ensure they are robust and sustainable.	Our objective is to deliver double digit margins against a zero sales growth background. A significant fall in sales or a rapid appreciation in input costs could jeopardise this outcome if we were not able to respond quickly and effectively.
Improvement in: – Customer contact response times – Quotation lead times – On Time Delivery In Full	Our aim is to show a steady and regular improvement in all metrics.	Excellent customer service requires efficient business processes and systems that deliver replicable, predictable and timely outcomes. As the Group is changing and improving many of our business processes and systems, this creates a risk to current service levels. This risk is being mitigated by a newly created Steering Committee with responsibility for oversight and approval of all business system change requests.
Under development: Each of our business processes will have its own set of KPIs	Our intention is to create one global, integrated, ERP system. Our cost to serve will be reduced and this work will also feed into the KPIs for customer service.	Changes to systems and processes may in the short term reduce performance as users learn new skills. If changes are not managed properly, the performance reduction and its duration can grow.  Our new Director of Business Systems is a key hire in mitigating this risk.
Total overheads	As we re-engineer our business processes we aim to reduce the cost to serve of all of our activities. Our medium term goal is to deliver meaningful annual reductions in our overheads to support the delivery of enhanced margins and shareholder value.	Overhead structures tend to be inflexible and can be a major financial burden in a downturn. Our new processes are being designed with more flexibility in mind to reduce this risk.
Under development	Performance management processes and systems in the business are currently somewhat ad-hoc and inefficient. We aim to deliver a performance management system that assesses performance but that also both identifies training and development needs and supports delivery of them.	Change can be unsettling for all staff creating a risk of some staff leaving due to feelings of uncertainty.  To counter some of this we are increasing the regularity and content of communication to give all staff a clearer sense of direction.
Annual underlying cost of servicing legacy pensions. Ratio of working capital to rolling annual sales (WC%) Gearing ratio	Ultimately we aim to de-risk the Group from all defined benefit pension liabilities. The short term focus is on managing down the larger exposures in the UK and Germany. We aim to have stable annual cash costs to enhance predictability. We want to optimise working capital to support the business while minimising the cash tied up.  Work is ongoing to identify an appropriate level of gearing for the Group.	Pension liabilities fluctuate with factors outside the Group's control (interest rates, inflation expectations, longevity and returns on assets). The key is to be ready to de-risk when the market opportunity arises. Legislative changes can also lead to changes in liabilities and opportunities for de-risking.  Working capital can take time to unwind and in the event of a sudden downturn in activity the Group could be left with excess stock.  To mitigate this risk we have deployed working capital management tools and WC % is a monthly monitored KPI.

<sup>1</sup> Refer to Glossary on page 136 for definitions of KPIs.

# Our performance

## Chain

Renold Chain is a global market leading supplier of differentiated and value added chain products for a wide variety of end use applications. We create innovative solutions for our customers, who want to reduce costs and lead times and deal with increasingly challenging working environments. The Renold name is known in the industry for quality and performance.



### Chain facts

1

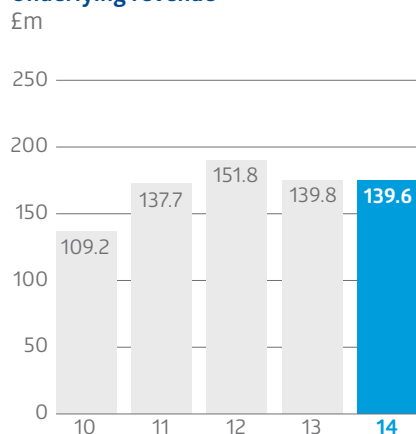
**The Chain division is exemplified by an extensive product range reaching into a wide number of geographies.**

- > Sales offices and distribution channels in over 18 countries worldwide.
- > Extensive product range that can be customised or designed from scratch for any application.
- > Solution chains for many challenging applications.

#### Chain Performance Review

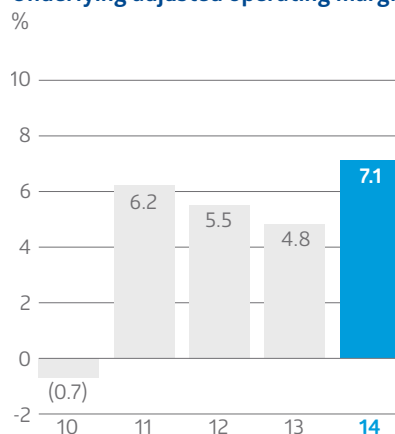
Underlying external revenue of £139.6m was virtually flat, being 0.2% behind the prior year. The regional picture was more mixed and reflected differences in local macro-economic conditions. The Americas and India delivered good growth of 5.3% and 4.7% respectively. Performance was also mixed within Europe itself with an overall fall of £1.0m (1.7%) being caused by a £1.1m (12.4%) fall in our French business with broadly flat performance in other territories. Underlying revenue in Australasia fell £1.8m (7.6%), wholly explained by the £2.2m (15.2%) fall in Australia itself which was impacted by a slowdown in activity within the natural resources sector. Our Chinese Chain business focuses on supporting other Group companies and its own direct external sales saw a small decline.

Underlying order intake grew by 1.4% with the first half ahead 0.5% and the second half 2.2% ahead (the latter being against a relatively weak second half in the prior year). At a regional level, European underlying order intake was up 1.8% and in the Americas it was up 5.3%. Similar to the underlying revenue picture, the position was much weaker in Australasia where underlying order intake was down 11.6% with Australia itself down 16.6%. The smaller regions of China and India, in terms of externally focused activity, both delivered growth. The profile of our order intake (and hence our revenue profile also) has become more stable during the year with less reliance being placed on large one off orders which can have an adverse impact by disrupting our production processes.

**Underlying revenue**

The book to bill ratio in the Chain division finished the year at 100.4% indicating that the absolute level of underlying order intake was higher than the absolute level of revenue during the year. A result around 100% for this key metric suggests relatively flat sales with a result over 100% suggesting sales growth in the future. The Chain division delivered a result over 100% for five out of the six months in the second half.

Contribution margins, being the margin after all variable production costs, improved during the year. In part this was due to more predictable manufacturing activity following the reduction in large stocking orders. This change allowed a lowering of overtime and other inefficient production costs and also reduced under utilisation in the period which would have followed a stocking order. Direct labour costs were adverse to the prior year by 0.8% of revenue and this was largely due to additional activity undertaken during the transfer of production from the Bredbury facility to sister sites where the extra labour and labour inefficiencies were treated as normal operating costs. Once the recipient sites have fully absorbed the Bredbury production load, a key task will be to deliver a second phase of operational efficiencies that will flow from the operating leverage at those sites.

**Underlying adjusted operating margin<sup>1</sup>**

Underlying net overheads were reduced by £2.5m in the year. Gross savings of £3.0m were offset by an additional £0.5m of depreciation on one of our ERP systems. Overhead reductions in the year were delivered by all Chain regions with the exception being India where overheads were flat. The overall gains in the year were part of the global effort to streamline our processes and structures and are part of our continuous improvement effort.

As a result of continuing reductions in overheads and measures to improve our contribution margins, adjusted operating profit rose 46% to £9.9m (2013: £6.8m), delivering a Return on Sales of 7.1% (2013: 4.9%). With the exception of Australasia, all Chain regions delivered an increase in absolute levels of adjusted operating profit and also Return on Sales ratio irrespective of whether their underlying sales grew, were flat, or declined. Australasia and Australia itself faced an additional challenge during the year of a rapidly depreciating foreign exchange rate for the Australian dollar which fell by 24% against sterling and 21% against the Euro which are two of the principal trading currencies for the business. This currency change is inevitably having an inflationary impact on input costs which we have taken action to recover with a combination of price rises and overhead reductions.

**Capacity reduction project**

The single largest initiative undertaken by the Group during the year was the closure of the Bredbury Chain manufacturing facility and transfer of production to sister facilities around the world. Prior to its closure the Bredbury facility produced chain that accounted for approximately 12% of all Renold external chain sales globally. The transfer of this production to three main recipient sites was a major and complex undertaking and hence it was managed by a dedicated external project manager with full time support from a number of internal personnel. The project also benefited from additional oversight from a steering committee chaired by the Group Chief Executive and a monitoring committee of the Board.

The project involved the transfer of over 70 pieces of existing equipment as well as the sourcing of new and re-conditioned equipment in local markets at the recipient sites. In Germany and the USA building works were required to modify existing work areas and to create additional space. In total, the production of approximately 17,000 part numbers was re-located with the requirement for those same items to have bills of materials and routings transferred to the recipient sites.

The expected benefits from phase one of the project, which represents the difference in overhead and cost bases before and after the project, are in the region of £3.2m on an annualised basis. The recipient sites have also been set an additional phase two challenge to address once the production process transfer is complete and bedded down. That second challenge is to deliver operating efficiencies by leveraging the additional throughput brought about by the transfer project and these benefits are targeted to start flowing in the second half of the new financial year.

 Find out more:  
[www.renold.com](http://www.renold.com)

<sup>1</sup> Operating profit before pension administration costs and exceptional items divided by revenue at constant exchange rates.



# Renold chain on newly commissioned US aircraft carrier



## FLT Leaf chain

### Newly commissioned US aircraft carrier

FLT chain is designed to carry very high loads by virtue of the numerous interlaced plates mounted on a common chain pin. The chain has been further optimised by Renold to give high fatigue and wear resistance through careful selection of materials and our production processes.

The chain will be used on a newly commissioned US naval aircraft carrier in a critical cargo lifting role, which is a key part of the ship's logistics. Renold FLT chain was chosen for its long life and reliability in this mission critical application

and for the same reasons is specified widely for many of the world's leading material handling companies.

Often used on forklift trucks, hence the name, this product is also used in a wide range of applications from port handling equipment to flood defence systems.



Find out more:  
[www.renold.com](http://www.renold.com)



Our products  
*in action*



Renold Leaf chain with 4x6 lacing, one of a wide range of chains for lifting applications.



# Renold chain at sugar mill in South America



## Sugar mill in South America

### Renold chain chosen to withstand the harsh operating conditions

A wide range of Renold conveyor chains, gearboxes and couplings are used as an integral part of the sugar cane production process. They help convert the raw materials into the primary product, cane sugar. Renold has serviced the sugar cane industry for over 80 years.

Processing of sugar cane creates a variety of environmental challenges for power transmission products including abrasion, corrosion and repeated heavy loads throughout the various elements of the system. To cope with this, in the wash down conveyor shown, customised heat treatment and excellent surface finish of the chain

bush and pins contribute to a product which resists fatigue and other aspects of the harsh environment.

The well established ability of Renold products to survive in such environments has also encouraged adoption by owners of new plants, in South America and elsewhere, commissioned to exploit the increased global demand for ethanol and food products.



Find out more:  
[www.renold.com](http://www.renold.com)

Our products  
*in action*



Bagasse chain, one of many types  
used in sugar cane production.



# Our performance

## Torque Transmission

Our Torque Transmission division is an international manufacturer of high integrity torque transmitting products used where public safety or assured plant operation is critical. Renold's products are integral, but generally unseen, in different facets of daily life from gearboxes driving heavy duty, high rise escalators in London and New York subway systems to shaft couplings in power generation plants ensuring uninterrupted supply.



### Torque Transmission facts 2

**The Torque Transmission division provides a wide range of standard and bespoke products.**

- >Advanced modelling techniques to evaluate new products and shorten development times.
- >New innovations go through rigorous evaluation before being released to customers.

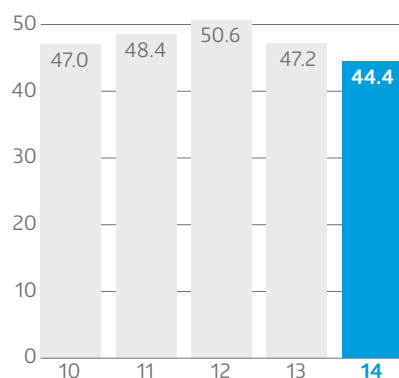
#### Torque Transmission performance

Underlying external revenue of £44.4m was 5.9% behind the prior year. The majority of the £2.8m underlying fall in revenue arose from the wind down of a major mass transit contract that came to an end in the first quarter with a year on year reduction of £2.7m in the current year. In addition, revenues were negatively impacted by a downturn in the mineral extraction and processing sector as both the equipment manufacturers and the end user markets continued to reduce their demand during the first half of the year. The rate of revenue decline slowed slightly during the second half of the year as key geographical markets show some signs of bottoming out though this has taken longer than first estimated.

In contrast to the revenue picture, underlying order intake for the year experienced a modest fall of 0.3% with the first half reduction of 2.3% being almost offset by year on year growth of 2.1% in the second half. The upturn in order intake was less oriented towards the large mass transit contracts which tended to have lower margins in the past, and four of the seven operating units posted growth in underlying order intake in the second half. Investment in power generation in Asian markets returned at the start of year, whilst the metals industry improved slightly. The marine market, which has seen very weak demand for several years, is now showing early signs of recovery. We are aiming to enhance our prospects with the development of new products that

**Underlying revenue**

£m



have contributed to new orders, for example, escalator products in both Europe and America.

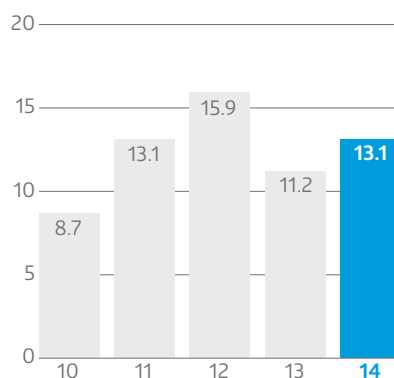
The stronger finish to the year, with fourth quarter orders ahead by 4.7%, brought the book to bill ratio for the year to 98%. A result close to 100% for this key metric suggests sales should level off in the short term if the rate of order intake is maintained. In absolute terms the underlying external order intake was £0.8m below the equivalent revenue figure in the year.

Contribution margins, being the margin after all variable production costs, improved during the year (as was the case in the Chain division). In part this was the result of the lower margin mass transit business that came to an end during the year but it was also supported by focusing more sales effort on the higher performance products in the portfolio. Other production cost ratios such as labour were relatively flat compared to the prior year, leaving further benefits to be pursued as we implement more efficient manufacturing processes and techniques.

Underlying net overheads in the division were reduced by £0.9m before an additional £0.3m charge in respect of the depreciation of the Group's ERP system. These savings were the result of a number of initiatives in each location rather than one major restructuring project. The overall gains in the year

**Underlying adjusted operating margin**

%



were part of the global effort to streamline our processes and structures and are part of our continuous improvement effort which applies as much in the Torque Transmission business as it does in the Chain division.

The combination of the gains in contribution margins and ongoing overhead reductions led to a healthy increase in the adjusted net operating margin of 1.9% to 13.1%. The absolute level of adjusted operating profit also rose by £0.8m to £6.1m before the impact of the additional ERP depreciation of £0.3m. This was achieved despite the reduction in external revenue of £2.8m and operating margin gains were spread over four of the seven units within the division. The gains in contribution margin extended to five out of the seven operating units and net operating margin gains were delivered in four of the units. However, our South African business did encounter difficulties throughout the year with a range of external issues such as the macro-economic situation, particularly in the mining sector where investment and maintenance spend has been negatively impacted by industrial unrest, and also a significant 25.9% reduction in the value of the South African Rand against sterling and 23.0% against the Euro.

During the year the divisional management team itself has changed. At the start of the second half of the year the new leadership was tasked with halting the revenue decline, improving business efficiency and laying the foundations to deliver future growth within the framework of the Group's strategic plan. Key changes to senior management within the division were made with new leaders appointed in South Africa and North America. Both businesses are engaged in change programmes which will impact on every part of their operation. Likewise the UK businesses are undergoing organisational changes that will position them well to deliver the Group's strategic plan. Our ongoing commitment to invest in research and development and the latest manufacturing technology in all of Torque Transmission's facilities will continue to provide solutions with lasting benefits for Renold and our customers.



Find out more:  
[www.renold.com](http://www.renold.com)



# Renold couplings for NASA launch pad tower



## Dihedral couplings

### NASA launch pad tower

Currently NASA is refurbishing the hinge boxes and associated couplings that are used in the new Space Launch System for various swing arm umbilicals. Renold is the supplier for the new coupling seals and fasteners, and is also working with NASA to provide technical support for the coupling refurbishment activities.

NASA originally specified Renold couplings for use on the hinge boxes that were used in the Shuttle programme for the Orbiter Access Arm and before that on the Crew Access Arm (part of the Launch Umbilical Tower) during the Apollo programme. The couplings were installed within a hinge box which rotates the entire Crew Access Arm truss assembly.

Renold was chosen because of our ability to design and manufacture a coupling to meet the rigorous torque demands in a special vertical installation.

The dihedral coupling supplied is made from high tensile steel with nitrided gear teeth, designed to handle the high torque requirements of the application.



Find out more:  
[www.renold.com](http://www.renold.com)

Our products  
*in action*

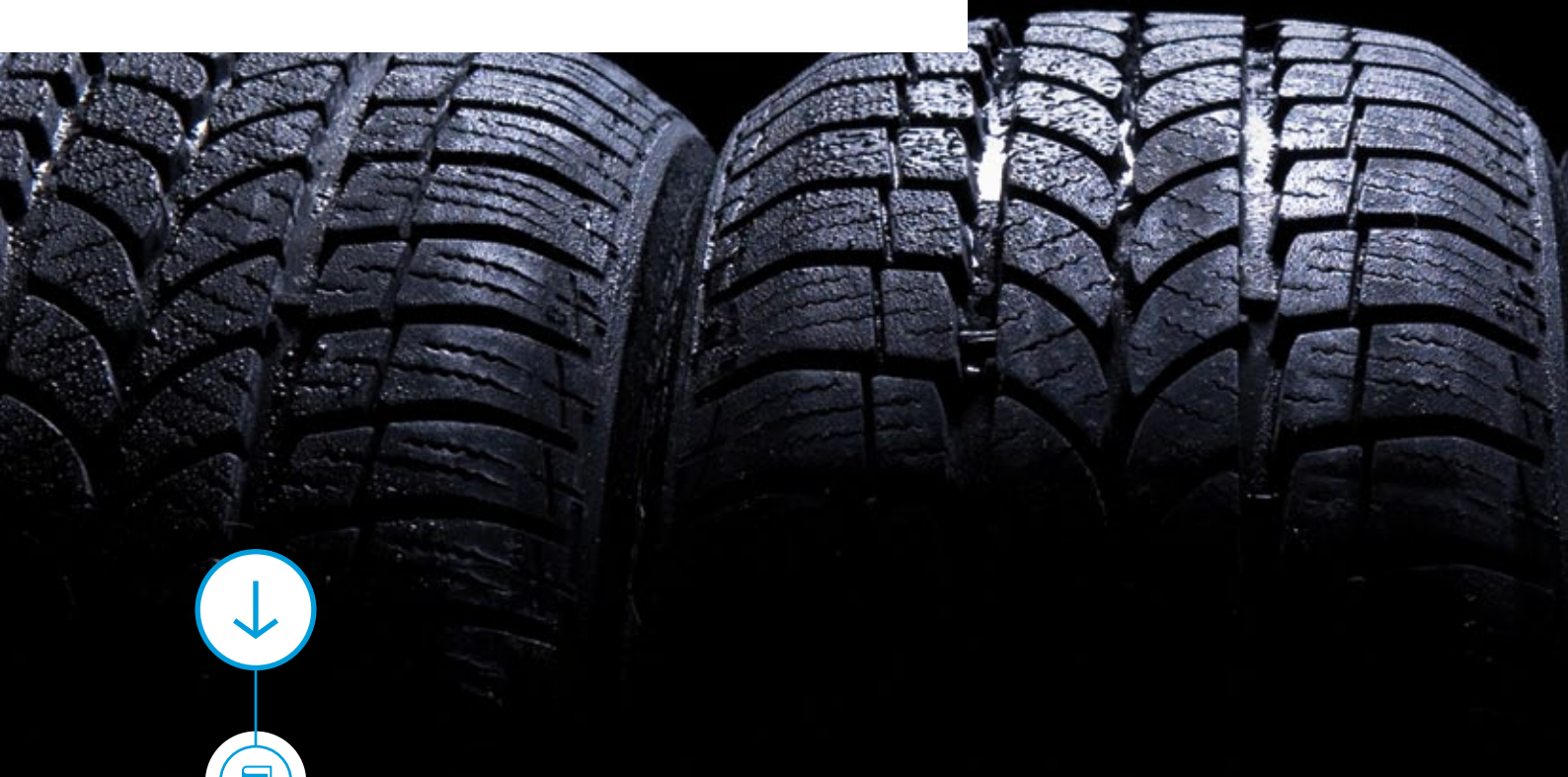


Renold Ajax Dihedral couplings.





# Renold couplings for tyre manufacture



## Rubber mixer couplings

### Tyre manufacture

Renold supplies couplings to a global tyre manufacturer for use on their rubber mixers. The mixers are used to mix over 200 raw materials which go into the production of a tyre.

Couplings are used on various sizes of mixers and connect the gearbox to the mixer. A spacer or floating shaft assembly is used so that if any maintenance is required the equipment does not have to be moved.

Renold couplings were selected because of their high torque capacity gear tooth design and the distortion free process used to harden the gear teeth. Renold worked closely with the customer to standardise the designs to allow for inter-changeability between various plant locations.

Couplings connecting the motor to the gearbox on the mixers are also supplied by Renold as well as couplings and universal joints on extruder and calendar equipment.



Find out more:  
[www.renold.com](http://www.renold.com)

Our products  
*in action*



Renold Ajax Spacer Couplings.



# Finance Director's review

“The Group successfully delivered a complex and significant plant closure project against a background of improving margins, working capital reductions and close management of our cash resources. In parallel, long term benefits were secured for our cost of capital and medium term pension funding costs.”

**Brian Tenner**  
Finance Director



## Overview

We have delivered a number of key steps to support our strategic objective to strengthen our balance sheet, improve our ability to generate free cash flow and to reduce our exposure to legacy pension cash costs. We were also able to continue improvements in our average working capital ratio, achieving a reduction for the fourth year in succession. During the year, the Group completed the restructuring of its internal capital structure. This optimises the benefits of the re-financing in 2012/13 and will further reduce our cost of debt in 2014/15. The completion of the UK pension scheme merger in June 2013 achieves an annual cash flow saving of £1.0m with a full year's benefit in 2014/15.

## Orders and revenue

Order intake during the year was almost identical to revenue with the underlying ratio of orders to revenue (book to bill) being 99.8% (2013: 97.2%). As expected, the first half had a slower start with underlying orders £0.3m below underlying revenue (2013: orders £5.1m below revenue). In the second half orders exceeded revenue by £2.0m (2013: orders £0.8m below revenue). As set out on pages 18 and 19 and 24 and 25, Chain and Torque Transmission experienced mixed performance in the two halves of the year.

Group revenue for the year decreased by 3.3% to £184.0m. On an underlying basis, excluding the impact of foreign exchange, the decrease was lower at 1.6% (£3.0m).

The Chain Division was virtually flat year on year with a 0.1% fall in underlying revenue. Torque Transmission therefore accounted for the overall drop in Group revenue with a divisional fall of 5.9%.

## Operating result

The Group generated £5.1m of adjusted operating profit in the first half (2013: £3.6m) and £6.0m in the second half (2013: £3.6m) with a full year result of £11.1m (2013: £7.2m). The second half result was achieved on 2.6% (£2.4m) lower underlying revenue than the first half. This reflects improving margin outcomes and ongoing cost reduction activity as we continue to lower our breakeven point. The year on year reduction in net overheads of £3.4m was achieved against the headwind of £0.8m of additional depreciation on the ERP system which began to depreciate in the fourth quarter of the prior year. All Chain regions and the Torque Transmission division contributed to this reduction in overheads as set out in the divisional performance reviews.

Changes in foreign exchange rates resulted in operating charges of £0.4m in the year. All else being equal, there would be a further reduction of £0.5m operating profit if the year end exchange rates applied throughout the year.





### Impact on average net debt due to reduction in average working capital in the year

£2.4m

### Exceptional items

The exceptional charges of £11.8m (2013: £12.3m) were predominantly driven by the closure of the Bredbury facility and are detailed in Note 2(c) to the Group financial statements with additional narrative in the Chain performance review on pages 18 and 19.

### Financing costs

External net interest costs in the year were £1.8m (2013: £2.9m). The decrease on the prior year was the result of the restructuring of the Group's internal capital structure following the refinancing in the prior year of the Group's principal borrowing facilities. The annual charge includes £0.3m in respect of amortisation of the refinancing costs paid in 2012 which are being expensed over the four year term of the facility.

Net IAS 19 finance charges (which are a non-cash item) were £2.8m (2013: £2.5m), the net movement being due to lower interest rates on a higher opening liability figure. All figures in respect of pension financing costs have been restated in accordance with the changes to the relevant accounting standard (IAS 19 Employee Benefits) and the impact of that change is set out in more detail in the Accounting Policies section to the financial statements. In the current year, the actual return on assets was £1.5m higher than the return used in the interest calculation as specified in IAS 19. The difference appears as a gain in the Statement of Other Comprehensive Income.

### Result before tax

Profit before tax and exceptional items was £5.9m (2013: £0.6m restated). The loss before tax after exceptional items was £5.9m (2013: loss of £11.9m restated).

The business uses underlying measures of orders and sales in its daily reporting activities. This metric retranslates the prior year orders and sales to the current year foreign exchange rates to give a more meaningful comparison of performance. The same is also true for operating profit and earnings measures

which are stated on an adjusted basis that strips out the impact of exceptional items, foreign exchange, the administration costs of closed legacy pension schemes and pension financing charges as these adjusted items are deemed to better reflect the performance of the ongoing business.

	2014			2013 restated		
	Order intake	Revenue	Operating profit/(loss)	Order intake	Revenue	Operating profit/(loss)
As reported	183.7	184.0	(1.3)	185.2	190.3	(6.4)
Impact of foreign exchange	–	–	–	(3.3)	(3.3)	(0.1)
Exceptional items	–	–	11.8	–	–	12.3
Pension administration costs	–	–	0.6	–	–	1.3
Underlying/adjusted	183.7	184.0	11.1	181.9	187.0	7.1

# Finance Director's review

continued

## Taxation

The current year tax charge of £4.8m (2013: tax credit of £0.1m) is made up of a current tax charge of £1.2m (2013: charge of £0.7m) and a deferred tax charge of £3.6m (2013: credit of £0.8m). The Group cash tax paid was much lower at £0.9m (2013: £0.7m) 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

Loss for the financial year ended 31 March 2014 was £10.7m (2013: loss of £11.8m) and the basic and diluted loss per share 4.9p (2013: loss 5.4p for both). The basic and diluted adjusted earnings per share was 3.2p (2013: earnings 1.4p).

## Balance sheet

Net assets at 31 March 2014 were £18.1m (2013: £31.0m). The net liability for retirement benefit obligations was £49.3m (2013: £56.3m) after allowing for a net deferred tax asset of £15.6m (2013: £13.2m). Overseas schemes now account for £18.8m (38%) of the post tax pension deficits and £16.3m of this is in respect of the German scheme which is not required to be prefunded (see Pensions section on pages 33 to 35).

## Cash flow and borrowings

Cash generated from operations was £6.1m (2013: £8.2m). Capital expenditure was increased to £7.1m (2013: £4.9m), largely due to £2.1m of capital expenditure incurred on the Bredbury closure project. Further gains were made in working capital management with reductions equivalent to £2.4m.

These gains were despite a planned increase in safety stock as part of the Bredbury closure project.

Group net borrowings at 31 March 2014 of £24.8m were £2.0m higher than the opening position of £22.8m comprising cash and cash equivalents of £6.7m (2013: £9.8m) and borrowings (which include £0.5m of preference stock) of £31.5m (2013: £32.6m).

## Debt facility and capital structure

The Group's primary banking facility is for a four year term, maturing in October 2016. The facility comprises a committed £41m Multi-Currency Revolving Credit Facility (MRCF), and an additional £8m of ancillary facilities. These facilities have been provided by Lloyds Bank plc and Svenska Handelsbanken AB.

The principal covenants are the Net Debt/Adjusted EBITDA ratio (calculated on a rolling 12 months basis), which has been set at a maximum of 2.5 times until maturity, and Adjusted EBITDA/Interest cover which is required to be greater than 4.0 times until maturity. The Net Debt/Adjusted EBITDA ratio as at 31 March 2014 is 1.5 times (2013: 1.9 times), based on the period end net debt of £24.8m (2013: net debt £22.8m). The Adjusted EBITDA/interest cover as at 31 March 2014 is 8.7 times (2013: 4.2 times).

The Group also benefits from numerous other smaller overseas facilities totalling £3.4m.

At 31 March 2014 the Group had unused credit facilities totaling £9.0m and cash balances of £6.7m. Total Group credit facilities amounted to £44.4m with £41.0m 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 pages 36 to 38. 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 2014 this hedge was fully effective. The carrying value of these borrowings at 31 March 2014 was £5.2m (2013: £6.4m).

The impact of transactional foreign exchange gains and losses during the year was a loss of £0.4m which is included in the operating profit result. This was primarily driven by the appreciation in the value of sterling purchases in overseas locations such as Australia and India as well as the impact of the Euro appreciating against the US dollar.

At 31 March 2014, the Group had 2% (2013: 2%) 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.

### Pension's assets and liabilities

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

	Assets £m	2014 Liabilities £m	Deficit £m	Assets £m	2013 Restated Liabilities £m	Deficit £m
<b>Defined benefit schemes</b>						
UK funded	144.9	(183.0)	(38.1)	156.0	(199.1)	(43.1)
Overseas funded	14.1	(17.3)	(3.2)	15.9	(18.6)	(2.7)
Overseas unfunded	–	(23.6)	(23.6)	–	(23.7)	(23.7)
	159.0	(223.9)	(64.9)	171.9	(241.4)	(69.5)
Deferred tax asset			15.6			13.2
Net deficit			(49.3)			(56.3)

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 19R funding position.

The Group is responsible for a number of defined benefit pension schemes which it accounts for in accordance with IAS 19 Employee benefits. Changes to IAS 19 have taken effect for 2014 reporting, with the prior year comparative figures being restated. For further details of the impact of these changes see Accounting Policies section to these consolidated financial statements on pages 89 and 90.

The Group's retirement benefit obligations decreased from £69.5m (restated – £56.3m net of deferred tax) at 31 March 2013 to £64.9m (£49.3m net of deferred tax) at 31 March 2014. The drivers of change are shown on the waterfall chart on page 35. One of the Group's US pension schemes has moved into surplus during the year and since the year end the formal termination process has begun to wind up the scheme, secure member benefits and hence fully de-risk it from the Group's perspective at minimal additional cost.

The aggregate expense of administering the pension schemes was £0.6m (2013: £1.3m) which is now included in operating costs but is excluded in arriving at adjusted operating profit. Exceptional pension merger and asset backed funding costs of £nil (2013: £0.7m) were incurred to complete a project initiated in the second half of the prior year. This has led to a £1.0m reduction in annualised cash costs in the UK with effect from the end of the first quarter of the current financial year.

### UK pensions scheme merger and asset backed funding structure

Agreement was reached at the end of the last financial year to merge the three UK schemes into the Renold Supplementary Pensions Scheme (subsequently renamed the Renold Pension Scheme 'RPS'). The merger was completed on 26 June 2013, with 1,316 members taking wind-up lump sums to the value of £10.4m and, as a result, a small settlement gain of £0.5m was recognised. The remaining assets of the Renold Group Pensions Scheme and J&S Retirement Benefit Plan were transferred into the RPS and full wind-up of those schemes was triggered on 27 June 2013. The merged scheme had 3,635 members as at 31 March 2014 compared to 5,118 at the start of the year.

The merged UK pension funds are underpinned by a 25 year asset backed partnership structure which provides annual cash contributions of £2.5m to the pension fund, with annual increases linked to RPI and capped at 5%. The contribution includes the first £0.5m of annual scheme operating expenses each year with the Company meeting any excess expense costs. The detailed structure and mechanics of the merger and underpinning asset backed funding structure are set out in Note 18 to the accounts. The triennial actuarial valuation of the RPS as at 5 April 2013 was completed following the year end and no additional contributions in excess of those generated by the asset backed funding structure are currently required.

The new arrangements do not have a substantive net impact on the Group's tax position.

### Summary

The focus for the management team remains on steady and continuous improvement in our day to day business processes and performance. We are working to support this activity with initiatives to improve our working capital management, including adding stock or resources to support business development activity. Separately, we aim to ensure that the legacy issues the Group faces are ring fenced as much as possible from the day to day operation of the business to ensure they are neither a distraction nor a hindrance. The improvements in our cost of debt and pension liability management represent a series of successful outcomes in delivering our strategic goal of strengthening our balance sheet.

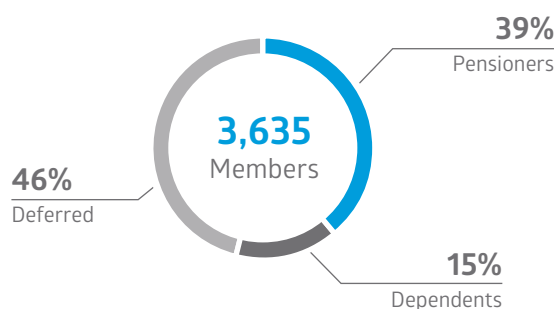
**Brian Tenner**  
Finance Director

# Finance Director's review

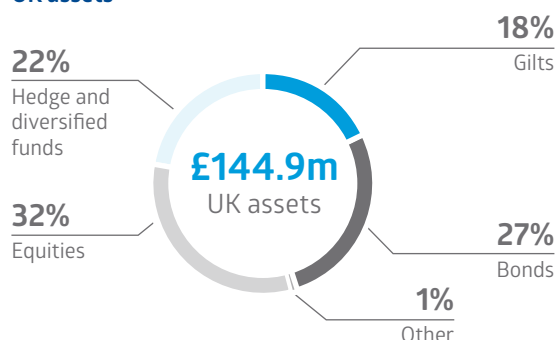
continued

## Pensions

### UK membership

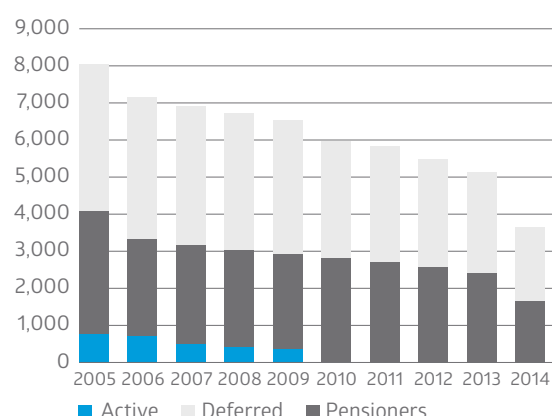


### UK assets



- The pie charts show the current make up of the UK pension scheme membership and asset allocation as at 31 March 2014.
- The membership profile has changed over the last decade with 54% of members being either pensioners or dependents today compared to 48% in 2002.
- The total number of scheme members has fallen by 60% since 2002 to 3,635 today. Of this reduction, net mortality explains 41% with a further 32% due to net leavers from the schemes (whether through the recent Trivial Commutation exercises or members opting to transfer their entitlements elsewhere).
- Given the relative maturity of the scheme 45% 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 £10.6m per annum including cash lump sums on retirement).
- The overall target for UK portfolio returns is 6.6%.
- The actual return in the year was 4.6% compared to the return (based on the discount rate on the scheme liabilities) used in the IAS 19 financing charge calculation of 4.3% (this led to a gain of £0.9m which added to overseas outperformance of £0.6m gives a gain of £1.5m included within remeasurement gains of £2.9m disclosed in the Statement of Other Comprehensive Income).
- It should be noted that the hedge fund and dynamic diversified growth funds both have characteristics of gilts in that returns are lower and aim to be less volatile than equities but that their returns are targeted to be higher than simple gilts and bonds.

### UK defined benefit schemes member numbers

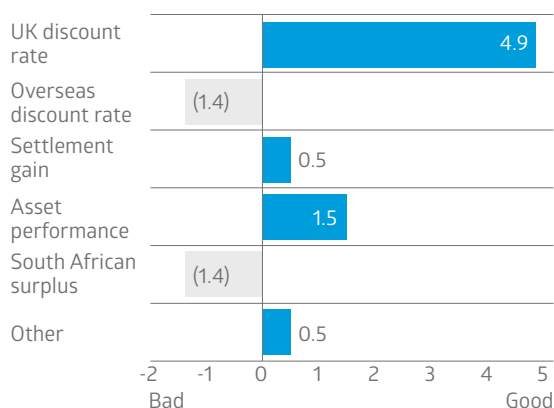


- The chart shows the evolution of the number of members of the UK defined benefit schemes over the last ten years.
- The chart also shows the profile of the different categories of member. The category shown as pensioners includes surviving dependents of pensioners who are drawing their benefits as a spouse or dependent child.
- All three UK defined benefit schemes were closed to new members and future accrual by March 2010 and hence membership of the active category fell to zero.
- The significant step down in total membership and in individual membership of the deferred and pensioner categories in 2014 followed the scheme merger in June 2013. At that time 1,316 members opted to have their small pension entitlements paid out as a lump sum and hence they ceased to be members of the scheme.
- Other movements in each year mainly result from deferred members either retiring or transferring out of the schemes or from mortality amongst pensioner members.
- The Group is currently reviewing the potential impact of the proposed changes in legislation as set out in the recent budget. That legislation suggests that more members will be entitled to take their pension pots as a lump sum benefit which may have implications for the future membership of the UK scheme and on its costs of administration. The legislation has not yet been enacted and hence it is not yet possible to be definitive on any potential impact.



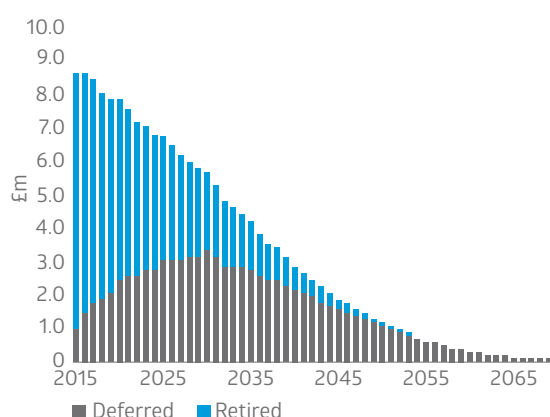
### Movements in pension deficits

£m



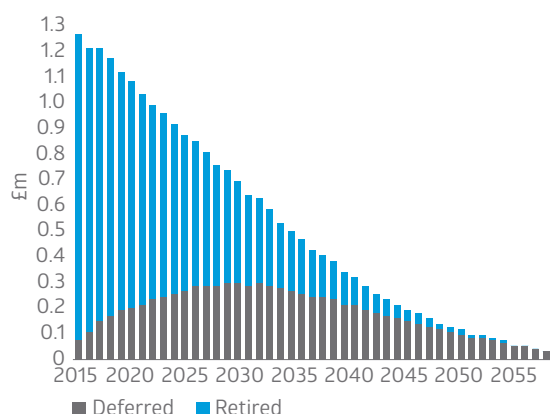
- The chart shows the key drivers of change for the Group's defined benefit pension schemes over the last year.
- UK discount rates increased by 0.2% reducing the deficit by £4.9m.
- UK discount rates remain around 1.1% below their historical average.
- German and American discount rates fell by 0.35% and 0.3% respectively increasing the deficit by £1.0m and £0.4m in each case.
- The settlement gain arose on the merger of the UK pension schemes as 1,316 members withdrew their entitlements in a lump sum.
- Net asset out performance compared to the IAS 19 discount rate reduced the deficit by £1.5m.
- The South African surplus was returned to the Group as an unrestricted asset and hence is no longer considered a pension asset.

### Discounted cash flows – UK



- The charts show the future cash outflows expected for the UK and German pension schemes, split between scheme members who have already retired and those who have not yet retired. Both cash flow profiles have been discounted using the discount rates used to value the total liabilities of the schemes as shown in the financial statements.
- The chart for the UK scheme shows that the scheme has already passed peak funding. This means that the peak annual cash outflow has already been passed and therefore, all else being equal, future cash flows will reduce in line with the profile above. It should be noted, however, that the profile assumes that all members draw their pension in regular payments rather than pursuing the small lump sum or trivial commutation route noted above.

### Discounted cash flows – Germany



- The German chart also shows that peak funding has been passed but also the maturity of the scheme as evidenced by the relatively steep decline in annual cash flows in the medium term. By the end of the fifth year the annual cash outflow will have reduced by 15% compared to the cash flow this year and by 30% by the end of the tenth year.
- The German scheme closed to new members in 1992 and the current average age of members is 68 years old.
- The Group has initiated action to close the scheme to future accrual and the outcome of the court mediation process is expected to be known in the second half of the new financial year.

# Principal risks and uncertainties

Renold's risk management framework is designed to identify and assess the probability and consequences of risks occurring and to manage the actions necessary to reduce the risks and 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.

Risk	Potential impact	Mitigation								
Strategic risks										
<p>↓ <b>Business strategy</b></p> <p>A strategy which does not match the Group's circumstances, capabilities or potential will fail to create shareholder value.</p>	<p>The Group is developing a new strategy to deliver a turnaround in performance and to make that performance more stable and less exposed to revenue volatility. Unless successfully implemented the Group will continue to experience volatile results and weak levels of cash generation. These are basic requirements to allow the delivery of sustainable and consistent growth in shareholder value.</p>	<p>A new three phase strategic plan has been developed (refer to page 15). In parallel, a new and detailed operating model has also been specified and is now in the process of being implemented.</p> <p>Structural re-engineering of our business processes and cost base is also underway and has already delivered significant reductions in our breakeven point. This is an ongoing process which will be embedded as continuous improvement in all of our business activities.</p> <p>New and relevant Key Performance Indicators are being developed for all of our activities to monitor the delivery of the three phase strategy.</p>								
<p>↓ <b>Macro-economic and political</b></p> <p>We operate in 18 countries and sell to customers in over 100 and therefore we are necessarily exposed to economic and political risks in these territories such as recession or the imposition of trade barriers.</p> <p>The continuing fragile macro-economic climate in the Eurozone and Australia is a specific source of risk.</p>	<p>Key territory sales profile is shown below:</p> <table><tr><td>USA</td><td>33% (of Group sales)</td></tr><tr><td>Germany</td><td>7%</td></tr><tr><td>UK</td><td>9%</td></tr><tr><td>Australia</td><td>7%</td></tr></table> <p>Adverse macro-economic or political changes in any of these territories could have a material negative effect on the Group's financial performance and condition and is a key driver for the objective to lower our breakeven point.</p>	USA	33% (of Group sales)	Germany	7%	UK	9%	Australia	7%	<p>Our diversified geographic footprint inherently exposes us to more countries where risks arise but conversely mitigates the risk of over-exposure in any one country.</p> <p>Actions to lower the Group's overall breakeven point also serve to reduce the impact of a global economic slowdown.</p> <p>Continuous monitoring of macro-economic trends, industry specific and internal leading indicators.</p> <p>Strong core banking group with multi-currency debt facility supported by matching cash flows plus improving EBITDA.</p>
USA	33% (of Group sales)									
Germany	7%									
UK	9%									
Australia	7%									
<p>↔ <b>Raw material price volatility</b></p> <p>Increases in the cost of raw materials may not always be recoverable or have delays in recovery due to weakness in demand or competitor actions.</p> <p>If raw material costs fall, the Group may face customer pressure to reduce prices or experience a fall in demand.</p>	<p>Approximately 35% of the Group's sales value is spent on raw materials with steel being the primary purchase.</p> <p>Steel prices experienced by the Group have been relatively stable recently following previous periods of considerable volatility. Unrecovered cost increases would have a material effect on the Group's financial performance.</p>	<p>Continuous monitoring of different international steel price indices to give early warning of negative trends.</p> <p>Where contractually possible, we pass on price increases.</p> <p>Stock holdings are managed to maintain a forward hedge on input costs and time buffer to allow negotiations with customers and suppliers on price increases.</p>								
<p>↔ <b>Competitive markets and technology advancements</b></p> <p>Renold operates in highly competitive markets with customer decisions based typically on quality, technology, service and price. New entrants or consolidation of existing competitors could restrict our ability to deliver our strategic objectives.</p>	<p>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.</p>	<p>Highly fragmented market may reduce risk of significant competitive pressure.</p> <p>Strategic objective to improve service and enhance customer relationships will deliver a more loyal customer base.</p> <p>Investment in new technology and engineering capabilities.</p>								

## Key:

- ↓ Risk trending downwards
- ↔ Risk trend unchanged
- ↑ Risk trending upwards

Risk	Potential impact	Mitigation
<b>Operational risks</b>		
<p>↔ <b>Health and safety in the workplace</b></p> <p>A lack of robust safety processes and procedures could result in accidents involving Renold employees and others on Renold premises.</p> <p>The risk assessment reflects the fact that increased focus and auditing is part of the rising rate trends seen on page 40.</p>	<p>Accidents caused by a lack of robust safety procedures could result not only in civil or criminal liability for both the Group and the Directors but also:</p> <p>→ Business interruption;</p> <p>→ Significant fines and penalties; and</p> <p>→ Reputational damage.</p>	<p>Revised group wide health and safety policies contained within a documented management system, 'the Framework', have been rolled out during the year. Health and safety audits and enhanced reporting has been implemented at all sites and a new Group HSE Assurance Manager has been appointed.</p> <p>Continual risk assessments to ensure awareness of risks.</p> <p>Live tracking of accident rates and root cause analysis via the Integrated Risk Management System.</p>
<p>↔ <b>Manufacturing disruption</b></p> <p>A catastrophic loss of the use of all or a portion of any of Renold's manufacturing or distribution facilities, due to accident, labour issues, fire, weather, terrorism, natural disaster or otherwise, which in the short or long term could adversely affect the Group's ability to meet the demands of its customers.</p> <p>Some of the assets maintained by the Group, such as IT systems and machinery are critical to the manufacture and delivery of a particular product.</p>	<p>A material disruption to operational facilities or the loss of critical assets may negatively affect the Group's:</p> <p>→ Production capability and asset base;</p> <p>→ Supply chain management;</p> <p>→ Customer relationships and reputation; and</p> <p>→ Financial performance.</p>	<p>Dedicated production teams focused on demand fulfilment.</p> <p>Preventative maintenance programme.</p> <p>Alternate manufacturing capacity exists for a substantial portion of the Group's product range.</p> <p>Inventory maintained to absorb and flatten out raw material supply and production volatility.</p> <p>The Group has insurance cover to mitigate the impact of a number of these risks.</p>
<p>↓ <b>ERP systems</b></p> <p>The Group is presently implementing a global ERP system to replace numerous legacy systems.</p> <p>Legacy systems are less robust and less efficient than new systems.</p>	<p>The risk continues that an unsuccessful implementation at an individual site could seriously impact the Group's performance.</p> <p>Risks have reduced by virtue of the experience gained and lessons learned from previous implementations.</p> <p>Old systems may not support delivery of business objectives.</p>	<p>Use of specialist external consultants on the project.</p> <p>Recruitment of experienced personnel.</p> <p>Phased implementation rather than 'big bang.'</p> <p>Project assurance and lessons learned reviews to continuously improve the quality of successive roll outs.</p> <p>Ongoing project to replace and upgrade legacy systems.</p>
<p>↔ <b>Compliance risks – laws and regulations</b></p> <p>Risks related to regulatory and legislative changes include the inability of the Group to comply with current, changing or new requirements.</p> <p>Many of the Group's business activities are subject to increasing regulation and enforcement by relevant authorities.</p>	<p>Failure by the Group or its representatives to abide by applicable laws and regulations could result in:</p> <p>→ Administrative, civil or criminal liability;</p> <p>→ Significant fines and penalties;</p> <p>→ Suspension of the Group from trading; and</p> <p>→ Reputational damage.</p>	<p>Communication of a clear compliance culture.</p> <p>Risk assessments and ongoing compliance reviews.</p> <p>Published up to date policies and procedures.</p> <p>Monitoring of compliance with nominated accountable managers in each business unit.</p> <p>Clear guidance and training issued to all employees.</p>
<p>↓ <b>Bredbury site closure</b></p> <p>A complex project was initiated to close the Bredbury site and transfer approximately 12% of the Chain division sales to other Renold sites.</p>	<p>The scale of the project in terms of the revenue streams being transferred, as well as the complexity inherent in moving major production processes, could, if executed poorly, have a major impact on Group sales, profitability and customer relationships in the short term and potentially in the longer term too.</p>	<p>As at the date of this report the project is largely complete with all production equipment moved to new locations or new equipment sourced in those locations. All of the new production lines are running, though with some still to reach full capacity.</p> <p>Additional safety stock created during the project will now be worked out during the new financial year.</p>
<p>↓ <b>A lack of technical expertise or management skills</b></p> <p>The Group's international operations are dependent upon existing key executives and certain other employees in order to sustain and grow its business and there can be no assurances that these employees will remain with the Group. The success of the Group will depend upon its ability to attract, retain and motivate highly qualified and trained employees.</p>	<p>If the Group fails to retain, attract or motivate the required calibre of employees then its operational and financial performance may be negatively impacted.</p>	<p>Competitive reward programmes, focused training and development.</p> <p>Ongoing reviews of succession plans based on business needs.</p> <p>Personal development reviews and training programmes.</p> <p>Management team strengthened with new capability from external hires and internal promotions.</p>

# Principal risks and uncertainties

continued

Risk	Potential impact	Mitigation
<b>Financial risks</b>		
<b>↓ Liquidity</b> In the new economic reality, all companies face risk in relation to the availability of debt to fund their ongoing operations.	If the Group fails to obtain the required funding then this could negatively impact: → Ongoing operations of the business; and → Going concern.	The Group's primary banking facility expires October 2016. Further improvements in results will increase the headroom in that facility. Constant management focus to enhance working capital management processes.
<b>↔ Foreign exchange rate volatility</b> Transactional exchange risk exposure.	If the Group does not manage these risks appropriately, then this could result in the Group's earnings and cash flows being exposed to currency risk on its sales and purchases and balances of foreign (non-functional) currencies.	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 simple forward foreign exchange contracts. Borrowings denominated in foreign currency are supported and serviced by cash flows in the same currencies. 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.
<b>↔ Interest rate volatility</b> Borrowings at variable rates expose the Group to cash flow interest rate risk.	Exposure to variable exchange rates could negatively impact the financial performance of the Group.	Facility in place for interest rate swaps to manage part of this exposure if volatility arises.
<b>↓ Pensions deficit volatility</b> Estimates of the amount and timing of future funding obligations for the Group's pension plans are based upon a number of assumptions. Pension deficits are dependent on market based assumptions for discount rates and inflation.	Changes in these assumptions can materially impact the performance and financial condition of the Group.	The major UK pension cash flows (50% of all defined benefit pension cash costs) are fixed under the 25 year asset backed funding scheme put in place during 2013. A further 25% of the annual cash flows are pensions in payment in Germany in a mature scheme that has passed its peak funding requirement. All pension risks are actively managed in line with the Group's risk management system covering investment and liability management issues. The Group is represented by a Company nominated trustee on the investment committee which sets the asset strategies.

# Corporate social 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 direct leadership responsibility supported by the regional and business unit Executive teams.

## Ethics

We recognise our duty to stakeholders to operate the business in an ethical and responsible manner.

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.

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. A new Group Gifts and Hospitality policy was implemented during the year.

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 whistle blowing hotline continues to be available to all employees across the Group, enabling them to report any concerns about theft, fraud and other malpractice in the workplace.

Following implementation of the UK Bribery Act in 2011, the Group put in place training for all members of staff whose roles involve working in environments or activities where there was a perceived risk. A revised Group Anti-Corruption policy was implemented during the year and a further training

programme commissioned which will be refreshed on an annual basis. Other control processes and updates to formal contractual arrangements with agents and distributors have been put in place to ensure compliance with the requirements of the UK Bribery Act.

## Health and safety

Renold is committed to providing a safe workplace for all its employees and those affected by its activities. No activity is so critical or urgent that it may be done in an unsafe and uncontrolled manner; at Renold the individual's safety is the top priority.

The Group Health and Safety policy (reviewed and updated last year) is supported by the Group Health and Safety Management Framework structured to assist all parts of Renold to understand the Board's expectations regarding health and safety performance.

The Framework is not a set of rules and regulations to be applied mechanically across the Group. It contains principles and expectations describing a set of outcomes. It is a structured process to manage specific health and safety risks, encompassing continual monitoring and periodic review. The Framework is consistent with internationally recognised standards, including OHSAS 18001.

## The Group Health and Safety Management Framework

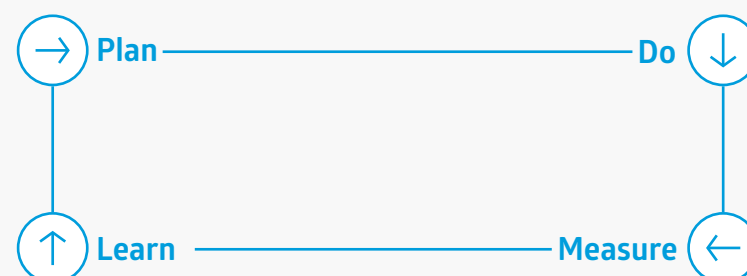
Each stage has a number of key components:

### Plan

- Determine the scope of the management system
- Set objectives and timescales and identify resource requirements
- Develop performance indicators based upon desired objectives

### Do

- Create a management structure with clearly assigned roles and responsibilities
- Create and implement processes and procedures, including controls and training people
- Maintain records



### Learn

- Undertake periodic reviews of the management system's effectiveness
- Identify areas for improvement

### Measure

- Conduct timely monitoring and measurement confirming the status of compliance
- Develop and implement corrective/preventative actions

# Corporate social responsibilities

## continued

The Plan-Do-Measure-Learn cycle is a key part of the Framework. It is an iterative process which enables a site to establish, implement and improve its management system and hence manage the targeted risks. It is applicable at all levels in the organisation from the top management through to every employee in every activity within the Group.

A rolling programme of assurance audits commenced during the year. The internal assurance audit tests and reports site compliance against the requirements of the Framework. The Framework presents a focus for continuous improvement and so is reflected in the audit outputs incorporated into a site action plan.

The importance of individual contributions to the continuous improvement of our systems is well recognised and we ensure all improvement opportunities are captured via the Integrated Risk Management System (IRMS). The IRMS supports a number of business processes including standardised reporting for accidents, incidents, near misses, safety opportunities and related action tracking and has been further enhanced during the year.

The additional functionality includes a hazard assessment reporting feature that provides both a consistent and transparent view of the ongoing health and safety risks. During the year, roll out of the online hazard assessment module has focused on the larger sites with a plan that all areas will be using the system during 2014. This supports our drive to deliver improvements to our health and safety risk management processes and the quality of risk information generated allowing optimum focus of resources.

The Board regularly reviews health and safety performance and ensures that any issues identified are promptly addressed. Reporting enhancements have been made to broaden the performance measures. Trend reviews have also been completed on behalf of the Board focusing on particular incident types.

The following charts show the Group's health and safety performance for the four years to 31 March 2014.

The Group uses an 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.

The deterioration in the performance metrics is believed to be primarily due to the improved accident reporting and investigation processes introduced in January 2013. Other concurrent remediation actions including a global health and safety training programme and the introduction of the Group wide Health and Safety Awards scheme, are designed to encourage performance improvement against the now established benchmarks.

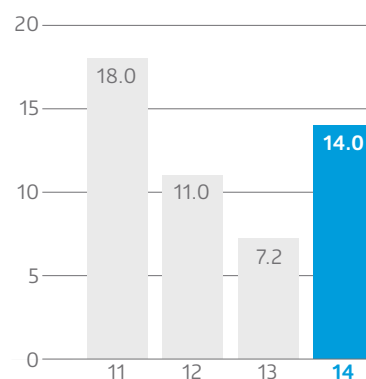
Following a successful assessment of compliance to OHSAS 18001, the management system for Occupational Health and Safety, the Milnrow, Mulgrave and Hangzhou facilities were recommended for certification. The Halifax site is also a holder of this standard. All other production facilities across the Group which are not currently certified have declared a target to achieve OHSAS 18001. All sites are required to 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.

### Employees

The motivation and commitment of our employees is essential to drive forward our business. The recruitment, retention and development of motivated, effective people will be key to the successful delivery of the revised strategy for the Group. That revised strategy will itself include assessing opportunities to improve our processes for managing and developing people.

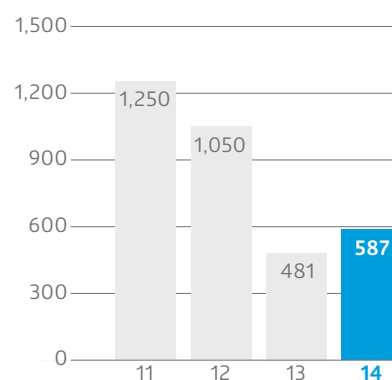
### Average lost time accident frequency rates<sup>1</sup>

Average number



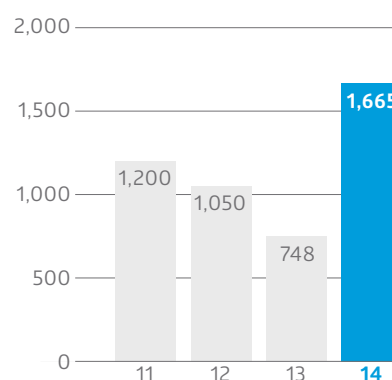
### Working days lost

Days lost



### Reportable injury rates (average trend)

Average reportable injury rate



<sup>1</sup> 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.



During the year ended 31 March 2014 the following activities were carried out across the Group:

### Engaging our people

We place a strong emphasis on employee communications and two way feedback. The Group's intranet site enables access to the latest Group information as well as Group policies. We have also commenced regular presentations to employees throughout the Group where the half year and year-end financial results are presented and explained by senior management.

This helps to achieve a common awareness amongst employees of the financial and economic factors affecting the performance of the Group.

We also use electronic bulletin boards for the sharing of knowledge and information across the world.

### Employment policies

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

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

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

### Diversity

The Group is committed to equal opportunities and operates a non-discriminatory working environment. We expect staff and job applicants to be treated equally regardless of age, race, religion, disability, gender or sexuality.

As at 31 March 2014, the Group employed 2,208 people including 392 in the UK. Of the total number of employees, 605 (being 27.4%) are female. The Company recognises the need to encourage and support more gender diversity throughout the employee population as well as at Board level: details of the Board's Diversity policy are set out in the Nomination Committee report at pages 58 and 59.

We set out in the table below, a breakdown of the gender of our Board members, and, in accordance with the new reporting requirements, the number of 'senior managers' (including directors of the Company's subsidiary companies) and employees as at 31 March 2014. A senior manager is defined in the legislation as an employee who has responsibility for planning, directing or controlling the activities of the company or a strategically significant part of the company. Whilst falling within the definition of 'senior manager', the most senior leadership population (below the Board), the Group Executive, is shown separately in the table below.

Employees	Male	Female
Board membership	5	0
Group Executive	6	1
Senior managers, including those on Renold's subsidiary boards	36	5
Employees	1,556	599

### Human rights

As a result of the new reporting requirements, the Group is required to make a disclosure in relation to human rights.

The Board has overall responsibility for ensuring the Group upholds and promotes respect for human rights and has adopted the definition of human rights within the European Convention

on Human Rights: the concept of human beings as having universal rights, or status, regardless of legal jurisdiction or other localising factors, such as ethnicity, nationality, and sex.

The Group respects all human rights and in conducting its business regards the right to non-discrimination and fair treatment as the most relevant to its key stakeholder groups, these being customers, employees and suppliers. The Group's employment policies and procedures reflect principles of equal treatment.

The Group has not been made aware of any incident in which the organisation's activities have resulted in an abuse of human rights.

### 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 are now accredited with the ISO 14001 Environmental Management standard and four more sites are actively targeting accreditation. The systems introduced will further assist in ensuring that Renold meets all legal requirements, continues its efforts in preventing pollution and improves its environmental performance across all its activities.

### Carbon Reduction Commitment scheme

Renold remains compliant with the UK Government's Carbon Reduction Commitment scheme, submitting both a carbon footprint report and annual return to the Environment Agency on behalf of the impacted UK sites.

# Corporate social responsibilities

## continued

The Group continues to strive to reduce its energy costs and the impact of its activities on the environment. With this aim in mind, there have been a number of environment related improvement initiatives during the year ended 31 March 2014, including the following:

- Our German Chain facility has applied improved waste streaming to ensure maximum recovery and re-use opportunities where waste is generated. In addition, heat from the heat treatment ovens is recovered to provide work environment warming.
- Energy efficient lighting introduced at our Australian and US facilities has replaced inefficient fluorescent fittings.
- Chemical spill team training and simulations have been conducted to prepare a rapid and appropriate response in the event of an on-site spill occurring.
- Hazardous waste generation has been reduced by 21% within the paint process at our US Torque Transmission facility.
- A project to cure air leaks and introduce improvements in the efficiency of air compressors at a UK Torque Transmission facility is lowering electricity consumption.

### Greenhouse gas (GHG) emissions

The Group is committed to minimising the impacts of its business operations on the environment and our policy is to co-operate with government bodies, regulators, suppliers and customers to develop and achieve improved standards of environmental protection.

Effective environmental management is integral to the Group's business strategy and we endeavour to achieve the highest practicable environmental standards of performance to ensure compliance with our statutory obligations. To support good environmental stewardship our manufacturing facilities have an active programme to implement environmental management systems compliant to ISO 14001. This provides an opportunity not only to identify the environmental impacts of the business but to consider opportunities to manage and optimise energy usage. This approach to both existing processes and new projects is embedded within our business model and will feature in the business's developing carbon management plan.

The reporting of carbon emissions is undertaken at many facilities in compliance with local country legislation. However, the financial year ending 31 March 2014 will see the first unified GHG report of all locations controlled by Renold. A 'trial' reporting project, conducted in 2013, allowed us to verify our global reporting process. This provided the opportunity to resolve any practical issues identified, ahead of the final data reporting.

After setting the organisational boundary using the financial control approach all Scope 1 and 2 emissions, as defined below, arising from the assets and operations within this control boundary are reported for the period 1 April 2013 to 31 March 2014. 100% of operational boundary emissions for entities within the organisational boundary have been reported.

Using this 12 month period avoids the need to include consumption estimations when calculating the emissions for Scope 1 combusted fuel and Scope 2 purchased electricity. Scope 3 emissions are not reported.

The organisational boundary is the boundary that determines the operations owned or controlled by the reporting company. The operational boundary is the boundary that determines the direct and indirect emissions associated with operations owned or controlled by the reporting company. Both are as defined by the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard issued in May 2013 (GHG Protocol). The operational boundary assessment allows a company to establish which operations and sources cause direct and indirect emissions, and to decide which indirect emissions to include that are a consequence of its operations.

The financial control approach is where the company has the ability to direct the financial and operating policies of the organisation with a view to gaining economic benefits from its activities, as defined in the Environmental Reporting Guidelines: Including Mandatory Greenhouse Gas Emissions Reporting Guidance, June 2013.

### Greenhouse gas emission sources

**Scope 1** (Direct emissions) from activities owned or controlled by our organisation that release emissions into the atmosphere.

**Scope 2** (Energy indirect emissions) released into the atmosphere associated with our consumption of purchased electricity, heat, steam and cooling. These are indirect emissions that are a consequence of our organisation's activities but which occur at sources we do not own or control. Our reported Scope 2 emissions are limited to those associated with purchased electricity as no location within the business purchases steam, heating or cooling from a third party.

**Scope 3** (Other indirect emissions) arising as a consequence of our actions, which occur at sources which we do not own or control and which are not classed as Scope 2 emissions.

We have engaged a third party consultancy (EEF: The Manufacturers' Association) with expertise in converting utility usage into carbon emissions to provide advice and review the ongoing data collection process. In addition, EEF undertakes an assurance audit on the 12 months reported data.

CO<sub>2</sub>-e is the unit of measurement to indicate the global warming potential (GWP) of each of the six greenhouse gases, expressed in terms of the GWP of one unit of carbon dioxide. It is used to evaluate releasing (or avoiding releasing) different greenhouse gases against a common basis.

The combined CO<sub>2</sub>-e emissions arising from owned transport and fugitive refrigerant gases were calculated to be 0.6% of the total emissions. We considered these emissions to be immaterial and they are not therefore included in the final reported figures for CO<sub>2</sub>-e.

To ensure we have the ability to compare future years to our base year we have adopted an intensity measure where we express the combined Scope 1 and 2 GHG emissions as tonnes of CO<sub>2</sub>-e per £m external revenue for the financial year ending 31 March 2014.

#### Global GHG emissions data for period 1 April 2013 to 31 March 2014

	Tonnes CO <sub>2</sub> -e
Scope 1 emissions	11,175
Scope 2 emissions	21,353
Company's chosen intensity measurement: Total emissions reported above normalised to £m external revenue for the financial year ending 31 March 2014	176.8

Our report methodology has used the GHG Protocol, data gathered to fulfil our requirements under the CRC Energy Efficiency scheme, and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014. Conversion of the source data into equivalent emissions was undertaken using the DEFRA (Department for Environment, Food and Rural Affairs) datasets 'Greenhouse Gas Conversion Factor Repository' which can be found on their website [www.ukconversionfactorscarbonsmart.co.uk](http://www.ukconversionfactorscarbonsmart.co.uk).

Where possible emissions have been calculated based upon direct measurement or purchase invoices of fuel and energy. In other cases including those in relation to some Group transport and refrigerant gases it has been necessary to make consumption estimations. Where there is considered significant uncertainty in the activity data used, this will be identified. An overall ranking of uncertainty will be applied (high, good, fair or poor) so activity data quality is made using an internal procedure consistent with that suggested by the GHG Protocol Chapter 7.

The baseline will be amended where a variation of 5% or more results from acquisition and divestment or significant change in reporting methodology.

#### Community

We aim to be a part of the communities in which we work and seek to assist local projects with support where possible.

We encourage volunteering and working with local educational institutions in the promotion and raising of awareness of engineering and manufacturing.

Whilst the Group is not currently in a position to provide financial support to local projects, it is the Board's intention to review this in the future as part of a wider review of the Group's corporate social responsibility policy.

#### 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 potentially permanently employed in some of our factories.

In the UK, we have an Apprentice Training School at the Renold Gears facility. Apprentices spend their first year learning basic engineering skills, before transferring to the shop floor 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 14 apprentices in the Training School at various stages of a four year programme.

Our German Chain facility currently employs 18 apprentices. There are a number of different types of apprenticeship in Germany for school leavers, the various roles including bachelor of engineering, bachelor of business administration, industrial clerk, industrial mechanic and toolmaker. In addition to role specific training, wider education and experience is also offered from exchange programmes with other local companies, participation in simulated business competitions, training and attendance at business exhibitions.

In addition to traditional apprentice schemes, Renold also employs school leavers at a trainee level in the UK who continue to progress through higher education on a day release basis. Currently there is one trainee member in the sales team and three trainees working in finance. Extensive training in the areas in which the trainees work is given internally to complement the external courses being undertaken.

Renold also continues to liaise closely with various universities which conduct relevant research. We serve our engineering pipeline through these relationships with key universities and through sponsorship.

#### Strategic Report approval

The Strategic Report, on pages 2 to 43, incorporates the Highlights, Understanding Renold, Chairman's letter, Chief Executive's strategic overview, Our performance, Finance Director's review, Principal risks and uncertainties and Corporate social responsibility report and was approved by the Board on 27 May 2014.

For and on behalf of the Board

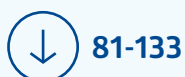
**Louise Brace**  
Company Secretary  
27 May 2014



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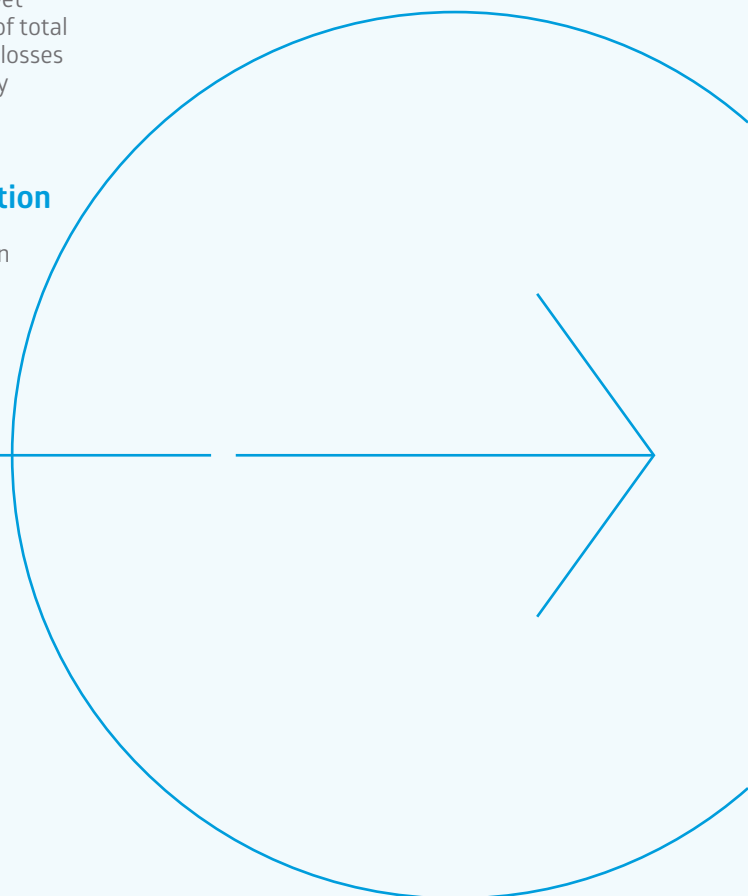
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# Corporate Governance report

## Chairman's letter



**“The Group is committed to and recognises the importance of high standards of corporate governance and behaviour. We believe that good corporate governance leads to good business and is an essential basis for long term corporate success.”**

**Mark Harper**  
Chairman

Following the appointment of Robert Purcell as Chief Executive on 1 January 2013, this has been the first full financial year since the newly constituted Board has taken effect. On behalf of the Board, I am pleased to present the Corporate Governance report for the year ending 31 March 2014.

In this report, we explain the Group's approach to corporate governance and provide the information required of us by the Governance Code. We therefore detail how the Company is directed and controlled via the Board and its Committees, and importantly how the Board considers its own effectiveness. Also in addressing the governance structure of the Group, we set out how the Board oversees risk monitoring and internal control.

We include a section in this report addressing how the Company communicates with shareholders. I would like to take this opportunity to emphasise that in addition to the prescribed methods by which we communicate with shareholders, for example the AGM, we are pleased to receive feedback from shareholders at all times.

Finally, we include separate reports of the Audit (at pages 53 to 57) and Nomination Committees (at pages 58 and 59) and the Directors' Remuneration report (at pages 60 to 74), all of which are incorporated into this report by reference.

### Compliance with the Governance Code

The Group is committed to high standards of corporate governance in order to facilitate efficient, effective and entrepreneurial management of the Company. The Board acknowledges its contribution to achieving management accountability, improving risk management and ultimately to creating shareholder value over the longer term.

The Governance Code sets out guidance for companies with a premium listing in the form of main principles and specific provisions of good governance.

The rules of the FCA require listed companies incorporated in the UK to disclose, in relation to the Governance Code, how they have applied those principles and whether they have complied with the provisions throughout the financial year.

The Governance Code is available to view on the FRC's website at [www.frc.org.uk](http://www.frc.org.uk).

The Board reviews its compliance with the Governance Code regularly and considers that the Company has complied with all provisions set out in the Governance Code that are applicable to it throughout the year ended 31 March 2014, except where highlighted in this report.



# Board of Directors

The Board provides entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed.

On these pages, we set out the age, tenure and biographical details of each Board member and the Company Secretary.

For details of how our governance structure works, including how the Board and its Committees are composed and how they work, see pages 48 to 52.



Mark Harper, Chairman

Committee memberships



Appointment to the Board

May 2012

Experience

Mark, aged 58, was appointed to the Board as a Non-Executive Director and Chairman-elect on 1 May 2012. He took on the role of Chairman at the close of the Annual General Meeting on 12 July 2012. Prior to joining Renold, 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. He also held a number of senior operational management positions within Bunzl plc, being appointed to the Bunzl plc Board in September 2004 and has previously acted as a Non-Executive Director of BBA Aviation plc.



Robert Purcell, Chief Executive

Committee memberships







Appointment to the Board

January 2013

Experience

Robert, aged 52, joined the Group on 21 January 2013 as Chief Executive. Prior to joining Renold, Robert was Managing Director of Filtrona plc's Protection and Finishing Products Division. He has also held a Managing Director role at Low and Bonar plc within its technical textiles business. His early career was in operational management within Courtaulds plc, during which time he gained an MBA from the Cranfield School of Management.

Committee memberships key:

-  Audit Committee
-  Nomination Committee
-  Remuneration Committee
-  Executive Risk Management and Monitoring Committee



**Brian Tenner, Finance Director**

#### Committee memberships



#### Appointment to the Board

September 2010

#### Experience

Brian, aged 45, joined the Group in September 2010 as Finance Director. Until 31 August 2010, he was Group Finance Director and a member of the Board of Scapa Group plc. Prior to this, he was Group Finance Director for the former British Nuclear Group. Brian held various Finance Director posts within National Grid and his first industry role was as Head of Investor Relations of 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.



**John Allkins, Senior Independent Non-Executive Director**

#### Committee memberships



#### Appointment to the Board

April 2008

#### Experience

John, aged 64, was appointed to the Board and to the chair of the Audit Committee in April 2008 and became the Senior Independent Non-Executive Director on 21 January 2013. John brings strong relevant technical experience to the role having served as the finance director of the publicly quoted companies MyTravel Group plc and Equant NV. Since 2007, he has served as a Non-Executive Director on a number of boards of public and private companies and is currently a Non-Executive Director of Fairpoint Group plc, Punch Taverns plc, Nobina AB and Vollex plc. John is a fellow of the Chartered Institute of Management Accountants.



**Ian Griffiths, Non-Executive Director**

#### Committee memberships



#### Appointment to the Board

January 2010

#### Experience

Ian, aged 63, was appointed to the Board in January 2010 and to the chair of the Remuneration Committee in November 2010. His appointment to both was extended in January 2013. He was previously Managing Director of Royal Mail Letters and a Director of Royal Mail Holdings plc. He has also been a Non-Executive Director of Ultra Electronics Holdings plc and held Executive Director roles at GKN plc and GKN Holdings plc where he was Group Managing Director, GKN Automotive.



**Louise Brace, Group Legal Manager and Company Secretary**

#### Date of appointment

November 2012

#### Experience

Louise, aged 41, joined Renold as Group Legal Manager in June 2012 and was appointed Company Secretary in November 2012. Louise qualified as a solicitor at a leading City law firm in 1998 and specialised in London market insurance litigation and insurance insolvency until 2003. She then held senior roles in private practice at Addleshaw Goddard LLP and Pannone LLP, advising in relation to commercial litigation and dispute resolution.

# Group governance structure

The Board is collectively responsible for the effective oversight of the Group and its businesses.

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

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

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. As part of the Board's oversight of operations, it must ensure maintenance of a sound system of internal control and risk management.

## The Board and its Committees

The Board delegates authority to a number of Committees to deal with specific aspects of the management and control of the Group. These Committees are summarised below and details about the structure and activities of each are set out in the separate Committee reports. The Committees communicate and work together where required.

Audit Committee	Remuneration Committee	Nomination Committee
Oversees the Company's financial reporting and internal controls and their effectiveness, together with the procedures for identifying, assessing and reporting risks. It also oversees the services provided by the external auditors and their remuneration.	Determines remuneration policy and practices to attract, motivate and retain high-calibre Executive Directors and other senior employees to deliver performance for all our stakeholders and ensure a close alignment of executive pay to the Company's strategic objectives and performance.	Responsible for considering the structure, size and composition of the Board and Committees, and succession planning. It also identifies and proposes individuals to be Directors where new appointments are to be made and leads that process.
<b>Report at pages 53 to 57</b>	<b>Report at pages 60 to 74</b>	<b>Report at pages 58 and 59</b>

### Executive Risk Management and Monitoring Committee

Led by the Chief Executive, the principal role of the Executive Risk Management and Monitoring Committee is to evaluate and manage the risks to the Group.

**See further at pages 51 and 52**

Attendance at Board and Committee meetings during the year is set out on page 50.

### Committee membership and terms of reference

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.

As a result of changes to the Governance Code and new legislation, a full review of the schedule of matters reserved for the Board and the terms of reference for each of the Committees has been carried out during the year. Revised terms have been implemented as a result and are available on the Company's website at [www.renold.com](http://www.renold.com).

Louise Brace has acted as secretary to the Committees during the year ended 31 March 2014. The revisions to the terms of reference of the Remuneration Committee included an amendment to provide for the Group Company Secretary to act as secretary of that committee, the role previously having been undertaken by the Group HR Director.

### Board focus during the year

During the year ended 31 March 2014, the Board has provided its main focus on the following matters:

- Review of Group strategy;
- Project to review manufacturing capacity in the Chain Division;
- Health and safety performance;
- Pension liabilities;
- Balance sheet;
- Margins and profitability;
- Cashflow;
- Organisational development; and
- Consideration of the new Governance Code.

### Expected Board focus for next year

The Board will continue to review the matters listed above, including the completion of the project to review manufacturing capacity. In addition it is anticipated that the following areas will form areas of focus for the Board for the year ended 31 March 2015:

- Continued review of strategy and supporting the Chief Executive in developing the Group's strategic plan;
- Organic growth opportunities;
- Customer service enhancement;
- Financial performance;
- Succession planning; and
- ERP effectiveness.

### Board composition

There have been no changes to the composition of the Board during the year ended 31 March 2014, there being a balance of Executive and Non-Executive Directors. Currently, the Board comprises a Non-Executive Chairman, two Non-Executive Directors and two Executive Directors.

The Board's consideration of its composition in the context of its diversity is more fully detailed in the Nomination Committee report on pages 58 and 59, together with a statement on the Board's diversity policy.

The members of the Board maintain the appropriate balance of status, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities and to ensure the Board is of a sufficient size that the requirements of the business can be met.

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 responsibility for managing the business and implementing the strategy agreed by the Board.

Biographical and experience details of the current Directors appear on pages 46 and 47. Details of Committee membership and attendance are set out on page 50. For further details of the Directors' service contracts and letters of appointment are set out in the Directors' remuneration report.

### Director induction and development

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.

The training needs of the Board are discussed as part of the Board performance evaluation process. Updates are provided to the Board at regular intervals in order to refresh the Directors' knowledge.

The Company has a detailed framework for the induction of new Directors. This includes the issuing of all key documents relating to the new Director's role on the Board to the new Director, as well as site visits and face-to-face meetings with senior executives. Upon joining the Group in January 2013 and throughout the year ended 31 March 2014, Robert Purcell has visited all Renold's sites on at least one occasion including those in the US, China, Australia, India and Germany. The Board itself has met at Renold manufacturing sites in the UK, China and India during the year.

### Non-Executive Director independence

The Non-Executive Directors throughout the year are considered to be independent in character and judgement. The Board 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. The balance between Non-Executive and Executive Directors allows independent challenge to the Executive Directors and senior management.

# Group governance structure

## continued

### Board evaluation and effectiveness

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 planned and 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.

Evaluations of the Board (including of the Chairman), the Audit Committee, the Nomination Committee and the Remuneration Committee were carried out during the year ended 31 March 2014.

The evaluation process commences with the completion of a written questionnaire for each separate review, compilation of a summary of the results and feedback obtained and then discussion between the participants.

In accordance with the Governance Code, the evaluation process also included a number of discussions during the year between the Chairman and the Non-Executive Directors, without the Executive Directors present, to discuss feedback arising from the process and the performance of each Executive Director. The Senior Independent Director also met with the other Directors as part of the Chairman's performance evaluation process.

### Election of Directors

The Governance Code recommends that all Directors of FTSE 350 companies should be subject to annual election by shareholders. This provision is not applicable to the Company. However, with a view to complying voluntarily with all terms of the Governance Code where possible, the Board has considered this provision in conjunction with its review of the new terms of the Governance Code. As a result, the Board has agreed that all Non-Executive Directors will be subject to annual election. Given the size of the Company, it would not be practicable for the two Executive Directors to be subject to annual election.

### Board and Committee membership and attendance

The Board meets on a regular basis with an agenda and necessary papers for discussion distributed in advance of each meeting. The meetings are scheduled to coincide with the internal financial reporting timetable of the Company and key events including interim and final results and the AGM.

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	Executive Risk Management and Monitoring Committee
Brian Tenner*	9	4	–	3	4
John Allkins	9	4	1	6	–
Ian Griffiths	8	3	1	6	–
Mark Harper*	9	4	1	6	–
Robert Purcell*	9	4	–	5	4
Total number of meetings	9	4	1	6	4

\* Robert Purcell, Mark Harper and Brian Tenner attended Remuneration Committee and/or Audit Committee meetings or parts thereof by invitation.

There has been one instance of non attendance by a Board member during the year. This was considered and determined to be reasonable due to individual circumstances. Otherwise, there has been full attendance of members at all Board and Committee meetings.

### Risk monitoring and 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 FRC's 'Internal Control: Revised Guidance for Directors on the Combined Code (October 2005)', for 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 2014 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. This review includes a report from the Executive Risk Management and Monitoring Committee at each meeting of the Audit Committee. Further details of the Audit Committee's oversight of the Executive Risk Management and Monitoring Committee can be found in the Audit Committee report on page 55.



During the year ended 31 March 2014, 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:

- an Executive Risk Management and Monitoring Committee which oversees, on behalf of the Audit Committee and, ultimately, the Board, that appropriate policies are implemented to identify and evaluate risks. A critical review project commenced in the previous year to ensure that the risk management processes continue to meet the requirements of the Group Board. This has led to further changes in the current year and ensures continuous improvement. Output from the new risk management processes, comprising risk profiles and full action tracking, have been subject to review by each meeting of the Audit Committee to ensure that risks deemed to be significant are receiving commensurate management attention;
- access for all Group employees to a free of charge, independent whistle blowing 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 have been achieved from the standardisation of processes and core transactional controls as supported by the implementation of the ERP system.

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](http://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. Separate Group policies also address Anti-Corruption and Gifts and Hospitality.

#### Control over financial reporting

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 IFRS; 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.

#### Executive Risk Management and Monitoring Committee

The principal role of the Executive Risk Management and Monitoring Committee is to evaluate and manage the risks to the Group.

The Executive Risk Management and Monitoring Committee is chaired by the Chief Executive Robert Purcell and is comprised of the Executive Directors. The Chairman invites attendance to the Executive Risk Management and Monitoring Committee of any employee as appropriate depending upon the nature of the risks to be considered at any one time.

The following people currently attend by invitation: the Group Business Systems Director, the Group HR Director, the Group Head of Business Process and Assurance and the Group Legal Manager and Company Secretary.

# Group governance structure

## continued

The Executive Risk Management and Monitoring Committee meets quarterly and reports to the Audit Committee at least twice each year. During the year ended 31 March 2014, the Executive Risk Management and Monitoring Committee met four times. Details of the attendance by the Executive Directors can be found at page 50.

The Executive Risk Management and 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 Executive Risk Management and Monitoring Committee reports to the Audit Committee.

### 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 Strategic Report on pages 2 to 43.

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](http://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 Executive Risk Management and Monitoring Committees, together with the 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.

# Audit Committee report



“Consistent with the Group’s strategic drive to improve our basic business processes, we have focused our efforts on ensuring that the major change projects that are ongoing are appropriately controlled and monitored. This serves to ensure the accurate tracking of performance but more importantly to ensure that financial control is maintained during this period of significant change.”

**John Allkins**  
Audit Committee Chairman

## Audit Committee members and meetings attended

Names	Position	Meetings attended
John Allkins	Chairman	4 of 4
Ian Griffiths	Non-Executive Director	3 of 4

In addition to the oversight of the major change initiatives underway in the business as a whole, we are implementing continuous improvements in the financial control and risk monitoring environment. Our aim is to ensure that the new and more efficient business processes are matched with appropriate embedded financial controls.

## Key objective

In support of the Board’s duty of stewardship, the Committee aims to ensure appropriate corporate governance is applied to the Group’s systems of internal control, risk management and other compliance matters. The Committee also monitors the integrity of financial information published externally for use by shareholders. We ensure that the integrity of the financial statements are supported by an effective external audit.

## Governance

The terms of reference of the Audit Committee appear on the Company website at [www.renold.com](http://www.renold.com).

## Responsibilities

- Reviewing the Group’s financial results, announcements and financial statements;
- Reporting to the Board on the appropriateness of existing accounting policies and the manner in which they are applied across the Group;
- As a matter of course, confirming that the Going Concern basis remains appropriate for preparing the financial statements;
- Advising the Board on the application of any new or modified accounting and reporting standards;
- The Board has delegated to the Committee responsibility for advising on the adequacy of the processes required to confirm that the Annual Report and Accounts, when taken as a whole, are fair, balanced and understandable and include the information necessary to allow shareholders to assess the Group’s performance, business model and strategy;
- Oversight of the Internal Audit function;
- Reviewing the annual internal audit plan including detailed reviews of areas of focus;
- Oversight of the relationship with the external auditor, including the appointment and, where appropriate, re-appointment of the external auditor;
- Assessing and making recommendations to the Board on the activities and reporting from the Group’s Executive Risk Management Committee;
- Reviewing and reporting to the Board on the Group’s internal control and compliance processes;

# Audit Committee report

## continued

- Reviewing the procedures for responding to whistle blowing, fraud or potential breaches of anti-bribery legislation and oversight of any and all reports summarising the concerns raised, how they were investigated and the response to the same;
- The Committee reports to the Board at appropriate times on how it is discharging its responsibilities.

### Composition

The Committee was chaired by me during the year. The second member of the Committee is Ian Griffiths, also an independent Non-Executive Director.

The composition of the Committee therefore remains unchanged in the year and complies with the requirements of the Governance Code for a smaller company, this being to have two independent Non-Executive members.

Biographical details and experience of members are set out on pages 46 and 47.

### Expertise

The Committee members have been selected to give an appropriate range of financial, commercial and risk management expertise to allow the Committee to fulfil its duties. The Board considers that I have recent and relevant financial experience as required by the Governance Code to perform the role of Committee Chairman.

### Committee meetings

The Committee meets at least four times each year. During the year ended 31 March 2014 the Committee met four times. The meetings are attended by the independent non-executive directors (the members), the Company Secretary and, by invitation, the Chairman, the Chief Executive, the Group Finance Director and the Group Head of Risk and Assurance. Full details of director attendance during the year are set out in the table of all Committee meetings on page 50.

Other members of the Group's management team are also invited to attend to present or respond to queries on particular areas of focus. Our external auditor, EY, also attended the Committee meetings. Each meeting includes an opportunity for the external auditors to raise any matters in confidence which they consider should be brought to the attention of the Committee without the Executive Directors present.

### Main activities of the Committee during the year Significant issues considered in relation to the financial statements

The Committee monitors the integrity of the Company's financial information and other formal documents relating to its financial performance and makes appropriate recommendations to the Board before publication.

A key factor in the integrity of financial statements is ensuring that suitable and compliant accounting policies are adopted and applied consistently on a year-on-year basis and across the Company. In this respect, the Committee also considered the estimates and judgements made by management when accounting for non-standard transactions, the treatment of exceptional items and in provision calculations.

These considerations are supported by input from other assurance providers, for example, the Group's actuarial advisers, the Group Internal Audit and Assurance team as well as our external auditors.

Summarised below are some of the significant issues the Committee considered in relation to the financial statements during the year. These are separated into items of particular focus this year and items on which the Committee would normally spend some time on.

#### Reporting of exceptional items (current year focus item: See Note 2(c) to the financial statements on page 99)

For a second year in succession the size and scale of the current restructuring activities has created a number of exceptional items within the Group's income statement. The Committee has reviewed each of these items to ensure that they genuinely need to be excluded to allow a user of the accounts to form an accurate assessment of the performance of the underlying business.

#### Impairment of tangible assets (current year focus item: See Notes 2(c) and 8 to the financial statements on pages 99 and 103 respectively)

The project to close the UK Chain Bredbury facility led to a significant pool of potentially impaired tangible assets (whether property, plant and equipment or stock). A Committee member therefore attended the regular project steering committee meetings and separate discussions were held with the Project Manager.

In addition to ensuring that appropriate controls were in place to ensure that economic value was not lost in the execution of the closure plan, the Committee also reviewed the basis on which assets were either written down at the year-end or maintained in the balance sheet with positive carrying values. The Committee also reviewed the Bredbury assets that were impaired at the prior year end to ensure that the assumptions made at that time were still valid. The review of tangible assets has led to further net write offs of £0.6m.

**Defined Benefit Pension Accounting (recurring annual item:  
See Note 18 to the financial statements on pages 110 to 115)**  
During the year the Group adopted the modified accounting standard IAS 19, Employee Benefits as described in more detail in Note 18 and Accounting Policies on page 90. The new standard had a material impact on the Group's net pension financing charge particularly for the UK defined benefit schemes and required prior year results to be re-stated (the details of these changes are set out in the Accounting Policies on page 90). Pension accounting is a relatively complex matter and the Committee devoted a significant amount of time to assessing the impact of the modified standard and the appropriate reporting thereof. The Committee concluded that the costs of administering the closed defined benefit pension schemes

should be included in operating profit but, for the purposes of assessing underlying performance as reported in adjusted operating profit and adjusted EPS, should be excluded from these calculations, as the costs relate to closed legacy pension schemes that have no bearing on relevance to understanding the underlying performance of the ongoing business: see Note 18 to the financial statements on pages 110 to 115.

Pension accounting is also an area where values are very sensitive to management judgement and estimates. As has been the case for a number of years, the Committee reviews management estimates compared to third party benchmarks and also receives expert input from the actuarial team at EY on the reasonableness of the assumptions used. As a result of those reviews the Committee was satisfied that the assumptions are within an acceptable range and no changes were made to management assumptions.

As part of the review of defined benefit pension accounting the Committee also reviews the carrying value and recoverability of the deferred tax assets which are the corollary of the gross pension deficit. The Committee was satisfied that the extended duration of the pension liabilities in Germany and the UK, and their priority in recognition, justified the extended recovery periods for the associated deferred tax assets which were also fully supported by future expectations.

**Review of carrying value of intangible assets, deferred tax assets and investments in subsidiary undertakings (recurring annual item: see Note 7 to the financial statements on pages 102 and 103 and Note 17 on pages 108 and 109)**

The Group holds a number of valuable assets such as goodwill and deferred tax. In addition, the parent company and other subsidiary holding companies also hold investments in various subsidiaries. The judgements on the carrying value of these assets are normally a key area for Committee scrutiny. These are areas where management estimates play a key role in supporting the carrying values reported in the balance sheet. The Committee reviews the assumptions underlying the discounted cash flow calculations and the likelihood of long term recovery of the asset values. The details of the impairment review and the sensitivities performed are in Note 7 pages 102 and 103. Short term cash flows are confirmed by reference to the Board approved budget for the following year and this is also a key area of focus for the external auditors.

**Review of inventory valuation and provisioning (recurring annual item: see Note 11 to the financial statements on page 106)**

As a manufacturer the Group adds value to raw materials as part of its normal production processes. In order to provide shorter lead times and better customer service the Group also holds a significant amount of stock. The Committee reviews the valuation bases and application of the Group's policy on providing for slow moving and obsolete stock. The Committee is satisfied that the net book value shown in Note 11 on page 106 is appropriate and that any management judgements formed in arriving at those values are reasonable.

Other matters reviewed by the Committee:

→ the revised corporate risk reporting and mitigation policy;

→ the revised annual process for control self-assurance and reporting;

→ the accounting for the charges under the new 2013 Performance Share Plan;

→ the programme to improve the efficiency of financial control processes in the business;

→ the training and update programme covering business ethics and anti-bribery legislation and awareness;

→ recordability of trade debtors and adequacy of doubtful debt provision; and

→ going concern assumptions and scenario modelling.

**Internal control, risk and compliance**

We evaluate regularly the integrity of financial reporting and the robustness of internal controls to ensure compliance with applicable legal and internal requirements. We also review the Group's policies and procedures which are designed to identify material business risks, ensuring that excessive risks are treated so that these operate within acceptable tolerances.

During the year enhanced risk management techniques have been implemented. These are derived from the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and the international risk standard ISO 31000.

The Executive Risk Management and Monitoring Committee and the Audit Committee receive regular reports from the Group Head of Risk and Assurance, to convey the status of risk profiles and actions arising from the risk assessment process. The Executive Risk Management and Monitoring Committee reports the results of its discussions to the Committee.

The Group's management team makes regular use of an integrated risk management system which is delivered via the Group's intranet. This system facilitates both the identification of risks and their relative priority in each functional area or each geographic location. The system also allows users to develop and implement action plans to mitigate those risks. The system has extensive reporting functionality that allows senior management and the Executive Risk Management and Monitoring Committee to review progress in mitigating the risks faced by the Group.

Further details of our internal control and risk management systems, including over the financial reporting process, can be found on pages 50 to 52 in the Corporate Governance Report with our risk factors in full in the Strategic Report on pages 36 to 38.

**Confidential reporting procedures and whistle blowing**

The integrity of the financial statements is further supported by the confidential reporting and whistle blowing procedures in place. The Committee reviews these procedures once a year to ensure that appropriate processes are in place to treat complaints confidentially and implement proportionate, independent investigation in all cases. Visibility and accessibility of communications to staff on whistle blowing policy are regularly reviewed by the Committee including first hand inspection during site visits.



# Audit Committee report

## continued

### Internal audit

The Committee receives and considers reports on the control environment from the Group Head of Risk and Assurance. These reports highlight key improvement themes and recommend areas for business focus, with additional observations provided around root cause analysis and cultural and behavioural themes. In addition, the Committee has visibility of management responses and action tracking via the Group's Integrated Risk Management System. The audit plan, which contains mandatory, risk-based and cyclical reviews, was approved by the Committee in February 2013, and was built around focus areas such as organisational change, major projects, security, business resilience and capital spend.

The annual Internal Audit plan is built on a risk-based approach for the majority of work, but also includes an element to ensure coverage of key processes over a defined period. The inherent risk of each process is assessed and in turn is used to inform audit frequency, with elements of higher risk processes being audited on a more frequent basis. The Committee supports this approach and comments on particular areas of focus or concern that we wish to see addressed.

### External audit

The Committee is responsible for overseeing relations with the external auditors, including the approval of fees, and makes recommendations to the Board on their appointment and, where appropriate, reappointment based upon reviews of audit effectiveness.

Details of total remuneration for the auditors for the year, including audit services, audit related services and other non-audit services, can be found in Note 2(b) of the consolidated financial statements on page 98.

### Auditor independence and objectivity

The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Auditor independence and objectivity is safeguarded by limiting the nature and value of non-audit services performed by the external auditors. The Group has a policy of not recruiting employees of the external auditors who have worked on the audit in the past two years to senior financial positions within the Group, and the rotation of the lead engagement partner at least every five years. The current lead engagement partner has held the position for three years.

### Non-audit services provided by the external auditors

The Committee is responsible for ensuring that an appropriate relationship is maintained between the Group and the external auditor. Non-audit services can only be provided by the external auditors if there is no potential conflict of interest or material risk of values being included in the financial statements that have both been advised on and audited by the external auditors.

To safeguard the independence and objectivity of the auditor, the Committee has approved a policy on non-audit services provided by the auditors in line with professional practice and in accordance with ethical standards published by the Audit Practices Board. 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 Committee. This policy is available on the website at [www.renold.com](http://www.renold.com).

During the year ended 31 March 2014, the 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 2015.

Approval is also given on the basis the service is a natural extension of the audit or if there are overriding business or efficiency reasons making the external auditors most suited to provide the service. Certain services are prohibited from being performed by the external auditors.

Total non-audit services provided by EY during the year ended 31 March 2014 were £0.2m (2013: £0.3m) which comprised 46% (2013: 88%) of total audit and audit related fees. Total audit and audit related fees include the statutory audit fee and fees paid to EY for other services which the external auditors are required to perform, for example reporting to banking partners in territories where no statutory accounts are required to be prepared. Non-audit fees represent all other services provided by EY not included in the above. Significant non-audit services provided by EY in the year included tax advisory and compliance services (£0.1m) that were provided in territories where it would be prohibitive for the Group to employ its own full time tax manager.

The Committee considered that some overseas tax advisory and compliance services were most efficiently provided by the external auditors as much of the information used in preparing computations and returns is derived from audited financial information. In order to maintain the external auditors' independence and objectivity, Group and local management reviewed and considered EY's findings and EY did not make any decisions on behalf of management.

The Committee also discussed the level of fees and considered them appropriate given the current size of the Group. The 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.

### Audit focus

To ensure appropriate focus on key risk areas identified by the Committee, before the audit commences, the Committee reviews and challenges the proposed external audit plan to ensure that EY have developed appropriately targeted audit procedures. These are closely aligned with the current year focus items noted above in the section *Main activities of the*

*Committee during the year.* They also reflect the relative changes in profitability and materiality of each of the Group's operating units during the year (in some cases as a result of the ongoing restructuring activities).

#### Assessment of effectiveness of external audit and reappointment

The Committee has a formal system for evaluating the performance and independence of the external auditors. This system involves active dialogue with the Lead Engagement Partner, a formal questionnaire and feedback process involving senior management in direct contact with the audit team, and EY's response to accounting, financial control and audit issues as these arise.

An annual review is conducted by the Committee of the structure and approach taken in the external audit, the level of non-audit fees, and the effectiveness, independence and objectivity of the external auditors. This includes consideration of:

- the global external audit process;
- the auditor's performance;
- the expertise of the firm and our relationship with them; and
- the results of the questionnaire process.

Following the review the Committee makes a recommendation to the Board on the reappointment of the external auditors.

Following this year's annual review, the Committee was satisfied with the effectiveness, independence and objectivity of the external auditors, and recommended to the Board their reappointment for a further year. A resolution to reappoint EY and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2014 AGM.

#### Audit tender

EY were first appointed as the Company's external auditors in 2007 following a tender process where assessment criteria included quality of service, qualifications, expertise, independence, effectiveness and scale of international network to service the Company.

The Governance Code requires FTSE 350 companies to put the contract for audit services out to tender at least once every ten years. While the Company is not covered by this requirement, as part of the annual process to review the effectiveness and performance of the external auditors, the Committee considers whether a tender process would create an opportunity for a more effective audit. The Committee is able to draw on the experience of its members on the Boards of other listed companies with different external auditors to compare performance and effectiveness. The Committee is satisfied that the external audit quality and effectiveness is such that a tender would not add value at this stage and has therefore recommended the re-appointment of EY as noted above. The Company may put the audit out to tender at any time and there are no contractual obligations restricting our choice of external auditors and no auditor liability agreement has been entered into and I will be available at the AGM to answer questions. The Committee is aware of the differing

emphasis on the audit tender question being made by the EU and the UK Competition and Markets Authority. The Company will continue to comply with regulatory requirements once these are properly defined.

#### Audit information

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

#### Disclosure Committee

As part of the process of ensuring that all disclosures made by the Company are timely and accurate and meet the legal and regulatory obligations and requirements arising under the Financial Conduct Authority's Listing and Disclosure and Transparency Rules, the Group established a Disclosure Committee whose membership includes the Chairman of the Committee (as Chair), Group Finance Director, Group Chief Accountant, Company Secretary and the Group Head of Risk and Assurance.

The following additional activities were carried out by the Disclosure Committee:

- all those contributing were briefed on the new requirements of the Governance Code with specific emphasis on the fair, balanced and understandable requirements;
- a number of senior managers who were knowledgeable about the business but otherwise not involved in the preparation of the Annual Report and Accounts, each performed an independent review and their comments incorporated accordingly;
- as in previous years, a documented verification file of all substantive facts and assertions is maintained and reviewed for completeness prior to finalisation of the Annual Report and Accounts.

The Disclosure Committee presents its findings and recommendations to the Committee as part of its review of processes to enable the fair, balanced and understandable statement to be made.

We welcome feedback from shareholders on this report and I will be available at the AGM to answer questions.

**John Allkins**

On behalf of the Audit Committee  
27 May 2014

# Nomination Committee report



“The Nomination Committee plays a key role in the future success of the Company, leading the process in structuring the Board and making recommendations for changes. The nomination and appointment process is vital in ensuring that the Company has a Board with the right balance of skills and experience.”

**Mark Harper**  
Committee Chairman

## Nomination Committee members and meetings attended

Names	Position	Meetings attended
Mark Harper	Chairman	1 of 1
John Allkin	Non-Executive Director	1 of 1
Ian Griffiths	Non-Executive Director	1 of 1

## Role of the Nomination Committee

The Nomination Committee has delegated authority from the Board. The duties of the Nomination Committee include the following:

- to review the structure, size and composition of the Board and recommend any proposed changes;
- where new appointments of Executive and/or Non-Executive Directors are to be made, to lead that process and identify and nominate candidates to the Board; and
- to give full consideration to succession planning for directors and other senior executives, taking account of the challenges and opportunities facing the Company.

## Composition of the Nomination Committee

I chair the Committee and our two Non-Executive Directors are members of the Committee and have been so throughout the year. The Committee meets during the year as required.

## Policy on appointments to the Board

In accordance with the provisions of the Governance Code, when reviewing the Board structure, the Committee's primary objective is to ensure that the Executive and Non-Executive Directors have the relevant skills, knowledge and experience to create a balanced and effective Board and to support the Group in delivering its overall strategic objectives. This is in parallel with ensuring that the costs and composition of the Board reflect the size of business and also the current stage of development of the business. Our policy extends to ensuring that the various sub-committees of the Board also have an appropriate range of skills and experience to deliver their terms of reference.

In addition to skills and experience, we will also consider factors such as how an individual's personal attributes would complement and enhance the diversity on the Board. For the appointment of Non-Executive Directors, additional factors for consideration include independence and time commitment.

In selecting candidates for the short-list for any appointment, the Board always considers candidates from a wide range of backgrounds and on merit and against objective criteria.

The Board is already aware of the need to consider the benefits of diversity on the Board in all its aspects. The Board recognises that gender is one important aspect of diversity and while all current members of the Board are male, the Company Secretary, who is also the Group's most senior legal professional, is female. An analysis of the gender of all employees is set out in the Strategic Report on page 41. Other than in relation to gender, the current Board is diverse in terms of the different skill sets of each member. These include professional qualifications and career work experience but also wider experience relevant to our global business, most of the Board members having worked and lived overseas for significant periods for example.

Given recent changes to the Governance Code, the issue of diversity was specifically debated by the Board in November 2013 and a formal Board diversity policy adopted.

In any future changes to its composition, the Board will therefore continue to be mindful of the issues of diversity, including gender, and these factors will be taken into account alongside the over-riding objective of appointing the best possible candidate for the role.

The Board does not believe it is appropriate to set measurable objectives for the implementation of the policy at this time.

The Board supports the engagement of executive search firms who have signed up to the Voluntary Code of Conduct on gender diversity and best practice. The Board has most recently worked with Korn Ferry Whitehead Mann who themselves are signatories to the Voluntary Code.

As an international business with operations in multiple locations we employ a very diverse work force with a broad range of ethnicity which extends to senior management and leadership posts in the various territories.

The process for making appointments to the Board commences with the evaluation described above. The Committee will then seek to identify suitable candidates usually with the use of external recruitment consultants or, where appropriate, the use of open advertising. In addition to Korn Ferry Whitehead Mann, Odgers Berndtson also provide recruitment consultancy services to the Company. Neither of these firms have any other connection to the Company.

### Activities during the year

Here we set out the principal activities of the Committee during the year.

#### Diversity policy

Approval of the Board diversity policy: see details in adjacent column.

#### Board composition

The Committee discussed the current Board composition and more specifically a question posed to the Company on whether or not there are a sufficient number of Non-Executive Directors on the Board to achieve a balance of skills and experience. We consider that the Chairman of the Board and the two Non-Executive Directors have a strong range of technical knowledge and breadth of experience that is sufficient to deal with the operational and commercial activities, challenges and risks that the Group currently faces.

We are also conscious that the Company is in the turnaround phase of its strategic plan and that this involves reductions in staffing levels and pay restraint throughout the Group. We therefore consider that the current capability and cost of the Board is appropriate during this period of the Group's transformation.

While there have been no appointments to the Board during the year ended 31 March 2014, in the prior year there were a significant number of changes to the composition of the Board with the former Chairman standing down and being replaced and one of the Non-Executive Directors also standing down without a replacement. The new Chief Executive was appointed and took office in January 2013. The Group and the Board have therefore benefitted in this last year from the stability and continuity of membership.

### Mark Harper

On behalf of the Nomination Committee  
27 May 2014

# Directors' remuneration report

## Annual statement



“As Chairman of the Remuneration Committee I am pleased to present the Directors' remuneration report for the year ended 31 March 2014. During the year we made a number of changes to our remuneration policy which we believe enhance the alignment between Executive Directors' incentives and the interests of shareholders.”

**Ian Griffiths**

Chairman of the Remuneration Committee

This year's remuneration report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This amended Schedule 8 was introduced by the Department for Business, Innovation and Skills, for financial years ending on or after 30 September 2013 in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations).

Our report is now structured in two sections following this Annual Statement:

**Directors' remuneration policy** (pages 62 to 68) which sets out the Company's proposed policy on directors' remuneration for three years from the 2014 AGM. The directors' remuneration policy is subject to a binding shareholder vote at this year's AGM and after that at least every third year;

**Annual report on remuneration** (pages 69 to 74) which shows the implementation of the directors' remuneration policy. The annual report on remuneration together with this letter is subject to an advisory shareholder vote at the 2014 AGM.

Examples of new disclosures include the Chief Executive's total remuneration over the last five years (page 73), options vesting history and the spend on Executive Director pay in proportion to a number of key business metrics (page 73).

### Key responsibilities of the Committee

The 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, and the terms of the service contracts and all other terms and conditions of employment of the Executive Directors.

The overriding objective is to ensure that executive pay is strongly aligned to the Company's business priorities and the interests of shareholders. Our policy is also designed to attract, motivate and retain individuals who will deliver strong performance for all of our stakeholders. The Committee takes into account the pay and employment conditions of employees within the Group when determining Executive Directors' remuneration.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee ensures that the incentive structure for the Executive Directors will not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

### Key decisions and changes in remuneration policy

The Committee decided to leave all fixed elements of salary and benefits unchanged for both of the Company's Executive Directors. This aligns directly to the key strategic goal of lowering the Group's breakeven point. It also reflects the pay restraint that is in force in all Renold locations.

The maximum achievable annual bonus remains unchanged. The targets reflect the need to improve operating margins and reduce average levels of net debt, now structured as a matrix to ensure that one goal cannot be pursued at the expense of the other.



The 2013 Performance Share Plan (PSP) (approved by shareholders at the 2013 AGM) has been introduced to increase the alignment of Directors' remuneration with shareholder value, motivate the achievement of strong growth in the long term and increase the proportion of variable pay. It is a three year plan and the awards this year have required 50% growth each year in adjusted EPS for maximum vesting. As a result, it is both challenging and firmly aligned to shareholders' interests. This year growth of 129% in adjusted EPS has been achieved.

Finally, having undertaken a review of best practice in remuneration policy, provisions to enable awards to be clawed back prior to vesting have been introduced to the 2013 PSP as well as a shareholding requirement for Executive Directors. In addition, a provision has been added so that part or all of an annual bonus may be forfeited or sought to be clawed back in certain circumstances.

#### Committee membership

All members of the Committee are independent. Members of the Committee during the year are set out below and further biographical details can be found on page 46 and 47:

- Ian Griffiths (Chairman)
- John Allkins

#### Committee activities

The Committee's terms of reference require meetings to be held at least twice a year. This year, the Committee met on six occasions to discuss the following themes and agenda items:

Theme	Agenda items
Best practice	→ The Company's remuneration policy in light of the Regulations, and consideration of any AGM feedback → Review of the current UK corporate governance environment and the implications for the Company
Directors' remuneration policy	→ Consideration and approval of the remuneration policy as summarised in this report
Annual report on remuneration	→ Consideration and approval of the Annual report on remuneration to be put to shareholders
Executive Directors	→ The basic salaries payable to each of the Executive Directors → The annual bonus and payments for the financial year ended 31 March 2014 → The annual bonus structure and performance targets for the financial year ending 31 March 2015 → The Company's 2013 PSP and awards made during the year

The Committee is focused on clear reporting of past remuneration and future policy. We welcome feedback from shareholders on this new format of report.

#### Ian Griffiths

Chairman of the Remuneration Committee  
27 May 2014

The Company Secretary attends all Committee meetings. The Executive Directors and the Chairman attend meetings by invitation. No Director is involved in deciding his own remuneration, whether determined by the Committee, or in the case of the Non-Executive Directors, by the Board.

An evaluation of the Committee was undertaken and I can report that this review concluded the Committee has operated effectively.

The terms of reference of the Committee are available on the Company's website at [www.renold.com](http://www.renold.com). None of the Committee members has any personal financial interest (other than as shareholders) in the matters to be decided or any conflict of interest, cross-directorships or day-to-day involvement in the running of the business.

The Company's auditors are required to report on certain parts of the Directors' Remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the relevant accounting regulations. Audited sections of the report are indicated accordingly.

# Directors' remuneration report

## Directors' remuneration policy

### Remuneration principles for Executive Directors

Our Directors' remuneration policy has been designed to deliver two key aims:

#### **To attract, motivate and retain executives who will deliver high performance for all our stakeholders.**

We believe the mix of our remuneration package provides an appropriate and balanced set of rewards. Executive reward at Renold is relatively modest compared to our peer group and this has been validated by independent third parties. In part, this reflects a number of years of business underperformance but it is also consistent with the key strategic objective of lowering our breakeven point by reducing our cost base – this applies to executive pay as much as it does to any business expenditure. However, we are careful to ensure appropriate incentive opportunities remain for sustainable improvements in business performance.

#### **To ensure a close alignment of executive pay to the Company's strategic objectives and performance.**

We review our incentive plans each year to ensure they remain closely aligned with the Company's strategic objectives and our shareholders' interests, while continuing to motivate and engage the team leading the Company to achieve stretching targets. One consequence of this approach during the last year was to launch the 2013 PSP that includes demanding three year performance targets. To achieve the maximum vesting, the Compound Annual Growth Rate (CAGR) in adjusted EPS has to be more than 50% per annum that would result in an adjusted EPS figure more than three times that achieved in the year ended 31 March 2013. The current and forecast dilution levels from our share plans remain well below prescribed limits.

In addition, we aim to make the remuneration framework for Executive Directors relatively simple – the incentive plans are now therefore limited to an annual bonus and the 2013 PSP.

The Committee believes the requirement to build up and maintain a direct shareholding in the Company ensures that Executive Directors share a significant level of risk with the Company's shareholders and their interests are aligned. Having reviewed current best practice, we have introduced a shareholding requirement for Executive Directors equal to 100% of annual salary to be achieved over a five year period. Unvested shares/unexercised options are not counted within the shareholding requirement. Otherwise, the shareholding requirements can be met through purchase from salary, bonus or through vested long term incentive shares. As at 31 March 2014, the Executive Directors both hold shares of a value in excess of this requirement.

We also operate a mitigation policy in the event of early termination by the Company of an Executive Director's employment. During the year the Committee introduced a formal claw back policy for Executive Directors in respect of annual bonuses and long-term incentive awards. This claw back policy is to come into effect so as to apply from 1 April 2014 and has been introduced to provide the Committee with discretionary powers to claw back performance based remuneration should exceptional circumstances occur. Such circumstances would include: fraud; misconduct; significant misstatement of financial results or incorrect calculation of performance conditions.

Should the Committee, in its opinion, consider such circumstances to have occurred during a performance period from 1 April 2014 onwards then the claw back policy will provide the Committee discretion to determine that any amounts paid or payable under the Annual Bonus or awards under the 2013 PSP (which have not yet vested) by reference to the relevant period may be clawed back. The Committee will take into consideration any claw back events when determining future awards and/or bonus payments for Executive Directors.

### Shareholder views

The Committee constantly welcomes the views of shareholders in respect of pay policy as well as those views expressed on behalf of shareholders by their respective proxy advisers. The Committee documents all remuneration related comments made at the Company's AGM and feedback received during consultation with shareholders throughout the year. Any feedback received is fully considered by the Committee and where thought necessary amendments made to remuneration policy.

### Discretion of the Committee

The Committee has discretion in various areas of policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

### Policy table

Based on our view of current market practice, and the principles of our remuneration policy, we have established the remuneration policy set out in this report. The following table summarises the fixed and variable elements of remuneration for the Executive Directors.

The policy described here is intended to apply for three years beginning on the date of the 2014 AGM, subject to shareholders' approval. Each of the elements of remuneration set out below are forward looking other than the 2004 Option Plans which is a provision of previous remuneration policy and although it will not be used going forward, it will continue to apply until all outstanding awards vest and is therefore included in the Policy table as required by the Regulations.

Remuneration element	Purpose and link to corporate strategy	Operation of the element	Maximum potential value and payment at threshold/ review basis	Performance metrics
<b>Base salary</b>	To ensure competitive salaries to attract, retain and motivate those responsible for executing strategy while ensuring the Company pays no more than is necessary.	Base salary is paid in 12 equal monthly instalments during the year.  Reviewed annually, the policy is to provide third quartile salary for comparable jobs in manufacturing companies of a similar size, influenced by: → Role, experience and performance; → Changes in broader workforce salary; and → Salaries payable in similar companies.	Reviewed annually and set on 1 August each year.  Annual rate for each Executive Director is set out in the Annual Report on remuneration on page 69.  Salary increases will normally be in line with increases for the wider employee population.  Higher increases may be awarded in circumstances such as following recruitment into a role at a below-market rate or due to a change in role or responsibilities.  For new recruits, the salary increases may be higher than the wider workforce until the individual is aligned with market levels.	None.
<b>Benefits</b>	As base salary above, benefits are non-pensionable.	The Company pays the cost of providing the benefits on a monthly basis or as required for one-off events.  Benefits consist of a fully expensed company car (or cash equivalent) and private medical insurance, in addition to a lump sum death-in-service benefit of five times base salary. Death-in-service benefit is also available to all UK staff at five times base salary for those who opt to join the Company pension scheme and at two times for those opting out.  In the case that an Executive Director is required to relocate, either on recruitment or during service as a Director, reasonable relocation expenses will be provided in line with market practice.  The Committee may change the benefits offered in line with local market practice or the operational needs of the business.	Reviewed annually and set on 1 August each year in line with the Company's car policy to a maximum of £11,000 per annum cash allowance or equivalent lease value.  The maximum opportunity for other benefits is defined by the nature of the benefit itself and the cost of providing it. As the cost of providing such insurance benefits varies according to premium rates and the cost of other benefits is dependent on market rates and other factors, there is no formal maximum monetary value.	None.
<b>Pension</b>	As base salary above.	The Executive Directors are not members of the Company pension scheme and have their own pension arrangements. The Company's only pension liability is to make annual cash contributions to the personal pension arrangements of the Executive Directors.	Cash allowances equivalent to 15% of base salary.	None.

# Directors' remuneration report

## Directors' remuneration policy

continued

Remuneration element	Purpose and link to corporate strategy	Operation of the element	Maximum potential value and payment at threshold/ review basis	Performance metrics
<b>Annual bonus</b>	To incentivise delivery of the corporate strategy and reward delivery of superior performance.	<p>Annual bonuses are paid shortly after the end of the financial year end to which they relate. Bonuses are normally payable in cash but the Committee has flexibility to introduce a deferral if it deems it appropriate.</p> <p>Bonus payments are based on Group financial targets. Maximum bonus payments are made only on the achievement of outstanding performance. Bonuses are not pensionable.</p> <p>Performance targets are set at the start of the financial year and the level of bonus paid is determined by the Committee after the year end based on performance against target.</p> <p>A claw back facility will apply from 1 April 2014 under which part or all of the cash bonus may be forfeited or clawed back if any of the circumstances outlined on page 62 arise.</p>	<p>For Executive Directors the maximum annual bonus payable is 100% of base salary.</p> <p>No bonuses will be payable unless a minimum level of financial performance has been achieved. 50% is payable at threshold performance.</p>	<p>The bonus may be based on a range of financial, non-financial and personal targets as set by the Committee from year to year. Financial targets will comprise at least half of the bonus.</p> <p>Details of the measures and weightings will be set out in the Annual Report on Remuneration following the end of each financial year.</p> <p>Notwithstanding the achievement of performance targets, any bonus payable will be determined by the Committee in accordance with the relevant plan rules, including the Committee's right to exercise its discretion fairly and reasonably in any circumstances which the Committee considers it appropriate to do so.</p> <p>The Committee has the discretion to vary the weighting of performance metrics over the life of this remuneration policy.</p>
<b>2013 PSP</b>	To incentivise delivery of long-term shareholder value.	<p>The 2013 PSP was approved by shareholders at the AGM on 23 July 2013. The key features are as follows:</p> <ul style="list-style-type: none"> <li>→ Conditional share awards or options may be granted under the PSP (the exercise price of options is set by the Committee and can be nil).</li> <li>→ The Committee will impose demanding performance conditions on the vesting of awards.</li> <li>→ Outstanding commitments to issue new shares under all share plans operated by the Company are subject to a maximum of 10% of the Company's issued share capital in any ten year period.</li> <li>→ The PSP includes the ability to grant options under an HM Revenue &amp; Customs approved schedule.</li> </ul> <p>A claw back facility is in operation with effect from 1 April 2014 under which part or the whole of the PSP award can be recovered prior to vesting if any of the circumstances outlined on page 62 arise, including if there is a restatement of the financial accounts or the individual is dismissed for cause.</p>	<p>A maximum grant is permitted of 100% of base salary each year (200% of base salary in exceptional circumstances such as recruitment).</p> <p>Vesting is dependent on performance conditions. On achievement of threshold performance 25% of the award vests for 30% CAGR in adjusted EPS.</p>	<p>Performance condition based on CAGR in adjusted EPS which must be met over a three year period.</p> <p>In exceptional circumstances, the Committee has discretion to change the performance measures, targets and weightings between measures during the performance period if there is a significant event which causes the Committee to believe that the original conditions are no longer appropriate. Any amendments would be such that the new conditions are not materially less difficult to satisfy than the original conditions.</p> <p>The Committee also has discretion to reduce the percentage that vests in cases where it believes the outcome of the performance conditions is not a fair reflection of the Company's performance.</p>
<b>Shareholding requirement</b>	To strengthen the alignment between the interests of Executive Directors and those of shareholders.	<p>Executive Directors must build up over five years. Unvested LTIP or deferred shares are not taken into account. Share price is measured at the end of each financial year.</p> <p>All LTIP or deferred share awards vesting (net of income tax and National Insurance contributions) must be retained until the shareholding requirement is met.</p>	Executive Directors – 100% of salary.	None.
<b>Provisions of previous policy that continue to apply – LTIP awards made prior to and in 2013 under the 2004 Option Plans.</b>	To align the interests of Executive Directors with those of shareholders.	<p>The outstanding awards under the 2004 Option Plans will continue to form part of the remuneration policy until vesting.</p> <p>Details in relation to the background, terms and use of the 2004 Option Plans are set out on page 67.</p>	A maximum of 200% of salary.	<p>Market value options exercisable on the third anniversary of the grant.</p> <p>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 grant.</p>

## Notes to the Policy table

### Performance measure and targets for the annual bonus plan and the 2013 PSP

The performance targets are determined annually by the Committee.

Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, closed defined benefit pension scheme charges and excludes exceptional items. Average net debt is the net sum of external borrowings, finance leases and cash and cash equivalents, measured at each month end to produce a simple annual average which excludes preference stock from targets and results. Adjusted EPS excludes exceptional items, pension administration costs, IAS 19 financing charges and the tax thereon from earnings.

The Committee selected the performance conditions because these are central to the Company's overall strategy. The annual bonus plan metrics of adjusted EBITDA and average net debt provide a balanced mix of targets to deliver improving business performance and enhanced cash generation. Importantly, both are consistent with the longer term goals of generating additional shareholder value and facilitating additional investment in the business itself and hence align with the long term incentive plan. Average net debt has been chosen as the appropriate measure of cash performance as it encourages continuous focus on cash and working capital management throughout the year rather than focusing on a single point in time. The two targets are structured as a matrix to ensure that management must have regard to both metrics to maximise reward. Equally, if either metric falls below a specified minimum level of performance then no reward can be earned, irrespective of performance on the other metric.

The Committee considers CAGR in adjusted EPS to be the most appropriate performance condition to align the longer term goals of executive management with the interests of shareholders. The performance period is three years at which point testing occurs and awards either vest or lapse. There is no opportunity for testing to be deferred or for re-testing at a later date. Minimum and maximum targets, at which 25% and 100% of awards vest, are set at the time each award is made and are adjusted to ensure that they remain suitably demanding but also motivating.

The Committee is of the opinion that the performance targets for the annual bonus are commercially sensitive in respect of the Group and that it would be detrimental to the interests of the Group to disclose them.

### Changes to remuneration policy from that operating in 2013/14

Element	Operation of component	Maximum potential value	Performance metrics used, weighting and time period applicable
Base salary	No change	No change	No change
Benefits	No change	No change	No change
Pension	No change	No change	No change
Annual bonus	Previously no claw back provision	No change	Previously included individual director performance targets
Long term incentive (2013 PSP)	Previously no claw back provision	No change	No change
Shareholder requirement	Previously no shareholder requirement	100% of salary	None
Long term incentive (2004 Option Plans)	No change	No change	No change

### Differences in remuneration policy for all employees

All employees of the Group are entitled to base salary and benefits. The Group operates a number of pension plans for employees which it operates in line with local market practice. Some employees in senior roles are entitled to participate in an annual bonus scheme. The maximum opportunity available is based on the seniority and responsibility of the role.

Conditional share awards are only available to senior executives and Directors. Since 2008, share option grants and conditional share awards have been made only to employees at senior executive level.

### Statement of consideration of employment conditions elsewhere in the Group

The Committee invites the HR Director to present at a meeting on the proposals for salary increases for the employee population generally and on any other changes to remuneration policy within the Group. The Committee limits any salary increases for Executive Directors to the inflationary increase available to employees unless there has been a change in role or they are progressing through a development phase.

The HR Director consults with the Committee on the performance metrics for Executive Directors' bonuses and to the extent to which these should be cascaded to other employees. The Committee approves the overall annual bonus cost to the Group each year. The Committee has oversight over the grant of all LTIP awards across the Group.

The Group does not specifically invite employees to comment on the Directors' remuneration policy but any comments made by employees are taken into account.

The Committee is provided with data on the remuneration structure for senior management in the three tiers below Executive Director and uses this information to work with the human resources team to ensure consistency of approach throughout the Group.



# Directors' remuneration report

## Directors' remuneration policy

continued

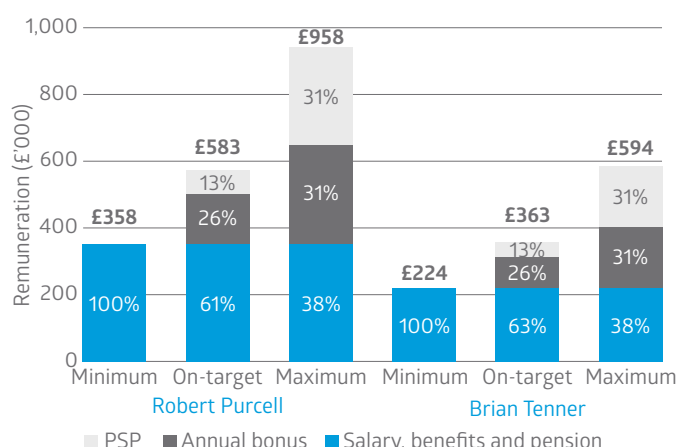
### Total remuneration opportunity

The chart below demonstrates the total amount of remuneration payable to the Chief Executive, Robert Purcell and Finance Director, Brian Tenner, under the proposed remuneration policy for the year ending 31 March 2015 should they achieve minimum, on-target or maximum performance. The amounts shown represent £'000s and for share related elements are the face value of awards.

The chart shows that at minimum levels of performance the Executive Directors only form of remuneration is the fixed element of base pay, benefits in kind and pension contributions. For performance above minimum the variable element of pay for the Chief Executive increases to approximately 63% of total reward or 168% of the fixed elements of pay noted. The ratios are similar for the Finance Director.

The Executive Directors' base salaries are assessed independently of the ability to earn variable awards under the annual and long term incentive plans and hence future bonus opportunities are not a consideration when setting base pay.

### Total remuneration



Note: On-target assumes 50% of maximum bonus is earned and threshold vesting under the 2013 PSP. Share price growth is excluded.

### Leavers

The Committee's policy for exit payments on a leaver event involving an Executive Director is:

Item	Policy	Details
Salary, pension and benefits	A maximum of 12 months' salary, pension and benefits may be payable.	Payments may be subject to mitigation if the leaver finds alternative employment.
Annual bonus	No annual bonus normally payable, unless the Committee uses its discretion to treat as a good leaver.	Good leavers are entitled to receive a bonus based on performance to date of termination, pro-rated for the period of service to termination.
PSP	The Committee will use its discretion to determine whether the individual should be treated as a good leaver or a bad leaver. In the event of death or retirement, an individual will be treated as a good leaver. Bad leavers will forfeit outstanding PSP awards.	Good leavers' awards shall vest pro-rata based on the proportion of the vesting period completed and based on the extent to which the performance condition has been met at the date of leaving. Awards may be exercised within a six month period following date of leaving. In the case of death, the award may be exercised within a 12 month period following death.

### Service contracts, remuneration and exit payments

As a matter of policy, the length of service contracts and notice periods is determined by the Committee at the time of appointment 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 Purcell	21 January 2013	No specified term/terminable on 12 months' notice
Brian Tenner	1 September 2010	No specified term/terminable on 12 months' notice

Other than normal payments due during notice periods, there are no express provisions for compensation on 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 Committee has noted the Association of British Insurers' and National Association of Pension Funds' joint statement on Executive Contracts and Severance. Neither of the Executive Directors' contracts provide for compensation in the event of a change of control of the Company. Copies of the two service contracts are available for inspection by shareholders at the Company's registered office.

### Change of control

In the event of a change of control, any outstanding awards under the long term incentive plan may vest. Awards will become exercisable immediately. The proportion of award vesting will be determined by the Committee based on the proportion of the performance period completed and the extent to which the performance condition has been met at the date the change of control occurs.

The Committee has discretion to waive any performance condition if it considers this appropriate in the particular circumstances.

In determining whether an individual should be treated as a good leaver or a bad leaver, and in assessing the extent to which any award will vest, the Committee will consider the specific circumstances of the departure, the individual's performance prior to departure and the performance of the Company.

#### Approach to recruitment remuneration

In the event of the appointment of a new Director the same principles would apply as they do today to the existing Directors.

The remuneration package of any new Executive Director would therefore include the elements and maximum award size set out on pages 63 and 64 in accordance with the Company's remuneration policy and subject to the same discretions.

The Committee's approach to recruitment remuneration is to set the salary level in accordance with the remuneration policy and having taken into account the individual's experience, the nature of the role and their existing remuneration package.

Where it is necessary to 'buy out' an individual's awards from a previous employer, the Committee will seek to match the expected value of the awards that vest over a timeframe similar to those given up, with a commensurate reduction in quantum where the new awards will be subject to performance conditions that are not as stretching as those on the awards given up. This would be an additional element of remuneration to the normal maxima as set out in the Policy table on pages 63 and 64.

Details of the Company's approach to the remuneration of Non-Executive Directors are set out on page 68.

#### External non-executive directorships

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

#### Long Term Incentive Plans – 2004 Option Plans (audited information)

The 2004 Option Plans were not used during the year ended 31 March 2014 as indicated in the resolution approving the 2013 PSP at the Annual General Meeting on 23 July 2013. The final use of these plans was an award of options to Robert Purcell in January 2013 on joining the Company. The information presented below is therefore purely in respect of awards made in previous years. The plans consist of 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'). Their key features are:

- Market value options exercisable three years after grant;
- The maximum annual grant limit is 200% of base salary; and
- Outstanding commitments to issue new shares under all share plans operated by the Company are subject to a maximum of 10% of the Company's issued share capital in any ten year period.

For options granted since the year ended 31 March 2010, the performance condition is based on a varying percentage of the share options becoming exercisable depending on the Company's share price on the date three years following the date of the grant. The following tables show the different conditions for existing awards not yet subject to performance testing.

#### Granted 8 June 2011<sup>1</sup> – performance test 8 June 2014

Share price (p)	% of shares under option that become exercisable <sup>2</sup>
45	25
55	50
60	75
65	100

#### Granted 21 January 2013<sup>3</sup> – performance test 21 January 2016

Share price (p)	% of shares under option that become exercisable <sup>2</sup>
30	0
35	50
40	100

1. The closing share price on the date of grant (8 June 2011) was 37.13 pence.
2. With the corresponding number of shares being rounded down to the nearest whole number.
3. The closing share price on the date of grant (21 January 2013) was 25.5 pence.

# Directors' remuneration report

## Directors' remuneration policy

continued

### Long Term Incentive Plans – 2013 PSP (audited information)

The key features of the 2013 PSP are set out in the table on page 64. The performance conditions attaching to options granted under the 2013 PSP in the year ended 31 March 2014, measured as the equivalent CAGR in adjusted EPS over a three year period, are as follows:

Entry		Threshold		Maximum		Performance period
Performance	% vesting	Performance	% vesting	Performance	% vesting	
<30%	0%	30%	25%	50%	100%	3 years from 1 April 2013

### Non-Executive Directors

Appointment details and fees of the Non-Executive Directors are set out below:

Name	Date of appointment	Unexpired term (months)	Date of election/last re-election	Contractual fees
Mark Harper	1 May 2012	13	12 July 2012	£110,000
John Allkins	17 April 2008 <sup>1</sup>	35	23 July 2013	£43,000 <sup>2</sup>
Ian Griffiths	13 January 2010 <sup>3</sup>	21	23 July 2013	£38,000

1. John Allkins' appointment was renewed with effect from 17 April 2014 and for a period of three years in line with best practice guidelines.

2. John Allkins' fee includes an additional £2,500 payable with effect from 21 January 2013 as a result of his appointment as the Senior Independent Non-Executive Director.

3. Ian Griffiths' appointment was renewed on 14 January 2013 for a period of three years in line with best practice guidelines.

The Company's policy for Non-Executive Directors' remuneration is managed by the Board. Their remuneration is confined to fees alone, with no performance-related element. Reasonable expenses are also reimbursed as incurred.

Fees for the Non-Executive Directors are determined by the Chairman and the Executive Directors. The level of fees is reviewed from time to time with regard to fees paid in comparable organisations and the time commitment required. The Chairman's remuneration is determined by the Committee and the Board and is subject to the same basis of review as the other Non-Executive Directors.

The letters of appointment for each of the Non-Executive Directors confirm that their appointment 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. Their respective appointments continue on an annual basis, subject to re-election at each AGM. 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 Company's registered office.

# Directors' remuneration report

## Annual report on remuneration

The year 2013/14 delivered a good start to the business turnaround plan with significant progress on the key strategic objective to lower the Group's breakeven point. A number of critical operational milestones were achieved as well as fundamental improvements in underlying business processes and systems. This was reflected in significant improvements in operational and financial performance as evidenced by adjusted earnings growth. At the same time financial risks associated with leverage and pensions continued to be managed down. All of these factors were taken into account when remuneration was assessed.

The composition of the Committee is set out on page 61 of the report.

The differences between the remuneration policy for 2013 and the policy on which shareholders will vote at the 2014 AGM are set out on page 65.

### Directors' remuneration

#### Total remuneration – single total figure table (audited information)

The total remuneration for the period and for the year ending 31 March 2013, in order to permit comparison, for each director is set out in the table below:

Executive Directors		Salary (£'000)	Benefits (£'000)	Bonus (£'000) <sup>2</sup>	LTIP (£'000) <sup>3</sup>	Pensions (£'000)	Total (£'000)
Robert Purcell	2014	300 <sup>1</sup>	14	300	–	45	659
	2013	59	3	–	–	9	71
Brian Tenner	2014	185	11	185	36	28	445
	2013	185	11	58	–	28	282
Robert Davies <sup>4</sup>	2014	–	–	–	–	–	–
	2013	218	25	35	–	33	311

Non-Executive Directors' fees		2014 £'000	2013 £'000	Change £'000
Mark Harper <sup>5</sup>		110	87	23
John Allkins <sup>6</sup>		43	41	2
Ian Griffiths		38	38	–

1 Robert Purcell joined the Company on 21 January 2013 with an annual salary of £300,000. His base salary has not increased this year.

2 Further details in relation to the annual bonus paid to Executive Directors are on page 70 within the Director's remuneration report.

3 Further details of awards to the Executive Directors under the 2004 Option plans and 2013 PSP are on pages 70 to 72. The LTIP uses the closing share price on the day of vesting less the option exercise price to calculate the value of the award.

4 Robert Davies left the Company on 31 December 2012. The salary shown for 2013 was in respect of the nine months of service in the previous year (£218,000). It was agreed that an amount of £367,000 be paid to Robert Davies as compensation for loss of office equivalent to one years basic salary of £291,000, benefits of £33,000 and pension contributions of £43,000.

5 Mark Harper's fee was £40,000 upon appointment as Non-Executive Director on 1 May 2012 and increased to £110,000 upon his appointment as Chairman on 12 July 2012.

6 John Allkins' fee was increased to £43,000 on his appointment as Senior Independent Non-Executive Director with effect from 21 January 2013.

#### (1) Fixed elements of pay

##### (i) Base salary

Consistent with the key strategic goal of lowering the Group's breakeven point and the pay restraint that continued across the Group, there were no pay rises for Executive Directors during the period. Robert Purcell's annual salary from 1 April 2013 therefore remained at £300,000 and Brian Tenner's annual salary at £185,000. These figures are outlined in the Total remuneration table above.

The proportion of the Group's basic salary bill attributable to the Executive Directors' base salaries for the year ended 31 March 2014 was 0.87% (2013: 0.93%).

##### (ii) Pension

The Executive Directors only pension entitlements are cash contributions by the Company to their individual personal pension plans. Cash contributions equivalent to 15% of base salary were paid during the year ended 31 March 2014 for Robert Purcell of £45,000 (2013: £8,831 in the period from appointment in January 2013 to 31 March 2013) and Brian Tenner of £27,750 (2013: £27,750). These figures are shown in the Total remuneration table above.

# Directors' remuneration report

## Annual report on remuneration

continued

### (iii) Benefits

The Executive Directors received the following benefits during the period. Robert Purcell received a non-cash benefit of £14,000 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. These figures are outlined in the Total remuneration table on page 69.

Non-Executive Directors do not receive any benefits.

### (2) Variable elements of pay – awards vested in year

#### (i) Annual bonus (payable in cash)

The annual bonus, which is payable in cash, provides the Executive Directors with the opportunity to receive an annual bonus based on achievement of certain performance targets. For the year ended 31 March 2014 the annual bonus scheme for Executive Directors was structured as follows:

	Maximum	Adjusted EBITDA		Average Net Debt		Paid in cash	Total paid as % maximum
	(% salary)	Weight	Achieved	Weight	Achieved	(£'000)	%
Robert Purcell	100%	70%	100%	30%	100%	300	100
Brian Tenner	100%	70%	100%	30%	100%	185	100

The two metrics shown were structured as a matrix such that failure to deliver a minimum result in either metric would have led to no bonus being achievable in the other. Similarly, in order to achieve the maximum award, superior performance would be required against both metrics. There was no allowance for personal objectives during the year (for the year ended 31 March 2013 this was 20%).

The following table sets out an indication of the actual performance against the targets for the year ended 31 March 2014. The performance targets for the annual bonus are based on internal targets and considered commercially sensitive. Consequently these will not be disclosed.

	Adjusted EBITDA			Average Net Debt		
	Below threshold	Between threshold and maximum	At maximum	Below threshold	Between threshold and maximum	At maximum
Robert Purcell			✓			✓
Brian Tenner			✓			✓

#### (ii) 2004 Options performance testing during the year

Awards made under the 2004 Option Plans in 2010 had a three year performance period ending on 27 September 2013 with share price targets as shown in the table below:

Granted 27 September 2010 – tested on 27 September 2013	
Share price (p)	% of shares under option that become exercisable <sup>1</sup>
30	25
40	50
50	75
60	100

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

Of the 678,898 options awarded to Brian Tenner on 27 September 2010 with an exercise price of 27.25p, 325,446 (equivalent to 47.9% of the maximum award) vested on 27 September 2013 as the mid-market price of the Company's shares on the three preceding trading days was 38.35p.

#### (iii) 2013 PSP awards performance testing during the year

The year ended 31 March 2014 was the first year in which awards were made under the 2013 PSP and none were due for testing in the same year.



**(3) Variable elements of pay – awards made in year**

Awards made to Executive Directors during the year under the 2013 PSP and associated performance conditions are set out below.

**(i) 2013 PSP (granted in year)**

Awards equal to 100% of salary were made.

	Type of award	Face value	Number of shares <sup>1</sup>	Date of award
Robert Purcell	Nil price Option	£300,000	1,065,089	23 July 2013
Brian Tenner	Nil price Option	£185,000	656,805	23 July 2013

1. The number of shares is based on the average mid-market share price for the three business days preceding the date of grant (28.17 pence).

The performance conditions attaching to options granted under the 2013 PSP in the year ended 31 March 2014, measured as the equivalent compound annual growth rate in adjusted EPS over a three year period, are as follows. On achievement of threshold performance 25% of the award vests. Straight line vesting occurs between threshold and maximum performance.

Threshold		Maximum		Performance period
Performance	% vesting	Performance	% vesting	
30%	25%	50%	100%	3 years from 1 April 2013

**(ii) Other long term incentive plans (granted in year)**

The Company has in the past made grants under a savings related share option scheme (SAYE Scheme) in which the Executive Directors are eligible to participate. No SAYE Scheme options were granted during the year ended 31 March 2014 and all previous options have lapsed.

**Directors' shareholding and share interests (audited information)****(1) Vesting history of the 2004 Options plan and PSP**

The following table shows the vesting history of the 2004 Options Plans over the last five years as a percentage of the total award to Executive Directors. The first awards under the 2013 PSP were made in the year ended 31 March 2014 and will be due for testing in July 2016.

	Award 2006/07 Vesting 2009/10	Award 2007/08 Vesting 2010/11	Award 2008/09 Vesting 2011/12	Award 2009/10 Vesting 2012/13	Award 2010/11 Vesting 2013/14
Vesting %	Nil	Nil	Nil	Nil	47.9%

The table illustrates that, with the exception of the current year, the performance of the business, whether in terms of total shareholder return (TSR), share price appreciation, or improvements in adjusted EPS has consistently fallen short of the targets set for even entry level vesting of awards. The vested award relates to options awarded to Brian Tenner in 2010/11: further details are set out on page 70.

**(2) Directors' interests**

The beneficial interest of each of the Directors and their connected persons in the ordinary shares of the Company is detailed below and these amounts were unchanged between the year ended 31 March 2014 and the date of this report.

**Executive Directors**

Executive Directors are required to build up a shareholding equal to 100% of salary over a five year period. Unvested shares and unexercised options are not counted within the shareholding requirement. The table below sets out the extent to which this requirement was met as at 31 March 2014.

	31 March 2014	Shareholding requirement (% of salary)	Shareholding at 31 March 2014 (% of salary)	31 March 2013
Robert Purcell	3,748,526	100%	697%	1,748,526
Brian Tenner	408,396	100%	123%	408,396

# Directors' remuneration report

## Annual report on remuneration

continued

### Non-Executive Directors

The shareholdings of the Non-Executive Directors are:

	31 March 2014	31 March 2013
Mark Harper	469,189	276,207
John Allkins	75,000	75,000
Ian Griffiths	10,000	10,000

### (3) Directors' share options

Awards over shares in which the Executive Directors retain an interest are detailed in the table below and were unchanged between the year ended 31 March 2014 and the date of this report.

Robert Purcell	Options held at 1 April 2013	Number of share options		Options held at 31 March 2014	Option price (p)	Date from which exercisable	Expiry date
		Granted in year	Lapsed in year				
2004 Options Plan	1,145,038	–	–	1,145,038	26.20	21.01.2016	20.01.2023
2013 PSP	–	1,065,089	–	1,065,089	Nil	25.07.2016	25.07.2023
<b>Total</b>	<b>1,145,038</b>	<b>1,065,089</b>	<b>–</b>	<b>2,210,127</b>			

Brian Tenner	Options held at 1 April 2013	Number of share options		Options held at 31 March 2014	Option price (p)	Date from which exercisable	Expiry date
		Granted in year	Vested/Lapsed in year				
2004 Options Plan	678,898	–	(353,452)	325,446	27.25	27.09.2013	26.09.2020
	495,978	–	–	495,978	37.30	08.06.2014	07.06.2021
<b>Total 2004 Options Plan</b>	<b>1,174,876</b>	<b>–</b>	<b>(353,452)</b>	<b>821,424</b>	<b>Nil</b>	<b>N/A</b>	<b>N/A</b>
2013 PSP	–	656,805	–	656,805	Nil	25.07.2016	25.07.2023
<b>Total</b>	<b>1,174,876</b>	<b>656,805</b>	<b>(353,452)</b>	<b>1,478,229</b>			

The performance conditions to which the share options are subject are disclosed on page 71 and are included in this audited information section by reference. None of the terms and conditions of the share options was varied in the year.

### Performance graph and table



The graph above 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 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.

The market capitalisation of the Company at 31 March 2014 was £124,358,571 and the lowest and highest share prices during the year were 20p and 67.5p respectively, with a share price on 31 March 2014 of 55.75p.

### Chief Executive's remuneration for the period 2009/10 to 2013/14

The following table shows the history of the Chief Executive's total remuneration and proportions of annual bonus and Options vesting each year as a percentage of the maximum over the last five years.

	2009/10	2010/11	2011/12	2012/13 <sup>2</sup>	2013/14
Chief Executive's total remuneration <sup>1</sup> £'000	337	667	494	311	659
Annual bonus as % of maximum awarded	0	81	44	16	100
LTI as % of maximum vesting	100	0	0	0	N/A

1 The values use the same methodology as that shown in calculating the single figure basis of remuneration in the table on page 69. The total remuneration figure for the year ended 31 March 2013 has therefore been re-calculated to exclude a sum of £367,000 paid as compensation for loss of office to Robert Davies.

2 Figures for 2009/10 to 2012/13 are in respect of Robert Davies who left the Company on 31 December 2012. Robert Purcell was appointed as CEO on 21 January 2013 and his total remuneration for the year ended 31 March 2013 was £71,000. Robert Purcell did not participate in the annual bonus plan for the year ended 31 March 2013 and was not eligible for any vesting incentives during this year. Figures for the year ended 31 March 2014 are in respect of Robert Purcell, who was not eligible for any vesting under long term incentives during the year.

### Chief Executive pay and employee pay

The table below shows the percentage change from the preceding financial year in respect of the total of the Chief Executive's remuneration (on a single total remuneration basis as shown in the table above on page 69).

	Percentage change in salary	Percentage change in benefits	Percentage change in annual bonus
Chief Executive <sup>1</sup>	8.3%	(50.0%)	757%
Workforce <sup>3</sup>	≤1.0% <sup>2</sup>	0.0%	36%

1 Due to a change in the Chief Executive in the prior year the remuneration paid was less than would normally be expected in a comparative 12 month period.

2 The figures include only those employees who were not promoted and did not change role during the year to provide a like-for-like comparison.

3 The Group uses the UK workforce as an appropriate comparator group as the Executives are based in the UK and the structure of remuneration varies considerably based on local market practice in other countries in which the Group operates.

### Relative importance of spend on pay

The table below sets out the total of the Executive Directors' remuneration (on a single total remuneration basis as shown in the table on page 69) compared to a number of other key financial metrics. The metrics chosen are considered of interest and relevance to both the Group's actual performance in the period and also to be of relevance to different stakeholder Groups.

	Employee remuneration	Shareholder distributions	Market capitalisation	Revenue <sup>1</sup>	Adjusted <sup>2</sup> operating profit	EBITDA <sup>3</sup>	Executive Directors' total remuneration
2014	£64.0m	Nil	£124.4m	£184.0m	£11.1m	£16.5m	£1.1m
2013	£66.1m	Nil	£53.1m	£190.3m	£7.2m	£11.8m	£1.1m
Difference (%)	(3.2)%	Nil	134%	(3.3)%	54.2%	39.8%	

1 and 2 Note 2 to the Company financial statements sets out the calculation of revenue (total operating costs) and adjusted operating profit.

3 EBITDA is adjusted operating profit before depreciation and amortisation charges.

### Statement of implementation of remuneration policy in next financial year

The remuneration policy as set out in the Policy table and notes on pages 63 to 65 will be implemented with effect from the AGM in 2014.

#### Base salary

The Committee reviewed base salaries for Executive Directors and agreed that there would be no increase with effect from 1 August 2014. There will be no change to the Non-Executive Directors' base salaries for the year ended 31 March 2015; their salaries are set out on page 68.

Base salaries for the Executive Directors are set out below:

	2013/14	From 1 August 2014
Robert Purcell £'000	300	300
Brian Tenner £'000	185	185

# Directors' remuneration report

## Annual report on remuneration

continued

### Annual bonus

The performance measures and weightings for the 2014/15 annual bonus are unchanged from 2013/14.

The performance measures and weightings are as follows:

	Weighting
Adjusted EBITDA	70%
Average net debt	30%

Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, closed defined benefit pension scheme charges and exceptional items. Average net debt is the net sum of external borrowings, finance leases and cash and cash equivalents, measured at each month end to produce a simple annual average.

The performance targets for the annual bonus are based on internal targets and considered commercially sensitive. Consequently these will not be disclosed.

### Long Term Incentive Plan – 2013 PSP

The performance conditions attaching to options that will be granted under the 2013 PSP in the year commencing 1 April 2014, measured as the equivalent CAGR in adjusted EPS over a three year period, are as follows. On achievement of threshold performance 25% of the award vests. Straight line vesting occurs between threshold and maximum performance. Performance will be measured from an adjusted EPS figure of 3.2p for the year to 31 March 2014.

Threshold		Maximum		Performance period
Performance	% vesting	Performance	% vesting	
20%	25%	30%	100%	3 years from 1 April 2014

The performance targets for the annual bonus are based on internal targets and considered commercially sensitive. Consequently these will not be disclosed.

### Advisers to the Committee

During the year, the Committee received independent advice from EY in relation to the 2013 PSP, with total fees for services provided amounting to £34,890 plus VAT. The fee for this advice was negotiated in advance of the work being undertaken given the nature of the project. EY is the Company's external auditor and was appointed by the Committee to advise following an assessment and interview process in relation to the 2013 PSP alone. EY also provide tax services to the Company: full details of EY's remuneration are set out in Note 2(b) to the Company financial statements on page 98.

The Committee has also received advice from PwC, with total fees for services provided over the year amounting to £3,150 plus VAT. PwC was appointed by the Committee following an assessment and interview process and has advised on various issues including remuneration policy and the Regulations and updating the Committee on trends in compensation matters. Fees charged have been on a time-spent basis. PwC is a member of the Remuneration Consultants Group and adheres to that group's Code of Conduct. PwC has provided internal audit and pensions related services to the Company. The Committee has chosen to retain PwC as its adviser.

### Statement of shareholder voting

Votes cast in respect of the Committee's remuneration report for the preceding financial year are detailed in the table below.

	No of votes	%
Votes cast	121,518,866	54.97% of issued capital
Abstained (including those withheld)	84,656	
For	119,571,992	98.4% of votes cast
Against	1,946,874	1.6% of votes cast

Approved by the Board:

**Ian Griffiths**

Chairman of the Remuneration Committee

27 May 2014

# Directors' report

The Directors submit their report and the financial statements as set out on pages 81 to 122.

The Directors' report, which comprises pages 75 to 78, is prepared in accordance with the requirements of the Companies Act 2006 and the FCA's Listing and Disclosure and Transparency Rules.

In accordance with section 414C (11) of the Companies Act 2006, information about the employment of disabled persons, employee involvement and greenhouse gas emissions, which is required to be included in the Directors' report, has been included in the Strategic Report. The Corporate Governance report also forms part of the Directors' Report. Where statutory and other disclosures have been made elsewhere in the Annual Report and Accounts, they are cross referenced accordingly and therefore incorporated by reference.

The Strategic Report provides an overview of the performance of the business in the year ended 31 March 2014 and covers likely future developments in the business of the Company and the Group.

## 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.

A summary of the principal undertakings of the Group is set out in Note (xiv) to the Company financial statements.

## Results

Loss before tax for the year ended 31 March 2014 is £10.7m compared with a loss of £11.8m for the year ended 31 March 2013.

## Dividends

Details about dividend policy are set out on page 88 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 2014, 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 2013 and 1 January 2014.

## Directors

The current Directors' biographical details, including the date upon which they were appointed to the Board, can be found on pages 46 and 47.

The appointment and replacement of Directors of the Company is governed by its articles of association and legislation. 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. In addition, all Non-Executive Directors are subject to annual election: please refer to the Corporate Governance report on page 50 for further details.

As a result, Brian Tenner, Mark Harper, John Allkins and Ian Griffiths will be standing for re-election at the 2014 AGM.

Under the terms of reference of the Nomination Committee, appointments to the Board are recommended by the Nomination Committee for approval by the Board. For a full description of the Company's policy on appointments to the Board, see the Nomination Committee Report at pages 58 and 59.

Shareholders may also appoint a Director by ordinary resolution.

## 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 60 to 74. 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 79 for the statement of Directors' responsibilities in respect of the Annual Report and Accounts and for the Directors' statement as to disclosure of information to auditors.



# Directors' report

## continued

### 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.

### Shares

#### Share capital

On 13 and 22 August 2013 respectively, the Company allotted 500,063 and 1,500,187 fully paid new ordinary shares pursuant to the exercise of warrants by Royal Bank of Scotland plc at a price of 21.06 pence per share. Both allotments were conditional only on admission of the new shares to the Official List and to trading on the London Stock Exchange's main market for listed securities becoming effective. Admission to the main market became effective on 16 and 29 August 2013 respectively. The warrants were originally granted in August 2009 as part of the refinancing agreed with the Company's banks at that time, being Royal Bank of Scotland plc and Fortis Bank UK Branch. The warrants were subsequently modified during the equity placement in December 2009 at which time the exercise price was fixed at 21.06 pence. Following the two exercises by Royal Bank of Scotland plc during the year, there are no remaining warrants.

As a result of the above allotment, as at 31 March 2014, the issued share capital of the Company was £27,146,657.75 divided into 223,064,703 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 41.08% of the Company's total share capital, the preference stock represents 2.14% and the deferred shares represent 56.78%. 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 2013 Annual General Meeting to make market purchases of up to 22,106,445 ordinary shares in the Company, which remains outstanding until the conclusion of the 2014 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 FCA'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 22,306,470 of its own ordinary shares (which represents approximately 10% of the Company's ordinary share capital as at the date of this report) either to be cancelled or retained as treasury shares.

Details of the Company's share capital are also set out in Note 19 to the Group financial statements on page 115.

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](http://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.

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.

### Major shareholdings

As at 31 March 2014, the Company had been notified of the following major holdings of voting rights attached to its ordinary shares under the FCA's Disclosure and Transparency Rule 5:

Shareholder	Number of voting rights	% of total number of voting rights
Schroder Investment Management	35,738,773	16.02
Prudential plc group of companies	31,431,331	14.09
Henderson Global Investors Limited	26,309,814	11.79
M&G Investment Funds 3 <sup>1</sup>	24,540,170	11.00

<sup>1</sup> M&G Investment Funds 3 is an Open Ended Investment Company (OEIC) and is not a Prudential group company and must be separately disclosed. The Prudential plc group holding includes the holding of M&G Investment Funds 3 as M&G Investment Management Ltd is a wholly owned subsidiary of Prudential plc.

The Company has not been notified of any major holdings of voting rights subsequent to the year end 31 March 2014.

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.

### 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 £552,661.13, 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 2013 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 £557,661.76.

In addition, the Directors have authority to allot shares up to a maximum nominal amount of £7,361,446.28, representing approximately two thirds of the issued ordinary share capital as at the date of the Notice of the Company's 2013 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 £7,428,054.61, representing approximately 66.6% of the issued ordinary share capital as at the date of the Notice of the Annual General Meeting.

### Transfer of shares

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

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 FCA'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 Strategic Report section on pages 36 to 38, and in Note 25 to the Group financial statements on pages 118 to 122.

### Donations

During the year, the Group made no political donations.

# Directors' report

## continued

### Contracts

#### Change of control provisions

The Company's main UK banking facilities agreement with Lloyds Bank plc and Svenska Handelsbanken AB 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 shareholder has a right to terminate the agreement and/or to require the shareholder suffering the change of control to sell, at a fair price, all of its equity shares to the terminating shareholder or a nominee of such shareholder.

No other material contracts contain change of control provisions.

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

Note 18 to the Group financial statements on pages 110 to 115 details the Group's obligations to contribute to the UK defined benefit pension schemes.

Details of the effect of any change of control in relation to awards under the long term incentive plan are set out on page 66 within the Directors' remuneration report.

### Important events affecting the Group since 31 March 2014

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

### 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 83 which is incorporated by reference here.

The Directors' report was approved by the Board on 27 May 2014.

For and on behalf of the Board:

**Louise Brace**

Company Secretary  
27 May 2014

# Statement of Directors' responsibilities

## in relation to the Group financial statements and Annual Report

### Consolidated financial statements prepared under IFRS

The directors are responsible for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable United Kingdom law and regulations and IFRS as adopted by the European Union.

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

- select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

The directors are also responsible for preparing the Strategic Report, the Directors' Report, the Directors' Remuneration Report and the Corporate Governance Report in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

### Parent company financial statements prepared under UK GAAP

The directors are responsible for preparing the parent company Financial Statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with UK GAAP. 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 and loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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.

The directors who were members of the Board at the time of approving the Directors' report are listed on pages 46 and 47. 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.

### Directors' responsibility statements pursuant to DTR4

Each of us, for himself and on behalf of each other director who held office on 31 March 2014, confirms that, to the best of his or her knowledge:

- the Consolidated Financial Statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Company and the undertakings included in the consolidation as a whole; and
- the Strategic Report (comprising pages 2 to 43) and the Directors' report (on pages 75 to 78) includes fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces.
- The Board confirms that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Company.

On behalf of the Board:

**Robert Purcell**  
Chief Executive

**Brian Tenner**  
Finance Director

# Shareholder information

The Company's website at [www.renold.com](http://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 Asset Services, whose contact details appear on page 135. 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](http://www.capitashareportal.com)

## Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

### How to avoid share fraud

1. Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
2. Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
3. Check the Financial Services Register from [www.fca.org.uk](http://www.fca.org.uk) to see if the person and firm contacting you is authorised by the FCA.
4. Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
5. Use the firm's contact details listed on the Register if you want to call it back.
6. Call the FCA on **0800 111 6768** if the firm does not have contact details on the Register or you are told they are out of date.
7. Search the list of unauthorised firms to avoid at [www.fca.org.uk/scams](http://www.fca.org.uk/scams).
8. Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
9. Think about getting independent financial and professional advice before you hand over any money.
10. **Remember:** if it sounds too good to be true, it probably is!

### Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.uk/scams), where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on **0800 111 6768**.

If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.



# 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 2014 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 International Financial Reporting Standards (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 set out on page 79, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## 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 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

## Our assessment of risks of material misstatement

We identified the following risks that have had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

- Revenue recognition
- Inventory provisioning
- Accounting for defined benefit pension schemes
- Group restructuring
- Deferred tax
- Risk of misstatement due to fraud and error

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

We also determine a lower level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be £415,000, which is approximately 5% of forecast adjusted profit before interest and tax. We adjusted profit before interest and tax to exclude exceptional costs which do not reflect the underlying performance of the Group.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50% of planning materiality, namely £207,000. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our planning materiality level.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £20,750, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

## An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, we selected 11 components which represent the principal business units within the Group's two reportable segments and account for 69% of the Group's profit before interest and tax and 86% of the Group's revenue.

# Independent auditor's report to the members of Renold plc

## continued

Five of these were subject to a full scope audit, whilst the remaining nine were subject to a specific scope audit where the extent of audit work was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at those locations. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. For the remaining components, we performed other procedures to confirm there were no significant risks of material misstatement in the Group financial statements.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits each of the locations where the Group audit scope was either full scope or identified as a higher risk location annually. For all entities in scope, the Group audit team reviewed key working papers and participated in the component team's audit planning, including the component team's discussion of fraud and error, and audit planning, including the component team's discussion of fraud and error, and the audit closing meeting.

Our response to the risks identified above was as follows:

- Revenue recognition – we carried out substantive testing and analytical procedures, including cut-off testing verifying the recognition of revenue to contractual shipping terms and goods dispatched. We confirmed management's policies for revenue recognition continue to be robust and are applied consistently.
- Inventory provisioning – we tested the standard costs used to value inventory at year end, challenged management's key assumptions, such as labour and overhead absorption rates. We tested management's calculation of the inventory provision, challenged management's judgements formed in arriving at those values for appropriateness and confirmed that the provision was derived in line with Group policy. We also checked that a consistent approach to inventory valuation and provisioning had been adopted globally.
- Accounting for defined benefit pension schemes – we challenged the assumptions and methodology applied in calculating the defined benefit pension scheme deficit for consistency and appropriateness, including specifically the discount rates, inflation rates and mortality assumptions used.
- Group restructuring – we reviewed the exceptional costs recognised in the financial statements as a result of the group restructuring to test that the costs have been appropriately accounted for and disclosed in line with IFRS.
- Deferred tax – we considered the appropriateness of management's assumptions and estimates in relation to the likelihood of generating suitable future taxable profits to support the recognition of deferred tax assets described in note 17, challenging those assumptions and considering supporting forecasts and estimates.
- Risk of misstatement due to fraud and error – we carried out analytical procedures and journal entry testing in order to identify and test the risk of fraud arising from management override of controls.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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 ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report and Accounts is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report and Accounts are fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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 Listing Rules we are required to review:

- the Directors' statement, set out on page 78, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

### Other matter

We have reported separately on the parent company financial statements of Renold plc for the year ended 31 March 2014 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  
27 May 2014

# 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 124 to 134. The financial statements were approved by the Board on 27 May 2014.

## Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is defined as where the Group has an interest of more than one half of the voting rights or otherwise has power to govern financial and operating policies.

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.

The results and financial position of Renold Scottish Limited Partnership (SLP) have been consolidated in the consolidated financial statements of Renold plc. Renold plc is the parent undertaking of the general partner in the SLP (see Note (xiv) to the Company financial statements). Accordingly, advantage has been taken of the exemption conferred by paragraph 7 of the Partnerships (Accounts) Regulations 2008 from the requirements for preparation, delivery and publication of the partnership's accounts.

## 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 Strategic Report on pages 2 to 43.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report on pages 2 to 43. 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 12 month period from the date of signing the Annual Report and Accounts. The Directors considered a range of potential scenarios within the key markets the Group serves and how these might impact 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.

## 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 presentational 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.

# Accounting policies

continued

## Revenue

Revenue comprises the fair value of goods and services 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. Revenue from the sale of services is recognised when the service has been provided.

## 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 taxable 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.

## 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 account 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 their expected useful lives. The useful lives of assets are as follows:

	Years
Freehold buildings	50
Leasehold properties	50 years or the period of the lease if less
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.



# Accounting policies

continued

## 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.

## Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business and where the sale is highly probable. Assets that are classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

## 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 a 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.

### (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.

**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 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.

# Accounting policies

## continued

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.

### 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. Administration costs, other than plan asset management costs which are included in the actual return on plan assets, are charged to operating costs, including the Pension Protection Fund Levy.

Remeasurement gains and losses, comprising of actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest), 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 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 present value of any amount expected to be recoverable by the Group by way of refunds or reduction in future contributions.

Under the UK pension scheme rules, any notional surplus arising on payment of agreed contributions is fully recoverable.

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 or performance shares 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.

### 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 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, 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. Net interest is calculated by applying the discount rate to the net defined benefit liability. Further details are given in Note 18.

**d) Onerous lease**

The Group has assessed an existing operating lease obligation at the Bredbury facility in the period and concluded that an onerous lease provision is required. This involves making assumptions upon future sub-let income streams and the discount rate used. Refer to Note 2(c) and 16.

**Changes in accounting policy and disclosures**

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 2014:

International Accounting Standards (IAS/IFRSs)		Effective date <sup>1</sup>
IAS 27	Separate Financial Statements	1 January 2014
IAS 28	Investments in Associates and Joint Ventures	1 January 2014
IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 9	Financial Instruments: Classification and Measurement	No date confirmed
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosures of Interests in other entities	1 January 2014
IFRIC 21	Levies	1 January 2014
	Annual improvements 2010-2012 cycle	1 July 2014
	Annual improvements 2011-2013 cycle	1 July 2014

<sup>1</sup> The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations (except that for IAS 27, IAS 28, IFRS 10-12 the dates reflect the later mandatory endorsement date in the EU). 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.

The Group has adopted all applicable amendments to standards with an effective date from 1 April 2013. The Group has adopted amendments to IAS 19 Employee benefits, including consequential amendments to other standards, with a date of initial application of 1 January 2013, and restated the prior year's results accordingly.

# Accounting policies

## continued

The Group has changed its accounting policies in accordance with the modified accounting standard, IAS 19R, with respect to the basis for accounting for financing income/expense on the value of the defined benefit pension schemes' assets/liabilities and with respect to the costs of administering the defined benefit pension schemes. The Group now determines financing income/expense for the period by applying the discount rate used for valuing the schemes' liabilities to the value of the net pension asset/liability at the beginning of the year (taking into account any changes during the period as a result of contributions and benefit payments). Previously, the Group calculated financing income by applying the expected return on assets to the value of the schemes' assets at the beginning of the year and financing expense by applying the discount rate to the value of the schemes' liabilities at the beginning of the year (taking into account any changes during the period as a result of contributions and benefit payments).

Administration costs of defined benefit pension schemes are now included as operating costs except those relating to plan asset management which are recognised in other comprehensive income (as part of the difference between actual return and net interest income). Previously it was accounted for as a reduction in the expected return on schemes' assets.

In the course of the process of determining the impact of implementing IAS 19R, the directors have also reconsidered the treatment required by IFRIC 14 which deals with refunds of pension surpluses. Under the scheme rules, any notional surplus arising on payment of the agreed contributions is fully recoverable and therefore the additional liability of £6.9m and increase in deferred tax asset of £4.5m that was recognised at 31 March 2013 has been reversed, with the net result of increasing other comprehensive income by £2.4m. If we applied IFRIC 14 consistently with the prior year an additional liability of £8.2m and an increase in deferred tax asset of £5.4m would be recognised.

For the year to 31 March 2013, the restatement on implementation of IAS 19R has reduced operating profit before exceptional items for the period as previously reported by £1.3m, increased operating exceptional costs by £0.7m, increased net financing costs by £2.2m, reduced tax by £1.0m, and increased other comprehensive income by £3.2m.

There was no impact on the balance sheet at 31 March 2012 of these changes and consequently no opening balance sheet at 1 April 2012 has been presented.

The Group has also adopted IFRS 7 'Disclosures Offsetting Financial Assets and Financial Liabilities', IFRS 13 'Fair value Measurement' both effective from 1 January 2013 and IAS 1R 'Presentation of Financial Statements' in the period. The Group has also adopted early amendments to IAS 36 'Impairment of Assets' (effective date 1 January 2014). Adoption of these standards did not have any material impact on financial performance or position of the Group. The Group disaggregated the foreign exchange differences disclosed in the Statement of Other Comprehensive Income in 2013 relating to hedging of net investments.

### Changes in accounting policies and disclosures:

#### Impact on the consolidated income statement and the consolidated statement of other comprehensive income

	2014 £m	2013 £m
Pension administration costs	(0.6)	(1.3)
Exceptional items	–	(0.7)
<b>Operating loss</b>	<b>(0.6)</b>	<b>(2.0)</b>
Net IAS 19 financing costs	(3.4)	(2.2)
Net financing costs	(3.4)	(2.2)
<b>Loss before tax</b>	<b>(4.0)</b>	<b>(4.2)</b>
Taxation	0.8	1.0
<b>Loss for the financial year</b>	<b>(3.2)</b>	<b>(3.2)</b>
Attributable to:		
Owners of the parent	(3.2)	(3.2)
	(3.2)	(3.2)
<b>Statement of other comprehensive income</b>		
Remeasurement gain on retirement benefit obligations	12.2	11.1
Tax on remeasurement gains	(6.2)	(5.5)
<b>Other comprehensive income for the year, net of tax</b>	<b>6.0</b>	<b>5.6</b>
<b>Total comprehensive income for the year</b>	<b>2.8</b>	<b>2.4</b>
<b>Loss per share</b>		
Basic and diluted loss per share	(1.4)p	(1.5)p

The change in accounting policies did not have an impact on the statement of cash flows or on the adjusted earnings per share.



# Consolidated income statement

for the year ended 31 March 2014

	Note	2014 £m	2013 Restated £m
<b>Revenue</b>	1	<b>184.0</b>	190.3
Operating costs before pension administration costs and exceptional items	2	<b>(172.9)</b>	(183.1)
<b>Operating profit before pension administration costs and exceptional items</b>		<b>11.1</b>	7.2
Pension administration costs (excluding exceptional items)	2	<b>(0.6)</b>	(1.3)
Exceptional items	2	<b>(11.8)</b>	(12.3)
<b>Operating loss</b>		<b>(1.3)</b>	(6.4)
<b>Share of post-tax loss of jointly controlled entity</b>		<b>-</b>	(0.1)
Financial costs		<b>(1.8)</b>	(2.7)
Net IAS 19 financing costs		<b>(2.8)</b>	(2.5)
Exceptional financing costs		<b>-</b>	(0.2)
Net financing costs	3	<b>(4.6)</b>	(5.4)
<b>Loss before tax</b>		<b>(5.9)</b>	(11.9)
Taxation	4	<b>(4.8)</b>	0.1
<b>Loss for the financial year</b>		<b>(10.7)</b>	(11.8)
Attributable to:			
Owners of the parent		<b>(10.9)</b>	(11.9)
Non-controlling interests		<b>0.2</b>	0.1
		<b>(10.7)</b>	(11.8)
<b>Earnings/(loss) per share</b>	5		
Basic loss per share		<b>(4.9)p</b>	(5.4)p
Diluted loss per share		<b>(4.9)p</b>	(5.4)p
Adjusted earnings per share <sup>1</sup>		<b>3.2p</b>	1.4p
Diluted adjusted earnings per share <sup>1</sup>		<b>3.2p</b>	1.4p

1 Adjusted for the after tax effects of pension administration costs, exceptional items and the IAS 19 financing costs.

# Consolidated statement of comprehensive income

for the year ended 31 March 2014

	2014 £m	2013 Restated £m
<b>Loss for the year</b>	<b>(10.7)</b>	<b>(11.8)</b>
<b>Other comprehensive income/(expense):</b>		
<b>Items that may be reclassified to profit or loss in subsequent periods:</b>		
Net gains/(losses) on cash flow hedges	0.2	(0.2)
Foreign exchange translation differences	(8.5)	2.2
Foreign exchange differences on loans hedging the net investment in foreign operations	0.6	(0.4)
	(7.7)	1.6
<b>Items not to be reclassified to profit or loss in subsequent periods:</b>		
Remeasurement gains /(losses) on retirement benefit obligations	2.9	(14.4)
Tax on remeasurement (gains)/losses on retirement benefit obligations	2.1	2.4
	5.0	(12.0)
<b>Other comprehensive expense for the year, net of tax</b>	<b>(2.7)</b>	<b>(10.4)</b>
<b>Total comprehensive expense for the year, net of tax</b>	<b>(13.4)</b>	<b>(22.2)</b>
Attributable to:		
Owners of the parent	(13.5)	(22.3)
Non-controlling interest	0.1	0.1
	(13.4)	(22.2)

# Consolidated balance sheet

as at 31 March 2014

	Note	2014 £m	2013 Restated £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	7	19.8	21.8
Other intangible assets	7	6.1	6.2
Property, plant and equipment	8	39.3	43.1
Investment property	9	1.3	1.4
Other non-current assets	12	0.2	0.4
Deferred tax assets	17	18.9	21.4
Retirement benefit surplus	18	0.4	–
		<b>86.0</b>	<b>94.3</b>
<b>Current assets</b>			
Inventories	11	35.9	40.9
Trade and other receivables	12	29.7	32.8
Retirement benefit surplus	18	–	1.4
Derivative financial instruments	25	0.1	–
Cash and cash equivalents	13	6.7	9.8
		<b>72.4</b>	<b>84.9</b>
Non-current asset classified as held for sale	10	1.6	–
		<b>74.0</b>	<b>84.9</b>
<b>TOTAL ASSETS</b>		<b>160.0</b>	<b>179.2</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	14	(0.1)	(6.3)
Trade and other payables	15	(34.9)	(39.8)
Current tax		(1.7)	(1.4)
Derivative financial instruments	25	–	(0.2)
Provisions	16	(2.4)	(1.6)
		<b>(39.1)</b>	<b>(49.3)</b>
<b>NET CURRENT ASSETS</b>		<b>34.9</b>	<b>35.6</b>
<b>Non-current liabilities</b>			
Borrowings	14	(30.9)	(25.8)
Preference stock	14	(0.5)	(0.5)
Trade and other payables	15	(0.6)	(0.8)
Deferred tax liabilities	17	(0.2)	(0.6)
Retirement benefit obligations	18	(65.3)	(70.9)
Provisions	16	(5.3)	(0.3)
		<b>(102.8)</b>	<b>(98.9)</b>
<b>TOTAL LIABILITIES</b>		<b>(141.9)</b>	<b>(148.2)</b>
<b>NET ASSETS</b>		<b>18.1</b>	<b>31.0</b>
<b>EQUITY</b>			
Issued share capital	19	26.6	26.5
Share premium account		29.9	29.6
Currency translation reserve	21	(1.7)	6.1
Other reserves	21	1.2	1.2
Retained earnings	21	(40.4)	(34.8)
<b>Equity attributable to equity holders of the parent</b>		<b>15.6</b>	<b>28.6</b>
Non-controlling interests		2.5	2.4
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>18.1</b>	<b>31.0</b>

Approved by the Board on 27 May 2014 and signed on its behalf by:

**Robert Purcell**  
Chief Executive

**Brian Tenner**  
Finance Director

# Consolidated statement of changes in equity

for the year ended 31 March 2014

	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 Restated £m
At 1 April 2012	26.4	29.4	(10.7)	4.3	1.5	50.9	2.3	53.2
(Loss)/profit for the year (restated)	–	–	(11.9)	–	–	(11.9)	0.1	(11.8)
Other comprehensive income/(expense)	–	–	(12.0)	1.8	(0.2)	(10.4)	–	(10.4)
Total comprehensive income/(expense) for the year	–	–	(23.9)	1.8	(0.2)	(22.3)	0.1	(22.2)
Employee share options:								
– value of employee services	–	–	(0.3)	–	–	(0.3)	–	(0.3)
Exercise of share warrants:								
– release of share warrant reserve	–	–	0.1	–	(0.1)	–	–	–
– proceeds from share issue	0.1	0.2	–	–	–	0.3	–	0.3
<b>At 31 March 2013 (restated)</b>	<b>26.5</b>	<b>29.6</b>	<b>(34.8)</b>	<b>6.1</b>	<b>1.2</b>	<b>28.6</b>	<b>2.4</b>	<b>31.0</b>
(Loss)/profit for the year	–	–	(10.9)	–	–	(10.9)	0.2	(10.7)
Other comprehensive income/(expense)	–	–	5.0	(7.8)	0.2	(2.6)	(0.1)	(2.7)
Total comprehensive income/(expense) for the year	–	–	(5.9)	(7.8)	0.2	(13.5)	0.1	(13.4)
Employee share options:								
– value of employee services	–	–	0.1	–	–	0.1	–	0.1
Exercise of share warrants:								
– release of share warrant reserve	–	–	0.2	–	(0.2)	–	–	–
– proceeds from share issue	0.1	0.3	–	–	–	0.4	–	0.4
<b>At 31 March 2014</b>	<b>26.6</b>	<b>29.9</b>	<b>(40.4)</b>	<b>(1.7)</b>	<b>1.2</b>	<b>15.6</b>	<b>2.5</b>	<b>18.1</b>

# Consolidated statement of cash flows

for the year ended 31 March 2014

	2014 £m	2013 £m
<b>Cash flows from operating activities (Note 24)</b>		
Cash generated from operations	7.0	8.9
Income taxes paid	(0.9)	(0.7)
<b>Net cash from operating activities</b>	<b>6.1</b>	<b>8.2</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(6.0)	(3.1)
Purchase of intangible assets	(1.1)	(1.8)
<b>Net cash from investing activities</b>	<b>(7.1)</b>	<b>(4.9)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares	0.4	0.3
Financing costs paid	(1.5)	(2.8)
Proceeds from borrowings	8.0	43.1
Repayment of borrowings	(8.0)	(36.1)
Payment of finance lease liabilities	–	(0.1)
<b>Net cash from financing activities</b>	<b>(1.1)</b>	<b>4.4</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2.1)</b>	<b>7.7</b>
<b>Net cash and cash equivalents at beginning of year</b>	<b>9.2</b>	<b>1.2</b>
Effects of exchange rate changes	(0.5)	0.3
<b>Net cash and cash equivalents at end of year (Note 13)</b>	<b>6.6</b>	<b>9.2</b>

# Notes to the consolidated financial statements

## 1. Segmental information

For management purposes, the Group is organised into two operating segments according to the nature of their products and services and these are considered by the Directors to be the reportable operating segments of Renold plc as shown below:

- The Chain segment manufactures and sells power transmission and conveyor chain and also includes sales of torque transmission product through Chain National Sales Companies 'NSCs'; and
- The Torque Transmission segment manufactures and sells torque transmission products such as gearboxes and couplings.

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

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. Management monitor the results of the separate reportable operating segments based on operating profit and loss which is measured consistently with operating profit and loss in the consolidated financial statements. The same segmental basis applies to decisions about resource allocation. However, Group net financing costs, retirement benefit obligations and income taxes are managed on a Group basis and therefore 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.

	Chain (ii) £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
<b>Year ended 31 March 2014</b>				
Revenue				
External customer	139.6	44.4	–	<b>184.0</b>
Inter-segment (i)	0.3	5.0	(5.3)	<b>–</b>
<b>Total revenue</b>	<b>139.9</b>	<b>49.4</b>	<b>(5.3)</b>	<b>184.0</b>
Operating profit/(loss) before pension administration costs and exceptional items	9.9	5.8	(4.6)	<b>11.1</b>
Pension administration costs	–	–	(0.6)	<b>(0.6)</b>
Exceptional items	(11.5)	(0.3)	–	<b>(11.8)</b>
<b>Operating profit/(loss)</b>	<b>(1.6)</b>	<b>5.5</b>	<b>(5.2)</b>	<b>(1.3)</b>
Net financing costs				<b>(4.6)</b>
<b>Loss before tax</b>				<b>(5.9)</b>
<b>Other disclosures</b>				
Working capital (iii)	22.6	8.6	(1.1)	<b>30.1</b>
Capital expenditure (iv)	4.8	1.3	1.0	<b>7.1</b>
Depreciation and amortisation	3.1	1.1	1.2	<b>5.4</b>

	Chain (ii) £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
<b>Year ended 31 March 2013 (restated)</b>				
Revenue				
External customer	141.9	48.4	–	<b>190.3</b>
Inter-segment (i)	0.8	4.6	(5.4)	<b>–</b>
<b>Total revenue</b>	<b>142.7</b>	<b>53.0</b>	<b>(5.4)</b>	<b>190.3</b>
Operating profit/(loss) before pension administration costs and exceptional items	6.9	5.3	(5.0)	<b>7.2</b>
Pension administration costs	–	–	(1.3)	<b>(1.3)</b>
Exceptional items	(9.5)	0.7	(3.5)	<b>(12.3)</b>
<b>Operating (loss)/profit</b>	<b>(2.6)</b>	<b>6.0</b>	<b>(9.8)</b>	<b>(6.4)</b>
Share of post-tax loss of jointly controlled entity				<b>(0.1)</b>
Net financing costs				<b>(5.4)</b>
<b>Loss before tax</b>				<b>(11.9)</b>
<b>Other disclosures</b>				
Working capital (iii)	18.5	8.6	6.0	<b>33.1</b>
Capital expenditure (iv)	2.3	0.8	1.8	<b>4.9</b>
Depreciation and amortisation	3.2	1.0	0.4	<b>4.6</b>



## 1. Segmental information continued

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 2013 (restated)	Chain (ii) £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	141.9	48.4	–	<b>190.3</b>
Foreign exchange	(2.1)	(1.2)	–	<b>(3.3)</b>
<b>Underlying external sales</b>	<b>139.8</b>	<b>47.2</b>	<b>–</b>	<b>187.0</b>
Operating profit/(loss) before pension administration costs and exceptional items	6.9	5.3	(5.0)	<b>7.2</b>
Foreign exchange	(0.1)	–	–	<b>(0.1)</b>
<b>Underlying operating profit/(loss) before pension administration costs and exceptional items</b>	<b>6.8</b>	<b>5.3</b>	<b>(5.0)</b>	<b>7.1</b>

- Inter-segment revenues are eliminated on consolidation.
- Included in Chain external sales is £7.6m (2013: £8.8m) of Torque Transmission product sold through the Chain NSCs, usually in countries where Torque Transmission does not have its own presence.
- The measure of segment assets reviewed by the CODM is total working capital, defined as inventories and trade and other receivables, less trade and other payables. Working capital is also measured as a ratio of rolling annual sales.
- Capital expenditure consists of additions to property, plant and equipment and intangible assets (including through acquisitions).

### Geographical analysis of external sales by destination, non-current asset location and average employee numbers

The UK is the home country of the parent company, Renold plc. The principal operating territories, the proportions of Group external revenue generated in each (customer location), external revenues, non-current assets (asset location) and average employee numbers in each are as follows:

	Revenue ratio		External revenues		Non-current assets		Employee numbers	
	2014 %	2013 %	2014 £m	2013 £m	2014 £m	2013 £m	2014	2013
United Kingdom	<b>8.7</b>	9.2	<b>16.0</b>	17.6	<b>13.8</b>	14.0	<b>558</b>	635
Rest of Europe	<b>27.7</b>	26.3	<b>51.0</b>	50.1	<b>12.8</b>	13.2	<b>405</b>	418
North America	<b>37.8</b>	36.4	<b>69.5</b>	69.3	<b>24.8</b>	26.0	<b>355</b>	352
Australasia	<b>12.0</b>	13.6	<b>22.0</b>	25.8	<b>7.0</b>	8.4	<b>157</b>	167
China	<b>4.1</b>	2.5	<b>7.5</b>	4.8	<b>3.5</b>	4.2	<b>348</b>	397
India	<b>3.4</b>	3.8	<b>6.2</b>	7.2	<b>3.8</b>	4.8	<b>479</b>	495
Other countries	<b>6.3</b>	8.2	<b>11.8</b>	15.5	<b>0.8</b>	1.9	<b>77</b>	81
	<b>100</b>	100	<b>184.0</b>	190.3	<b>66.5</b>	72.5	<b>2,379</b>	2,545

All revenue relates to the sale of goods and services. No individual customer, or group of customers, represents more than 10% of Group revenue (2013: none).

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

# Notes to the consolidated financial statements

## continued

### 2. Operating costs and exceptional items

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

	2014	2013
	£m	Restated £m
Change in finished goods and work in progress	1.5	4.4
Raw materials and consumables	64.0	75.1
Other external charges	34.8	31.1
Employee costs		
Gross wages and salaries	55.6	56.8
Social security costs	6.4	7.4
Pension costs		
– defined benefit (Note 18)	0.4	0.3
– defined contribution (Note 18)	1.5	1.9
Share-based incentive plans	0.1	(0.3)
Depreciation of property, plant and equipment	64.0	66.1
– owned assets	4.2	4.2
Amortisation of intangible assets	1.2	0.4
Operating leases – minimum lease payments		
– plant and machinery	0.4	0.4
– property	1.6	1.8
Other operating income	2.0	2.2
Loss on disposal of property, plant and equipment	(0.8)	(1.5)
Research and development expenditure	0.1	–
Auditors' remuneration (Note 2(b))	0.7	0.7
Trade receivables impairment	0.7	0.6
Foreign exchange	0.1	0.1
Operating costs before pension administration costs and exceptional items	0.4	(0.3)
Pension administration costs (excluding exceptional items)	172.9	183.1
Exceptional items (Note 2(c))	0.6	1.3
Total operating costs	11.8	12.3
	185.3	196.7

### (b) Auditors' remuneration

	2014 £000 Total	2013 £000 Total
Audit of the Group's annual financial statements	180	69
Audit of the Company's subsidiaries	327	271
Total audit fees	507	340
Tax compliance services	50	51
Tax advisory services	75	190
All other assurance services	60	42
All other non-audit services	48	15
	740	638
<b>This is analysed in the following captions in the financial statements:</b>		
Exceptional reorganisation and restructuring costs	54	153
Operating costs	686	485
	740	638

The Group's auditors also received fees of £74,000 for audit services provided to Group pension schemes (2013: £37,000). These were the only services provided to the pension schemes, the increase reflecting additional work on the asset backed funding structure and subsequent UK scheme merger.

## 2. Operating costs and exceptional items continued

### (c) Exceptional charges/(income)

	2014 £m	2013 Restated £m
<b>Included in operating costs</b>		
Bredbury factory closure costs	4.7	–
Bredbury site onerous lease provision	5.7	–
Chain business model review		
– impairment of goodwill (Renold Hangzhou)	–	1.5
– impairment of intangible assets	–	1.1
– impairment of property, plant and equipment	0.1	3.7
– impairment of inventory and production tooling	0.5	2.8
– provision for onerous licence costs	–	0.3
Impairment of investment in jointly controlled entity	–	0.1
Impairment of investment property (Note 9)	–	0.5
Other reorganisation and redundancy costs	0.8	2.6
Pension merger and asset backed funding costs	–	0.7
Insurance proceeds on machine destroyed by fire	–	(1.0)
	<b>11.8</b>	<b>12.3</b>
<b>Included in financing costs</b>		
Costs associated with refinancing (impairment of unamortised arrangement fees)	–	0.2

Bredbury factory closure costs include redundancy costs of £2.6m and £2.7m of other project costs incurred during the closure of the manufacturing facility and transfer of production to other Renold plants. The costs above include £1.1m expected to be incurred during the next financial year. The Bredbury onerous lease provision is based on a discounted cash flow (using the risk free rate of 3.35%) of the remaining committed payments under the unexpired lease term of 16 years less an allowance for assumed rental income from potential sub-leasing of the facility. A working group is currently reviewing options to mitigate this liability (including the options for a sub-lease).

In the prior year, the Group carried out a review of the business model for the Chain division which resulted in the identification and impairment of a number of assets, largely driven by excess production capacity. Asset impairments of £5.7m were recognised in respect of the Bredbury site which subsequently closed as described above. In addition, due to a reduction in the number of management units and expected users resulting from restructuring activities, a proportion of the costs in respect of the ERP system were also impaired (intangible assets impairment charge of £1.1m). A provision of £0.3m was also made for future payments for licences that are now unlikely to be used.

Also in the prior year, an impairment charge of £0.1m was made against the carrying value of the investment in the jointly controlled entity Renold Transmission Technology (Jiangsu) Inc. The carrying value of this investment at 1 April 2013 was £nil.

Other reorganisation and redundancy costs incurred in the current and prior year relate primarily to redundancy costs associated with the global initiative to reduce overheads in all of our operations.

In the prior year costs associated with the pension merger and asset backed funding projects have been treated as exceptional following the restatement required for IAS 19R (see page 90).

Exceptional refinancing costs of £0.2m were recognised in the prior year representing costs associated with the previous borrowing arrangements that would have been amortised over the duration of those facilities.

### (d) Employees and key management compensation

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

	2014 £000	2013 Restated £000
Directors' remuneration	1,231	843
Payment in respect of loss of office	–	367
Post-employment benefits – contributions direct to defined contribution schemes	28	28
<b>Statutory Directors' remuneration</b>	<b>1,259</b>	<b>1,238</b>
Share-based payments	75	(270)
Social security costs	103	122
<b>Total</b>	<b>1,437</b>	<b>1,090</b>

# Notes to the consolidated financial statements

continued

## 2. Operating costs and exceptional items continued

### (d) Employees and key management compensation continued

In the prior year figures have been restated to exclude pension benefits included within Directors' remuneration of £28,000 paid in cash and £9,000 reclassified from post-employment benefits to Directors' remuneration. Only one Director received direct payment for pension contributions (2013: one).

The remuneration listed in the table above differs from the single total figure table in the Directors' remuneration report on page 69 for the following reasons:

- Only pensions payable directly to pension schemes are included in the Post-Employment benefits in the table on page 99. £45,000 (2013: £9,000) additional cash payments for pensions paid indirectly were included in Directors' remuneration;
- The table above excludes LTIP's vested in the form of share options; and
- 2013 includes former Directors' compensation for loss of office of £367,000.

Further details of the remuneration of Directors are provided in the Directors' remuneration report on pages 60 to 74.

A geographical split of the Group's average number of employees during the year is included in Note 1. The total number of employees employed by the Group at 31 March 2014 was 2,208 (2013: 2,466).

## 3. Net financing costs

	2014 £m	2013 Restated £m
<b>Financial costs:</b>		
Interest payable on bank loans and overdrafts	(1.5)	(2.6)
Amortised financing costs	(0.3)	(0.1)
Exceptional refinancing charges	–	(0.2)
<b>Total financing costs</b>	<b>(1.8)</b>	<b>(2.9)</b>
<b>Net IAS 19 financing costs</b>	<b>(2.8)</b>	<b>(2.5)</b>
<b>Net financing costs</b>	<b>(4.6)</b>	<b>(5.4)</b>

## 4. Taxation

Analysis of tax charge/(credit) in the year

	2014 £m	2013 Restated £m
<b>United Kingdom</b>		
UK corporation tax at 23% (2013: 24%)	–	–
Less: double taxation relief	–	–
	–	–
<b>Overseas taxes</b>		
Corporation taxes	1.0	0.6
Withholding taxes	0.2	0.1
Current income tax charge	1.2	0.7
<b>Deferred tax</b>		
UK – origination and reversal of temporary differences	3.0	(0.6)
Overseas – origination and reversal of temporary differences	0.6	(0.2)
Total deferred tax charge/(credit)	3.6	(0.8)
Tax charge/(credit) on loss on ordinary activities	4.8	(0.1)

#### 4. Taxation continued

	2014 £m	2013 Restated £m
<b>Tax on items taken to other comprehensive income</b>		
Deferred tax on changes in net pension deficits	(2.1)	(2.4)
Tax credit in the statement of other comprehensive income	(2.1)	(2.4)

#### Factors affecting the Group tax charge for the year

The UK Finance Act 2013 proposed reductions in the main rate of UK corporation tax from 23% to 20%, reducing the rate to 21% from 1 April 2014 and then 20% from 1 April 2015. As at 31 March 2014, these reductions have been enacted and their effect has been incorporated into the closing deferred tax balances in the Company's financial statements.

This has resulted in a £0.4m deferred tax charge to the income statement and a £1.3m deferred tax charge to other comprehensive income, due to the reduction in the value of the deferred tax assets recognised in the UK.

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

The actual tax on the Group's loss before tax differs from the theoretical amount using the UK corporation tax rate as follows:

	2014 £m	2013 Restated £m
Loss on ordinary activities before tax	(5.9)	(11.9)
Theoretical tax credit at 23% (2013: 24%)	(1.4)	(2.9)
Effects of:		
Permanent differences	0.2	0.3
Overseas tax rate differences	0.4	0.4
Deferred tax not recognised	5.2	1.9
Change in UK tax rate	0.4	0.2
<b>Total tax charge/(credit)</b>	<b>4.8</b>	<b>(0.1)</b>

#### 5. (Loss)/earnings per share

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

	2014			2013 restated		
	Loss £m	Shares (thousands)	Per share amount (pence)	Loss £m	Shares (thousands)	Per share amount (pence)
<b>Basic EPS</b>						
Loss attributed to ordinary shareholders	(10.9)	222,398	(4.9)	(11.9)	220,939	(5.4)
<b>Basic EPS</b>	<b>(10.9)</b>	<b>222,398</b>	<b>(4.9)</b>	<b>(11.9)</b>	<b>220,939</b>	<b>(5.4)</b>

	2014			2013 restated		
	(Loss)/ earnings £m	Shares (thousands)	Per share amount (pence)	(Loss)/ earnings £m	Shares (thousands)	Per share amount (pence)
<b>Adjusted EPS</b>						
Basic EPS	(10.9)	222,398	(4.9)	(11.9)	220,939	(5.4)
Effect of exceptional items, after tax:						
Exceptional items in operating costs	11.4		5.1	11.9		5.4
Exceptional refinancing costs	–		–	0.2		0.1
Exceptional tax charge	3.5		1.6	–		–
Pension administration costs included in operating costs	0.6		0.3	1.1		0.5
Net pension financing costs	2.4		1.1	1.8		0.8
<b>Adjusted EPS</b>	<b>7.0</b>	<b>222,398</b>	<b>3.2</b>	<b>3.1</b>	<b>220,939</b>	<b>1.4</b>

# Notes to the consolidated financial statements

## continued

### 5. (Loss)/earnings per share continued

Inclusion of the dilutive securities, comprising 4,105,000 (2013: 30,000) additional shares due to share options and nil (2013: 434,000) due to warrants over shares, in the calculation of adjusted EPS does not change the amount shown above (2013: no change).

Further details in relation to the warrants can be found in Note 19.

The adjusted EPS 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
<b>Cost</b>			
At 1 April 2012	22.3	8.9	31.2
Exchange adjustment	1.0	0.3	1.3
Additions	–	1.8	1.8
Disposals	–	(0.1)	(0.1)
<b>At 1 April 2013</b>	<b>23.3</b>	<b>10.9</b>	<b>34.2</b>
Exchange adjustment	(2.1)	–	(2.1)
Additions	–	1.1	1.1
Disposals	–	(0.7)	(0.7)
<b>At 31 March 2014</b>	<b>21.2</b>	<b>11.3</b>	<b>32.5</b>
<b>Accumulated amortisation and impairment</b>			
At 1 April 2012	–	3.1	3.1
Exchange adjustment	–	0.1	0.1
Amortisation charge	–	0.4	0.4
Impairment charge	1.5	1.1	2.6
<b>At 1 April 2013</b>	<b>1.5</b>	<b>4.7</b>	<b>6.2</b>
Exchange adjustment	(0.1)	–	(0.1)
Amortisation charge	–	1.2	1.2
Disposals	–	(0.7)	(0.7)
<b>At 31 March 2014</b>	<b>1.4</b>	<b>5.2</b>	<b>6.6</b>
<b>Net book amount at 31 March 2014</b>	<b>19.8</b>	<b>6.1</b>	<b>25.9</b>
Net book amount at 31 March 2013	21.8	6.2	28.0
Net book amount at 31 March 2012	22.3	5.8	28.1

The Group performed its annual impairment test of goodwill at 31 March 2014 that compares the current book value to the recoverable amount from the continued use or sale of the related business. No impairment charge has been recognised in the period. In the prior year, the Chain division business model review identified excess production capacity in a number of manufacturing processes within the division which resulted in an impairment of £1.5m of goodwill in respect of the acquisition of Renold (Hangzhou) Company Limited (see Note 2(c)).

The recoverable amount of each Cash Generating Unit (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 overleaf:



## 7. Intangible assets continued

	Growth rates		Discount rates		Carrying values	
	2014 %	2013 %	2014 %	2013 %	2014 £m	2013 £m
Jeffrey Chain, USA	3.1	3.3	13.6	14.3	17.4	19.1
Ace Chains, Australia	3.0	3.2	13.6	15.3	0.5	0.6
Renold Chain, India	6.7	6.9	23.7	23.0	1.9	2.1
					19.8	21.8

### 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 2014.

Cash flows beyond the period of projections are extrapolated using long term growth rates 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 (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 and Ace Chains to materially exceed each CGU's recoverable amount. With respect to Renold Chain India if long term growth rates fell by approximately 15% (2013: 25%) the goodwill in respect of that unit may become impaired.

#### Computer software

No impairment charge has been recognised in the period. In the prior period £1.1m was recognised in relation to the ERP system as a result of the reduction in the number of management units and expected users (see Note 2(c) for details).

# Notes to the consolidated financial statements

continued

## 8. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
<b>Cost</b>			
At 1 April 2012	23.4	120.5	143.9
Exchange adjustment	1.7	1.2	2.9
Additions	0.2	2.9	3.1
Disposals	(0.3)	(3.3)	(3.6)
<b>At 1 April 2013</b>	<b>25.0</b>	<b>121.3</b>	<b>146.3</b>
Exchange adjustment	(1.6)	(6.3)	(7.9)
Additions	0.9	5.1	6.0
Transfer to asset held for sale	(2.3)	–	(2.3)
Disposals	(3.0)	(15.2)	(18.2)
<b>At 31 March 2014</b>	<b>19.0</b>	<b>104.9</b>	<b>123.9</b>
<b>Accumulated depreciation and impairment</b>			
At 1 April 2012	3.8	92.9	96.7
Exchange adjustment	1.0	0.7	1.7
Charge for the year	0.5	3.7	4.2
Impairment charge	0.7	3.0	3.7
Disposals	–	(3.1)	(3.1)
<b>At 1 April 2013</b>	<b>6.0</b>	<b>97.2</b>	<b>103.2</b>
Exchange adjustment	–	(4.3)	(4.3)
Charge for the year	0.8	3.4	4.2
Transfer to asset held for sale	(0.7)	–	(0.7)
Disposals	(3.0)	(14.8)	(17.8)
<b>At 31 March 2014</b>	<b>3.1</b>	<b>81.5</b>	<b>84.6</b>
<b>Net book amount at 31 March 2014</b>	<b>15.9</b>	<b>23.4</b>	<b>39.3</b>
Net book amount at 31 March 2013	19.0	24.1	43.1
Net book amount at 31 March 2012	19.6	27.6	47.2

The prior year impairments are described in more detail in Note 2(c).

### Future capital expenditure

At 31 March 2014 capital expenditure contracted for but not provided for in these accounts amounted to £0.1m (2013: £1.0m).

### Asset held for sale

During the year the former manufacturing site located in Seclin, France was reclassified as an asset held for sale (See Note 10).

## 9. Investment property

	£m
<b>Cost</b>	
At 1 April 2012	2.0
Exchange adjustment	–
At 1 April 2013	2.0
Exchange adjustment	(0.1)
<b>At 31 March 2014</b>	<b>1.9</b>
<b>Accumulated depreciation</b>	
At 1 April 2012	0.1
Charge for the year	–
Impairment charge	0.5
At 1 April 2013	0.6
Charge for the year	–
Impairment charge	–
<b>At 31 March 2014</b>	<b>0.6</b>
<b>Net book amount at 31 March 2014</b>	<b>1.3</b>
Net book amount at 31 March 2013	1.4
Net book amount at 31 March 2012	1.9

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. A valuation of the property was conducted in March 2013 by BNP Paribas, French chartered surveyors and property consultants. At that date, the fair value of the property was assessed at £1.9m (excluding de-pollution costs) based on ongoing rental for industrial use. As a result of this valuation, an impairment charge of £0.5m was made in the prior period to include estimated depollution costs. The Directors are not aware of any long term circumstances that have arisen to materially alter that external valuation. The Group is currently assessing options with regard to the future use of this site following the end of the most recent tenancy.

## 10. Asset Held for Sale

	2014 £m	2013 £m
Property	1.6	–
<b>At 31 March 2014</b>	<b>1.6</b>	<b>–</b>

The asset held for sale is the former Chain manufacturing facility located in Seclin, France. Since the transfer of manufacturing in 2011/12, part of the facility has been used as a distribution and sales office. The property is being actively marketed for sale by an independent real estate agent in France. In the event of a sale, the Company may retain an interest in the part of the facility that is in use in the business or seek alternate premises for that activity. The property was independently valued by BNP Paribas Real Estate on 29 October 2012 on the basis of a freehold sale. The value disclosed above reflects that valuation and in the opinion of the Directors no changes have occurred that would alter that valuation.

# Notes to the consolidated financial statements

## continued

### 11. Inventories

	2014 £m	2013 £m
Raw materials	5.8	6.6
Work in progress	6.8	8.3
Finished products and production tooling	23.3	26.0
	35.9	40.9

Inventories pledged as security for liabilities amounted to £27.5m (2013: £23.1m).

### 12. Trade and other receivables

	2014 Current £m	2014 Non-current £m	2013 Current £m	2013 Non-current £m
Trade receivables <sup>1</sup>	26.8	–	30.1	–
Less: impairment provision	(0.6)	–	(0.8)	–
Trade receivables: net	26.2	–	29.3	–
Other receivables <sup>1</sup>	1.7	0.2	1.7	0.4
Prepayments	1.8	–	1.8	–
	29.7	0.2	32.8	0.4

<sup>1</sup> 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 the Group's credit risk policy. As at 31 March, the ageing analysis of trade receivables is as follows:

	Total £m	Neither past due nor impaired £m	Past due but not impaired			
			< 30 days £m	30-60 days £m	60-90 days £m	> 90 days £m
2014	26.2	22.2	2.3	0.8	0.2	0.7
2013	29.3	24.4	3.0	0.7	0.3	0.9

	2014 £m	2013 £m
<b>Movement on impairment provision</b>		
Opening provision	0.8	0.7
Net charge to income statement	0.1	0.1
Utilised in year through assets written off	(0.3)	–
Closing provision	0.6	0.8

### 13. Cash and cash equivalents

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

	2014 £m	2013 £m
Cash and cash equivalents	6.7	9.8
Less: Overdrafts (Note 14)	(0.1)	(0.6)
Net cash and cash equivalents	6.6	9.2

## 14. Borrowings

	2014 £m	2013 £m
<b>Amounts falling due within one year:</b>		
Overdrafts	0.1	0.6
Bank loans	–	5.7
	0.1	6.3
<b>Amounts falling due after more than one year:</b>		
Bank loans (net of capitalised costs)	30.9	25.8
Preference stock	0.5	0.5
	31.4	26.3
<b>Total borrowings (Note 25(d))</b>	<b>31.5</b>	<b>32.6</b>

All financial liabilities above are carried at amortised cost.

### Core banking facilities

On 28 September 2012, Renold agreed a new banking facility agreement for a four year period maturing in October 2016. The new facilities comprise a £41m Multi-Currency Revolving Credit Facility (MRCF), and an additional £8m of ancillary facilities. These facilities have been provided by a banking group comprised of Lloyds Bank plc and Svenska Handelsbanken AB. The MRCF is fully committed and available until maturity.

At the year end the undrawn facility was £9.0m (2013: £13.1m). The Group pays interest at LIBOR plus a variable margin in respect of this facility. The average rate of interest paid in the year was LIBOR plus 2.75% for the Euro and Sterling denominated facility and LIBOR plus 3% for the US Dollar denominated facility (2013: all facilities LIBOR plus 4% before the re-financing and the same rates as this year after the refinancing). This facility has two primary financial covenants which are tested on a six monthly basis. The first is net debt as a ratio of rolling annual EBITDA with a maximum ratio of 2.5 times. The second is interest cover with a minimum ratio of 4.0 times (rolling annual EBITDA divided by net financial interest cost). The Group also benefits from a number of overseas facilities totaling £3.4m. Costs of £1.1m associated with the refinancing were capitalised and offset against loans and are being amortised over the life of the facility.

### Secured borrowings

Included in Group borrowings are secured borrowings of £27.5m (2013: £28.7m). Security is provided by fixed and floating charges over assets (including certain property, plant and equipment) primarily in the UK, USA, France, Germany and Australia.

### Finance leases

The Group has no obligations under finance leases.

### Preference Stock

At 31 March 2014 there were 580,482 units of Preference Stock in issue (2013: 580,482).

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

- a fixed cumulative preferential dividend at the rate of 6% per annum payable half yearly on 1 January and 1 July in each year;
- 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;
- 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
- no redemption entitlement and no fixed repayment date.

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

# Notes to the consolidated financial statements

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### 15. Trade and other payables

	2014 Current £m	2014 Non-current £m	2013 Current £m	2013 Non-current £m
Trade payables <sup>1</sup>	17.3	–	20.9	–
Other tax and social security	1.4	–	1.8	–
Other payables <sup>1</sup>	1.4	–	1.6	–
Accruals <sup>1</sup>	14.8	0.6	15.5	0.8
	34.9	0.6	39.8	0.8

<sup>1</sup> 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	Onerous lease £m	Onerous licences £m	Contingent consideration £m	Total provisions £m
At 1 April 2013	1.0	–	0.3	0.6	1.9
Arising during the year	6.1	5.7	–	–	11.8
Utilised in the year	(6.0)	–	–	–	(6.0)
<b>At 31 March 2014</b>	<b>1.1</b>	<b>5.7</b>	<b>0.3</b>	<b>0.6</b>	<b>7.7</b>

	2014 £m	2013 £m
Allocated as:		
Current provisions	2.4	1.6
Non-current provisions	5.3	0.3
	7.7	1.9

#### Business restructuring

This provision relates to the reorganisation and restructuring of various parts of the business with the majority related to the Bredbury plant closure and will be completed within the next financial year. See Note 2(c) on exceptional charges for more details.

#### Onerous lease

A provision was established in relation to onerous lease costs in respect of the lease of the Bredbury plant. The lease expires in May 2030 (See Note 2(c)).

#### Onerous licences

A provision was established in relation to onerous licence costs in respect of the ERP system that is being implemented. These leases expire in March 2023.

#### Contingent consideration

##### Renold (Hangzhou) Co Limited: China

A provision was established for the purchase of the outstanding 10% of the equity following the acquisition of 90% of the equity interest in Renold (Hangzhou) Co Limited in the period ended 31 March 2008 and is due to be paid at the latest by 15 June 2017.

### 17. Deferred tax

	Assets		Liabilities		Net	
	2014 £m	2013 Restated £m	2014 £m	2013 £m	2014 £m	2013 Restated £m
Accelerated capital allowances	(1.7)	0.3	(0.3)	(0.5)	(2.0)	(0.2)
Pension plans	15.6	13.5	–	(0.3)	15.6	13.2
Tax losses	6.7	9.4	–	0.2	6.7	9.6
Other temporary differences	(1.7)	(1.8)	0.1	–	(1.6)	(1.8)
Tax assets/(liabilities)	18.9	21.4	(0.2)	(0.6)	18.7	20.8
Net off (liabilities)/assets	(0.2)	(0.6)	0.2	0.6	–	–
Net deferred tax assets	18.7	20.8	–	–	18.7	20.8



## 17. Deferred tax continued

The net deferred tax asset recoverable after more than one year is £18.7m (2013 restated: £20.8m). The pension plan deferred tax asset has been restated following the adoption of IAS 19R. In the course of the process of determining the impact of implementing IAS 19R, the directors have also reconsidered the treatment required by IFRIC 14. This adjustment is no longer required and the deferred tax asset of £4.5m (in respect of an additional pension liability of £6.9m) recognised at 31 March 2013 has been reversed. See Note 18 for more details.

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

	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
<b>2014</b>					
Accelerated capital allowances	0.3	0.2	(2.2)	–	(1.7)
Pension plans	13.5	(0.2)	0.2	2.1	15.6
Tax losses	9.4	(0.9)	(1.8)	–	6.7
Other temporary differences	(1.8)	0.2	(0.1)	–	(1.7)
	21.4	(0.7)	(3.9)	2.1	18.9
	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance Restated £m
<b>2013</b>					
Accelerated capital allowances	0.4	–	(0.1)	–	0.3
Pension plans	10.9	–	0.2	2.4	13.5
Tax losses	7.7	0.3	1.4	–	9.4
Other temporary differences	(0.9)	–	(0.9)	–	(1.8)
	18.1	0.3	0.6	2.4	21.4

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

	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
<b>2014</b>					
Accelerated capital allowances	(0.5)	0.1	0.1	–	(0.3)
Pension plans	(0.3)	–	0.3	–	–
Tax losses	0.2	–	(0.2)	–	–
Other temporary differences	–	–	0.1	–	0.1
	(0.6)	0.1	0.3	–	(0.2)
	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
<b>2013</b>					
Accelerated capital allowances	(0.2)	–	(0.3)	–	(0.5)
Pension plans	(0.4)	–	0.1	–	(0.3)
Tax losses	0.1	–	0.1	–	0.2
Other temporary differences	(0.3)	–	0.3	–	–
	(0.8)	–	0.2	–	(0.6)

During the year the Group has reported an operating profit before exceptional items and pensions administration costs of £11.1m. 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 £27.4m (2013: £25.0m) arising from unrecognised losses of £15.9m (2013: £16.1m) (representing losses of £56.0m (2013: £54.6m)) and other timing differences of £11.5m (2013: £8.9m). Based on available evidence, it is considered unlikely that these amounts will be recovered within the foreseeable future. The significant majority of these losses are not subject to time limits.

# Notes to the consolidated financial statements

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### 18. Pensions

The Group operates a number of pension plans throughout the world covering many of its employees. The plans are a mix of defined benefit and defined contribution plans. In a defined benefit plan the members are guaranteed a certain level of benefits that depend on a number of factors such as service, salary and inflation. Defined benefit plans can be supported by an asset fund that will be used to pay member benefits or can be unfunded in which case obligations to members are paid by the sponsoring employer as they fall due. In a defined benefit plan, because the level and duration of the members' benefits are uncertain, the risk of any increase or decrease in the cost of providing those benefits stays with the employer. This contrasts with a defined contribution plan where the employer's only obligation is to pay the amount agreed in the employment contract into a pension plan.

Any change in the total expected cost of providing defined benefits can produce either funding shortfalls or surpluses. In the case of an expected funding shortfall, the Company is required to agree a schedule of additional contributions to make good the shortfall over an agreed period of time (sometimes referred to as a 'funding plan' or a Minimum Funding Requirement ('MFR') which can also include an allowance for some of the shortfall to be made good by future asset outperformance). In the case of a surplus, mechanisms are available in all of the Renold schemes to return that surplus to the Group.

In the course of the process of determining the impact of IAS 19R, the directors have also considered the treatment required by IFRIC14. Details of the restatement made is disclosed on page 90.

#### UK Pension Plans

The principal fund is the Renold Pension Plan ('RPP') in the UK that was formed by the merger in June 2013 of three predecessor plans: (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' (which was then renamed the RPP). The RPP is a funded defined benefit plan with assets held in separate trustee administered funds. The RPP closed to the future accrual of member benefits between August 2008 and June 2009 and is also closed to new members.

The Trustees are chaired by an independent professional trustee firm and have access to a range of professional advisers. The Trustee Board is required to consult the Company in matters such as investment policy and to obtain agreement to any amendments to benefits. The Company can make proposals to the Trustees on a range of issues but cannot insist on their adoption. The majority of Trustees are either independent or member nominated with Company nominated Trustees being in the minority. To mitigate the risk of potential conflict of interests, no Directors of Renold plc are Trustees of the UK scheme.

The merger of the UK schemes was implemented to reduce the administration costs of running three separate pension schemes. During the merger, 1,316 members with smaller pension entitlements opted at that time to have their entire entitlement paid out in wind up lump sums. All other members had their benefits transferred in full into the RPP. In total, £10.9m of scheme liabilities were discharged for cash payments of £10.4m with the small difference being a net reduction in the scheme deficit. The merger had no material impact on the Group's tax position. The RGPS and J&S RBP are now progressing through a formal liquidation process.

The merged scheme is underpinned by a 25 year asset backed partnership structure (the 'SLP'). The partnership holds an intercompany loan from Renold International Holdings Limited, the holding company for most of the Group's overseas trading companies. The capital rights to the assets in the SLP belong to Renold except in the event of a corporate insolvency of the scheme sponsor (Renold plc). The income rights in the SLP belong to the RPP. The loan generates interest income that will provide annual cash contributions of £2.5m to the pension fund, with annual increases linked to RPI plus 1.5% and capped at 5%. The income stream is used to fund deficit repair payments and the first £0.5m of annual administrative expenses (with the company bearing any excess). In the event that the RPP becomes fully funded on a buyout basis, the income stream will instead accrue to Renold. The SLP was put in place with the expectation that the period to recover the funding shortfall was agreed at 25 years. The SLP therefore helps reduce the volatility in short term cash funding by following an agreed payment plan over a longer period of time. The interest in the SLP held by the Schemes is not reported as a plan asset in the consolidated financial statements as it is a non-transferable interest issued by the Group.

The new arrangement replaces all other existing funding arrangements for the UK defined benefit schemes and there is no separate schedule of contributions as at 31 March 2014. The SLP therefore represents the entirety of the cash element of the funding plan for the RPP. The funding plan also assumes an allowance for asset outperformance of 1.0% (that is, assets are expected to return an amount of 1.0% more than the discount rate applied to the liabilities). The IAS 19R deficit will be reduced as the cash contributions under the scheme are made.

## 18. Pensions continued

Total cash costs for UK deficit repair payments and UK administrative expenses in the period were £2.7m (2013: £3.8m). The current year figure includes the £2.5m noted above in connection with the SLP, and £0.2m in respect of the costs of setting up the SLP. The Group has also agreed that if operating profits reach an absolute pre-determined level in the year ended 31 March 2017, additional contributions will become payable while profits remain above this level. The pre-determined profit level is significantly higher than the operating results disclosed in the current year.

An opening valuation of the merged scheme has been carried out during the year with an effective date of 28 June 2013. The valuation was carried out by Barnett Waddingham, professionally qualified actuaries. No additional schedule of contributions was required as a result of the review with the annual cash contributions being limited to those disclosed above under the asset backed funding structure.

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 Pension Plans

#### Germany

In Germany, in addition to participating in the Government pension scheme, the Group operates an unfunded defined benefit scheme (no other Group company operates an unfunded defined benefit scheme). The scheme has no asset backing and the Group pays member benefits as they fall due. The scheme closed to new members on 1 April 1992. The Group has commenced proceedings aimed at closing the scheme to future accrual and an arbitration hearing is scheduled for the coming financial year. If successful, depending on the terms of the closure, there would be a reduction in the scheme liabilities, all else being equal.

#### United States of America

In the US the Group operates three defined benefit pension schemes in the Torque Transmission business. All three schemes are closed to new members and two of the schemes closed to future accrual at the same time. Only the hourly paid scheme remains open to future accrual. Following strong asset performance last year one of the closed schemes has moved into surplus and a project has been initiated to secure the members benefits and terminate the scheme. The US Chain business operates a defined contribution scheme.

In aggregate the three defined benefit schemes in the US have combined assets of £8.0m (2013: £8.0m) and liabilities of £11.4m (2013: £11.6m) giving a net deficit of £3.4m (2013: £3.6m). The change in the net deficit was due to a reduction in the discount rate more than offset by asset performance and net foreign exchange gains.

#### Other overseas schemes

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

In aggregate the other overseas defined benefit schemes have combined assets of £5.7m (2013: £7.5m) and liabilities of £6.1m (2013: £7.4m) giving a net deficit of £0.4m (2013: net surplus of £0.1m). The primary change was the liquidation of the scheme surplus in South Africa which reduced the scheme assets by £1.4m (which was returned to the Company in cash) partly offset by various reductions in liabilities.

The pension 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 are presented on a weighted average basis where appropriate. Plan assets are stated at their market values at the respective balance sheet dates.

The weighted average duration for both the UK and German pension schemes are 14 years (2013: 14 years) respectively.

# Notes to the consolidated financial statements

## continued

### 18. Pensions continued

#### Significant assumptions

The principal financial assumptions used to calculate plan liabilities as at 31 March 2014 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		Germany		Other Overseas	
	2014	2013	2014	2013	2014	2013
Rate of increase in pensionable salaries <sup>1</sup>	–	–	1.5%	1.5%	2.3%	2.4%
Rate of increase in pensions in payment and deferred pensions	1.9%	1.9%	1.5%	1.5%	–	–
Discount rate	4.5%	4.3%	3.3%	3.7%	3.9%	3.9%
Inflation assumption <sup>2</sup>	2.2%	2.2%	1.5%	1.5%	2.4%	2.5%
Expected return on plan assets <sup>3</sup>	N/A	6.1%	N/A	N/A	N/A	7.7%

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

2 Inflation assumption used for UK schemes was changed to a blend of RPI and CPI in 2012. In addition, the Company implemented a Pension Increase Exchange programme in 2011/12 in which members are entitled to take a one off increase in their pension payments in return for giving up future pension inflationary increases in some of their benefits. On average approximately 25% of members took this option which has the effect of partially de-risking the scheme to inflation.

3 Following the implementation of IAS 19R the expected return on net assets is no longer used in calculating the net financing charge shown in the income statement. However, it remains a relevant disclosure that enables an assessment of the potential level of outperformance of assets compared to the return assumed in the income statement that is equal to the discount rate applied to the liabilities.

The predominant defined benefit obligation for funded plans within the Group resides in the UK (£183.0m of the £223.9m Group obligation for funded plans). In addition to the assumptions shown previously, mortality assumptions have a significant bearing on the calculated obligation. The assumed life expectancy for the RPP members on retirement at age 65 is as follows.

	2014	2013
Males		
Currently aged 45	21.3	20.5
Currently aged 65	20.3	19.5
Females		
Currently aged 45	23.6	23.8
Currently aged 65	22.5	22.6

The post-retirement mortality tables used for the UK plan are the S1PA series tables published by the UK actuarial profession with a 20% uplift in mortality. The scheme uses its own specific experience to then reduce or uplift the mortality rates assumed in the standard tables. The RPP experiences mortality significantly in excess of the national average. The mortality rates for the RPP are based on average year of birth for both non-pensioners and pensioners with an allowance for the medium cohort projection.

In Germany, the mortality expectations for the scheme are in line with the local national averages as is the case in the United States and Australia.

#### Sensitivity analysis on UK schemes:

Assumption	Change in assumption	Impact on plan liabilities
Discount rate	Increase/decrease by 0.25%	Decrease by £6.1m/increase by £6.6m
Rate of inflation	Increase/decrease by 0.25%	Increase by £3.5m/decrease by £3.4m
Rate of mortality	Increase/decrease by 1 year <sup>1</sup>	Increase/decrease by £6.5m

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

## 18. Pensions continued

The 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 and since it is not intended to realise the assets in the short term, the value may change significantly before being realised. The present values of the plans' liabilities are derived from cash flow projections over long periods and are thus inherently uncertain. Charts on pages 33 to 35 set out the profiles of those expected discounted cash flows for the two principal schemes in the UK and Germany.

The fair values of plan assets were:

	UK £m	2014 Overseas £m	Total £m	UK £m	2013 Overseas £m	Total £m
UK equities	20.3	–	20.3	17.2	–	17.2
Overseas equities	26.1	7.1	33.2	25.0	7.3	32.3
Hedge funds and diversified growth funds	31.9	–	31.9	37.4	–	37.4
Corporate bonds	39.1	4.0	43.1	45.2	3.6	48.8
Gilts	26.1	0.7	26.8	28.1	0.8	28.9
Other	1.4	2.3	3.7	3.1	4.2	7.3
Total market value of assets	144.9	14.1	159.0	156.0	15.9	171.9

Equities include investments in quoted equities, funds of hedge funds and, in the prior year, property investment vehicles. The assets held are materially a reflection of the underlying liabilities in that lower risk assets such as gilts and bonds are deemed to be a match for pensioner liabilities whereas equities are deemed a better match for the liabilities associated with scheme members not yet in retirement.

### Pension obligations

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

	UK £m	2014 Overseas £m	Total £m	UK £m	2013 Restated Overseas £m	Total £m
Opening obligation	(199.1)	(42.3)	(241.4)	(180.6)	(38.5)	(219.1)
Current service cost	–	(0.4)	(0.4)	–	(0.3)	(0.3)
Interest expense	(8.1)	(1.5)	(9.6)	(8.6)	(1.5)	(10.1)
Contributions by plan participants	–	(0.1)	(0.1)	–	(0.1)	(0.1)
Remeasurement gains /(losses) by changes in:						
– Experience	0.3	0.4	0.7	(2.8)	(0.6)	(3.4)
– Demographic assumptions	(2.5)	–	(2.5)	–	–	–
– Financial assumptions	4.9	(1.7)	3.2	(18.3)	(2.5)	(20.8)
Liabilities extinguished on settlement	10.9	–	10.9	–	–	–
Benefits paid	10.6	2.0	12.6	11.2	2.4	13.6
Exchange adjustment	–	2.7	2.7	–	(1.2)	(1.2)
Closing obligation	(183.0)	(40.9)	(223.9)	(199.1)	(42.3)	(241.4)
<b>The total defined benefit obligation can be analysed as follows:</b>						
Funded pension plans	(183.0)	(17.3)	(200.3)	(199.1)	(18.6)	(217.7)
Unfunded pension plans	–	(23.6)	(23.6)	–	(23.7)	(23.7)
	(183.0)	(40.9)	(223.9)	(199.1)	(42.3)	(241.4)

# 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:

	UK £m	2014 Overseas £m	Total £m	UK £m	2013 Restated Overseas £m	Total £m
Opening assets	156.0	15.9	171.9	149.1	14.3	163.4
Interest income	6.3	0.5	6.8	7.1	0.5	7.6
Remeasurement gains	0.9	0.6	1.5	9.2	0.6	9.8
Employer contributions <sup>1</sup>	2.7	1.1	3.8	1.8	1.2	3.0
Participant contributions	–	0.1	0.1	–	0.1	0.1
Benefits paid	(10.6)	(2.1)	(12.7)	(11.2)	(1.2)	(12.4)
Assets distributed on settlement	(10.4)	–	(10.4)	–	–	–
Exchange adjustment	–	(2.0)	(2.0)	–	0.4	0.4
Closing assets	144.9	14.1	159.0	156.0	15.9	171.9
Balance sheet reconciliation:						
Plan obligations	(183.0)	(40.9)	(223.9)	(199.1)	(42.3)	(241.4)
Plan assets	144.9	14.1	159.0	156.0	15.9	171.9
Net plan deficit	(38.1)	(26.8)	(64.9)	(43.1)	(26.4)	(69.5)
Analysed as follows:						
<b>Current assets</b>						
Retirement benefit surplus	–	–	–	–	1.4	1.4
<b>Non-current assets</b>						
Retirement benefit surplus	–	0.4	0.4	–	–	–
<b>Non-current liabilities</b>						
Retirement benefit obligations	(38.1)	(27.2)	(65.3)	(43.1)	(27.8)	(70.9)
Net deficit	(38.1)	(26.8)	(64.9)	(43.1)	(26.4)	(69.5)

1 £2.0m of pension administration costs were included in the UK employer contributions in the prior year before restatement for IAS 19R. These are now included in the income statement.

The retirement benefit surplus relates to the Australian scheme which moved into surplus as a result of an increase in discount rates of 0.5% and asset performance in excess of the expected return. The surplus shown in the prior year was a net £1.4m balance in respect of a closed South African defined benefit pension scheme that was liquidated during the year and the surplus returned to the Group as a cash payment. This is included within the £2.1m benefits paid disclosed in overseas above.

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

	UK £m	2014 Overseas £m	Total £m	UK £m	2013 Restated Overseas £m	Total £m
Remeasurement gains/(losses) arising on plan obligations	2.7	(1.3)	1.4	(21.1)	(3.1)	(24.2)
Remeasurement gains/(losses) arising on plan assets	0.9	0.6	1.5	9.2	0.6	9.8
Net gains/(losses)	3.6	(0.7)	2.9	(11.9)	(2.5)	(14.4)

The actual return on plan assets was £8.3m (2013: £17.4m restated).

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

	2014 £m	2013 Restated £m
<b>Operating costs</b>		
Pension administration costs	(0.6)	(1.3)
Exceptional pension administration costs	–	(0.7)
Current service cost	(0.4)	(0.3)
Settlement gains	0.5	–
	(0.5)	(2.3)



## 18. Pensions continued

The settlement gains of £0.5m (2013: £nil) relate to the merger of the three UK schemes in June 2013.

The cost for the period of the various defined contribution schemes was £1.5m (2013: £1.9m) and was fully paid up.

## 19. Called up share capital

	Issued 2014 £m	2013 £m
Ordinary shares of 5p each	11.2	11.1
Deferred shares of 20p each	15.4	15.4
	26.6	26.5

At 31 March 2014, the issued ordinary share capital comprised 223,064,703 ordinary shares of 5p each (2013: 221,064,453) and 77,064,703 deferred shares of 20p each (2013: 77,064,703).

In August 2013, the Company issued 2,000,250 fully paid ordinary shares of 5p each (2013: 1,499,750) pursuant to the exercise of warrants by Royal Bank of Scotland at a price of 21.06p. The warrants had a seven year term commencing from 13 August 2009 during which they could be exercised at any time and were granted as part of the re-financing agreed with the Group's banks at that time. There are no outstanding warrants as at 31 March 2014.

## 20. Share-based payments

Details of the share-based payment arrangements are provided in the Directors' remuneration report on pages 60 to 74. At 31 March 2014, unexercised options for ordinary shares amounted to 7,609,971 (2013: 5,343,642).

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

	2014 Executive share option scheme			2013 Executive share option scheme	
Grant date	6.12.13	26.9.13	25.7.13	21.1.13	31.7.12
Share price at date of grant	49.9p	38.3p	28.2p	25.5p	28.5p
Exercise price	0.0p	0.0p	0.0p	26.2p	29.4p
Number of employees	10	2	8	1	1
Shares under option	520,887	319,427	3,236,249	1,145,038	258,449
Vesting period (years)	3	3	3	3	3
Expected volatility	59%	59%	58%	56%	51%
Option life (years)	10	10	10	10	10
Expected life (years)	6	6	6	6	6
Risk free interest rate	1.0%	1.0%	0.8%	0.8%	0.3%
Assumed dividends expressed as a dividend yield	Zero	Zero	Zero	Zero	Zero
Possibility of ceasing employment before vesting	Zero	Zero	Zero	Zero	Zero
Fair value per option	49.9p	38.3p	28.2p	13.1p	13.3p
Weighted probability of meeting market based vesting conditions	37.5%	37.5%	37.5%	60%	24%

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 2014 is shown overleaf:

# Notes to the consolidated financial statements

## continued

### 20. Share-based payments *continued* Executive share option schemes

	2014		2013	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	5,343,642	35.5p	9,737,599	35.1p
Granted	4,076,563	0.0p	1,403,487	26.8p
Lapsed	(23,488)	71.1p	(2,273,400)	23.7p
Forfeited	(1,786,746)	27.2p	(3,524,044)	38.5p
Outstanding at 31 March	7,609,971	18.3p	5,343,642	35.5p
Exercisable at 31 March	819,826	34.5p	387,551	67.7p

Range of exercise prices	Weighted average exercise price	2014		Weighted average exercise price	2013	
		Number of shares	Weighted average remaining life		Number of shares	Weighted average remaining life
			Expected Contractual			Expected Contractual
Nil	0.0p	3,420,252	5.4 9.4	–	–	– –
20p to 30p	26.9p	2,082,385	4.0 8.0	26.9p	2,082,385	5.0 9.0
30p to 40p	37.3p	1,966,406	3.2 7.2	37.3p	2,873,706	4.2 8.2
40p to 100p	69.6p	140,928	– 2.1	67.7p	387,551	– 2.8

No options have been exercised in the period (2013: nil). The total charge for the year relating to employee share-based payment plans was £0.1m (2013: credit £0.3m), all of which related to equity settled share-based transactions. After deferred tax, the total charge was £0.1m (2013: credit £0.3m).

The middle market price of ordinary shares at 31 March 2014 was 55.75p and the range of prices during the year was 20p to 67.75p.

### 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 2014 amounted to £3.5m (2013: £3.5m).

Included in retained earnings is an amount of £6.1m (net of tax) (2013: £6.5m) relating to the revaluation of freehold property that was undertaken at the date of IFRS adoption. The amount is not distributable until it is realised.

### 22. Operating lease obligations

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

	2014		2013	
	Properties £m	Equipment £m	Properties £m	Equipment £m
Within one year	1.9	0.3	1.8	0.2
Between two and five years	6.4	0.3	5.2	0.1
Over five years	12.9	–	15.7	–
	21.2	0.6	22.7	0.3

## 22. Operating lease obligations continued

Certain of the leased properties have been sublet and the future minimum sublease payments expected to be received under non-cancellable sublease agreements is £3.0m (2013: £3.3m).

An onerous lease provision of £5.7m (see Note 16) has been established following the closure of the Bredbury manufacturing facility (see Note 2(c) for more details). The lease expires in May 2030 at a rental cost of £0.8m per annum. These lease obligations have been included in the analysis.

## 23. Contingent liabilities and commitments

Performance guarantees given to third parties in respect of Group companies were £nil (2013: £nil).

Various UK group companies have given guarantees to the merged UK pension scheme to cover the full cost of buying out the liabilities in the event that the Sponsoring Employers defaulted on the agreed deficit repair plan. As one of the sponsoring employers of the UK scheme is Renold plc, the continuing obligation is effectively unchanged and is to fully fund the member's accrued benefits.

## 24. Additional cash flow information

Reconciliation of operating profit to net cash flows from operations:

	2014 £m	2013 Restated £m
<b>Cash generated from operations:</b>		
Operating loss	(1.3)	(6.4)
Depreciation and amortisation	5.4	4.6
Impairment of goodwill	–	1.5
Impairment of intangible assets	–	1.1
Impairment of property, plant and equipment	–	3.7
Impairment of inventories	–	2.8
Impairment of investment in jointly controlled entity	–	0.1
Impairment of investment property	–	0.5
Proceeds from plant and equipment disposals	0.2	0.4
Equity share plans	0.1	(0.3)
Decrease in inventories	1.8	2.8
Decrease in receivables	0.8	1.3
(Decrease)/increase in payables	(1.8)	0.1
Increase in provisions	5.8	0.4
Movement on pension plans	(3.8)	(3.8)
Movement in derivative financial instruments	(0.2)	0.1
<b>Cash generated from operations</b>	<b>7.0</b>	<b>8.9</b>

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

	2014 £m	2013 £m
Decrease in cash and cash equivalents	(2.1)	7.7
Change in net debt resulting from cash flows	–	(7.0)
Foreign currency translation differences	0.4	(0.6)
Non-cash movement – amortisation of refinancing costs	(0.3)	–
Change in net debt during the period	(2.0)	0.1
Net debt at start of year	(22.8)	(22.9)
Net debt at end of year	(24.8)	(22.8)
Net debt comprises:		
Cash and cash equivalents (Note 13)	6.7	9.8
Total borrowings (Note 14)	(31.5)	(32.6)
	(24.8)	(22.8)

# Notes to the consolidated financial statements

continued

## 25. Financial instruments

These notes should be read in conjunction with the narrative disclosures in the Finance Director's review on pages 30 to 35.

### Foreign currency risk and sensitivity

As a result of the significant 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 impact of reasonably possible changes in the US Dollar (US\$) and Euro exchange rates (with all other variables held constant) on 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 (an 'increase' being a fall in the value of sterling compared to US\$):

	Increase/ (decrease) in US\$ rate	Effect on loss before tax £m	Effect on shareholders' equity £m
<b>2014</b>	<b>25%</b>	<b>0.1</b>	<b>1.6</b>
	<b>(10%)</b>	<b>–</b>	<b>(0.9)</b>
2013	25%	0.2	1.9
	(10%)	(0.2)	(1.0)

Change in Euro rate (an 'increase' being a fall in the value of sterling compared to the Euro):

	Increase/ (decrease) in Euro rate	Effect on loss before tax £m	Effect on shareholders' equity £m
<b>2014</b>	<b>25%</b>	<b>–</b>	<b>–</b>
	<b>(10%)</b>	<b>–</b>	<b>–</b>
2013	25%	0.1	0.1
	(10%)	(0.1)	(0.1)

### 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	2014 Effect on loss before tax £m	2013 Effect on loss before tax £m
Sterling	+150	(0.3)	(0.2)
US Dollar	+150	(0.1)	(0.1)
Euro	+150	(0.1)	(0.1)
Other	+150	–	(0.1)
		<b>(0.5)</b>	<b>(0.5)</b>

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

	2014 £m	2013 £m
Current assets/(liabilities):		
Forward foreign currency contracts: cash flow hedge	<b>0.1</b>	(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 (2013: £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.

## 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 2014 was £5.2m (1 April 2013: £6.4m). £0.6m of exchange gain (2013: £0.4m loss) on translation of the borrowings into Sterling is included as part of the hedging reserve movement in other comprehensive income as the hedge was deemed to be effective.

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

Currency	2014			2013		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Sterling						
– Financial liabilities	–	20.5	20.5	–	12.3	12.3
– Preference Stock	0.5	–	0.5	0.5	–	0.5
US Dollar	–	5.9	5.9	–	7.7	7.7
Euro	–	4.5	4.5	–	5.6	5.6
Other	–	0.1	0.1	–	6.5	6.5
	0.5	31.0	31.5	0.5	32.1	32.6

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

Exposure to the risk of changes in market interest rates relates 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 2014

	2014 £m	2013 £m
Cash at bank and in hand by currency		
Sterling	1.2	1.9
Euro	0.6	3.2
US Dollar	2.5	1.4
Other	2.4	3.3
	6.7	9.8

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

# Notes to the consolidated financial statements

## continued

### 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:

	One year or less on demand £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
<b>2014</b>					
Interest bearing loans and borrowings	–	–	32.7	–	32.7
Trade payables	17.3	–	–	–	17.3
Forward foreign exchange contracts – outflow	3.2	–	–	–	3.2
Preference Stock <sup>1</sup>	–	–	–	0.5	0.5
	20.5	–	32.7	0.5	53.7
	One year or less on demand £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
<b>2013</b>					
Interest bearing loans and borrowings	7.0	–	27.3	–	34.3
Trade payables	20.9	–	–	–	20.9
Forward foreign exchange contracts – outflow	5.4	–	–	–	5.4
Preference Stock <sup>1</sup>	–	–	–	0.5	0.5
	33.3	–	27.3	0.5	61.1

1 No fixed repayment date.

The Group has contracted forward contracts consisting of Euro forward contracts of nil (2013: £1.1m) and US Dollar forward contracts of £3.2m (2013: £4.3m) both of which are predominantly made up of sell contracts as the Group tends to have a surplus in both currencies.

A lease became onerous in 2014, see note 22 for details of rentals payable under this lease.

#### (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:

	2014 £m	2013 £m
Expiring within one year or less, or on demand	2.5	3.0
Expiring between one and two years	–	–
Expiring between two and five years	9.0	13.1
	11.5	16.1

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 2015.



## 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	
	2014 £m	2013 £m	2014 £m	2013 £m
Financial assets - cash	6.7	9.8	6.7	9.8
Financial liabilities – floating rate bank overdraft	0.1	0.6	0.1	0.6
Interest bearing loans and borrowings				
Floating rate borrowing	30.9	31.5	30.9	31.5
Preference Stock	0.5	0.5	0.5	0.5

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

With reference to the fair value hierarchy below the above financial instruments are level 2 except Preference Stock which is level 1.

### 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 2014, the Group held the following financial instruments measured at fair value:

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
<b>Assets measured at fair value</b>				
Forward foreign currency contracts: cash flow hedge	0.1	–	0.1	–

As at 31 March 2013:

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
<b>Liabilities measured at fair value</b>				
Forward foreign currency contracts: cash flow hedge	(0.2)	–	(0.2)	–

The fair value of derivatives has been calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

# Notes to the consolidated financial statements

## continued

### 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 2014 and 31 March 2013.

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.

	2014 £m	2013 Restated £m
Net debt (Note 24)	24.8	22.8
Total capital	15.6	28.6
Capital and net debt	40.4	51.4
Gearing ratio	61%	44%
Adjusted EBITDA <sup>1</sup> (£m)	16.5	11.8
Net debt to adjusted EBITDA	1.5 times	1.9 times

1 Adjusted EBITDA is calculated as operating profit before pension administration costs and exceptional items adding back depreciation and amortisation charges in the period.

### 26. Business combinations

There were no acquisitions in the current or prior year.

### 27. Post balance sheet events

There have been no post balance sheet events.

# Group five year financial review (unaudited)

	2014 £m	2013 Restated <sup>3</sup> £m	2012 £m	2011 £m	2010 £m
Group revenue	184.0	190.3	209.5	191.0	156.1
Operating profit/(loss) before exceptional items and pension administration costs	11.1	7.2	14.1	7.0	(2.1)
<b>Operating (loss)/profit</b>	<b>(1.3)</b>	<b>(6.4)</b>	<b>12.0</b>	<b>4.3</b>	<b>(4.8)</b>
(Loss)/profit before tax	(5.9)	(11.9)	7.6	(1.3)	(13.6)
Taxation	(4.8)	0.1	(1.2)	0.4	3.9
(Loss)/profit for the year	(10.7)	(11.8)	6.4	(0.9)	(9.7)
<b>Net assets employed</b>					
Tangible and intangible fixed assets	46.7	50.7	54.9	55.1	53.6
Working capital and other net assets	32.0	33.3	40.2	36.9	37.9
Operating assets	78.7	84.0	95.1	92.0	91.5
Goodwill	19.8	21.8	22.3	22.4	23.5
Net debt	(24.8)	(22.8)	(22.9)	(20.0)	(17.9)
Deferred and current taxation	17.0	19.4	15.9	15.2	21.8
Provisions	(7.7)	(1.9)	(1.5)	(1.2)	(1.1)
Net assets excluding pension obligations	83.0	100.5	108.9	108.4	117.8
Pension obligations	(64.9)	(69.5)	(55.7)	(51.5)	(73.0)
Total net assets	18.1	31.0	53.2	56.9	44.8
<b>Other data and ratios</b>					
Return on capital employed (restated) (%) <sup>1</sup>	11.1	6.5	12.2	6.1	(1.8)
Return on sales (restated) (%) <sup>2</sup>	6.0	3.8	6.7	3.7	(1.3)
Capital expenditure (£m)	7.1	4.9	5.6	6.6	4.2
Basic (loss)/earnings per share (restated) (p)	(4.9)	(5.4)	2.8	(0.4)	(8.0)
Employees at year end <sup>4</sup>	2,208	2,466	2,569	2,521	2,257

1 Being operating profit before exceptional items and pension administration costs divided by average operating assets and goodwill.

2 Based on operating profit before exceptional items and pension administration costs divided by revenue.

3 Only 2013 has been restated for the impact of IAS 19R and hence some of the income statement figures in the earlier years are not fully comparable.

4 Basis of calculation of employee numbers changed to include temporary workers in 2013 onwards.

# 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 2014 which comprise the Company balance sheet, the Company statement of total recognised gains and losses, the accounting policies and the related notes (i) to (xiv). 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 125, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## 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 2014;
- 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 Strategic report and 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 2014.

**Gary Harding**  
(Senior statutory auditor) for  
and on behalf of Ernst & Young LLP  
Statutory Auditor  
Manchester  
27 May 2014

# 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 Strategic Report, 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 three years, leaving 25% residual value
- Computer software: three to seven years.

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.

The results and financial position of Renold Scottish Limited Partnership (SLP) have been consolidated in the consolidated financial statements of Renold plc. Renold plc is a parent undertaking of the general partner in the SLP (see Note (xiv) to the Company financial statements). Accordingly, advantage has been taken of the exemption conferred by paragraph 7 of the Partnerships (Accounts) Regulations 2008 from the requirements for preparation, delivery and publication of the partnerships accounts.

# Accounting policies

## continued

### 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 2014

	Note	2014 £m	2013 £m
<b>Fixed assets</b>			
Tangible assets	i	6.7	7.0
Investments in subsidiary undertakings	ii	143.0	115.7
		149.7	122.7
<b>Current assets</b>			
Debtors	iii	2.3	12.9
Derivative financial instruments	vii	0.1	–
Cash and short term deposits		1.0	13.1
		3.4	26.0
<b>Creditors: amounts falling due within one year</b>			
Other creditors	iv	(8.8)	(3.3)
Derivative financial instruments	vii	–	(0.1)
<b>Net current (liabilities)/assets</b>		(5.4)	22.6
<b>Total assets less current liabilities</b>		144.3	145.3
<b>Creditors: amounts falling due after more than one year</b>			
Other creditors	iv	(62.5)	(62.5)
Bank borrowings	vi	(14.7)	(7.8)
Preference stock	vi	(0.5)	(0.5)
Provisions for liabilities	v	(0.3)	(0.6)
<b>Net assets</b>		66.3	73.9
<b>Capital and reserves</b>			
Called up share capital	ix	26.6	26.5
Share premium account	x	29.9	29.6
Profit and loss account	x	9.8	17.8
<b>Shareholders' funds</b>		66.3	73.9

Approved by the Board on 27 May 2014 and signed on its behalf by:

Robert Purcell  
Director

Brian Tenner  
Director

# Company statement of total recognised gains and losses

for the year ended 31 March 2014

	2014 £m	2013 £m
Loss for the year	(8.1)	(13.2)
Total recognised losses for the year	(8.1)	(13.2)

All attributable to the equity shareholders of the Company.

# Notes to the Company financial statements

## (i) Tangible assets

	Property £m	Equipment £m	Total £m
<b>Cost</b>			
At beginning of year	0.4	9.3	9.7
Additions at cost	–	0.7	0.7
<b>At end of year</b>	<b>0.4</b>	<b>10.0</b>	<b>10.4</b>
<b>Depreciation</b>			
At beginning of year	0.3	2.4	2.7
Depreciation for the year	0.1	0.9	1.0
<b>At end of year</b>	<b>0.4</b>	<b>3.3</b>	<b>3.7</b>
<b>Net book value at end of year</b>	<b>–</b>	<b>6.7</b>	<b>6.7</b>
Net book value at beginning of year	0.1	6.9	7.0

### Future capital expenditure

At 31 March 2014, contracted capital expenditure not provided for in these financial statements for which contracts have been placed amounted to £nil (2013: £nil).

## (ii) Investments in subsidiary undertakings

	Shares £m	Advances £m	Total £m
<b>Subsidiary undertakings</b>			
Cost or valuation			
At beginning of year	62.0	53.7	115.7
Net additions/(repayments)	–	27.3	27.3
<b>At end of year</b>	<b>62.0</b>	<b>81.0</b>	<b>143.0</b>

The principal subsidiary undertakings of the Company at 31 March 2014 are set out in Note (xiv).

## (iii) Debtors

	2014 £m	2013 £m
Amounts owed by subsidiary undertakings	1.6	12.1
Deferred tax asset	–	0.1
Other debtors	0.1	0.2
Prepayments	0.6	0.5
	<b>2.3</b>	<b>12.9</b>

The analysis of the deferred tax asset is as follows:

	2014 £m	2013 £m
All amounts falling due after more than one year:		
Decelerated capital allowances	–	0.1

Unrecognised deferred tax assets amount to £4.1m (2013: £1.8m), arising from unrecognised losses of £3.3m (2013: £1.7m) (representing losses of £16.4m (2013: £7.6m)) and other timing differences of £0.8m (2013: £0.1m). Based on available evidence it is considered unlikely that these amounts will be recovered within the foreseeable future. None of these losses are subject to time limits.

# Notes to the Company financial statements

## continued

### (iv) Other creditors

	2014 £m	2013 £m
Amounts falling due within one year:		
Trade creditors	0.7	1.3
Amounts owed to subsidiary undertakings	6.7	0.7
Other taxation and social security	0.2	0.2
Accruals	1.2	1.1
	<b>8.8</b>	<b>3.3</b>

	2014 £m	2013 £m
Amounts falling due after one year:		
Loan from subsidiary undertakings	62.5	62.5

A 25 year loan of £62.5m was established with Renold International Holdings Limited in the prior period. Interest of £2.5m per annum, increasing in line with RPI plus 1.5% capped at 5%, is payable for the period of the loan.

### (v) Provisions for liabilities

	2014 £m	2013 £m
At beginning of year	0.6	–
Redundancy provision	(0.3)	0.3
Onerous licence provision	–	0.3
At end of year	<b>0.3</b>	<b>0.6</b>

The redundancy provision was fully utilised during the year. It is anticipated that the onerous licence provision of £0.3m will be utilised over the remaining life of the ERP system which is deemed to be eight more years.

### (vi) Borrowings

	2014 £m	2013 £m
Amounts falling due after one year:		
Bank loans repayable in two to five years	14.7	7.8
Summary of total borrowings:		
Bank loans	14.7	7.8
Preference Stock	0.5	0.5
Total borrowings	<b>15.2</b>	<b>8.3</b>

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

#### Banking facilities

The Group's core banking facilities comprise a £41m Multi-Currency Revolving Credit Facility (MRCF), and an additional £8m of ancillary facilities which mature in October 2016. These facilities have been provided by a banking group comprised of Lloyds Bank plc and Svenska Handelsbanken AB. The MRCF is fully committed and available until maturity. See Note 14 to the consolidated financial statements for more details.

#### Preference Stock

Details of the Company's Preference Stock are set out in Note 14 to the consolidated financial statements.

**(vii) Derivative financial instrument**

	2014 £m	2013 £m
Forward foreign currency contracts – cash flow hedge	0.1	(0.1)

The Group has contracted forward contracts to sell foreign currency consisting of Euro forward contracts of £nil (2013: £1.1m) and US Dollar forward contracts £3.2m (2013: £4.3m).

**(viii) Pensions**

Employees of the Company include members of the principal UK defined benefit schemes. However, the contributions paid by the Company are accounted for under a defined contribution scheme, because the Company is unable to identify with any degree of reasonable certainty 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. See Note 18 to the consolidated financial statements for more details.

**(ix) Called up share capital**

	Issued 2014 £m	2013 £m
Equity interests		
Ordinary shares of 5p each	11.2	11.1
Deferred shares of 20p each	15.4	15.4
Preference Stock <sup>1</sup>	0.5	0.5
	27.1	27.0

<sup>1</sup> Included in borrowings – see Note (vi).

At 31 March 2014, the issued ordinary share capital comprised 223,064,703 ordinary shares of 5p each (2013: 221,064,453) and 77,064,703 deferred shares of 20p each (2013: 77,064,703).

In August 2013, the Company issued 2,000,250 fully paid ordinary shares of 5p each (2013: 1,499,750) pursuant to the exercise of Warrants by Royal Bank of Scotland at a price of 21.06p. The warrants had a seven year term commencing from 13 August 2009 during which they could be exercised at any time and were granted as part of the re-financing agreed with the Group's banks at that time. There are no outstanding warrants as at 31 March 2014.

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

# Notes to the Company financial statements

## continued

### Share options

At 31 March 2014, unexercised options for ordinary shares amounted to 7,609,971 (2013: 5,343,642) made up as follows:

Date normally exercisable	Scheme	Option price (p per share)	Number of shares 2014	Number of shares 2013
Within seven years from:				
27 November 2006	1995 Scheme	71.1	–	41,104
22 November 2007	2004 Scheme	63.3	29,360	88,080
26 July 2009	2004 Scheme	52.5	64,592	164,415
02 January 2010	2004 Scheme	97.2	46,976	93,952
27 September 2013	2004 Scheme	27.3	678,898	678,898
08 June 2014	2004 Scheme	37.3	1,966,406	2,873,706
31 July 2015	2004 Scheme	29.4	258,449	258,449
21 January 2016	2004 Scheme	26.2	1,145,038	1,145,038
25 July 2016	2013 Scheme	0.0	2,579,938	–
26 September 2016	2013 Scheme	0.0	319,427	–
06 December 2016	2013 Scheme	0.0	520,887	–
			<b>7,609,971</b>	5,343,642

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.

### (x) Reserves

	Profit and loss account £m	Share premium £m	Total reserves £m
<b>At beginning of year</b>	17.8	29.6	<b>47.4</b>
Loss for the year	(8.1)	–	<b>(8.1)</b>
Proceeds from share issue	–	0.3	<b>0.3</b>
Employee share option schemes – value of employee services	0.1	–	<b>0.1</b>
<b>At end of year</b>	<b>9.8</b>	<b>29.9</b>	<b>39.7</b>

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 £8.1m (2013: loss £13.2m).

Total fees payable by the Company to Ernst & Young LLP for work in respect of the audit of the Company were £30,000 (2013: £50,000). 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.

### (xi) 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:

	2014 £m	2013 £m
Leases expiring:		
– between one and two years	0.2	–
– between two and five years	–	0.2
	<b>0.2</b>	0.2



**(xii) Contingent liabilities**

The Company has guaranteed borrowings by subsidiary undertakings of £0.2m (2013: £9.4m). No material loss is expected to arise as a result of these contingent liabilities.

**(xiii) 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 2014 (and 2013) with Renold Transmission Technology (Jiangsu) Inc. are not material. Transactions entered into and trading balances outstanding at 31 March with Renold (Hangzhou) Company Limited and Renold Chain India Private Limited are as follows:

	2014 £m	2013 £m
Amounts receivable as at 31 March		
– Renold (Hangzhou) Company Limited	0.1	–
– Renold Chain India Private Limited	0.2	–
	0.3	–
Amounts payable as at 31 March		
– Renold (Hangzhou) Company Limited	–	(0.1)
	–	(0.1)

**Transactions with key management personnel**

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

**(xiv) Significant undertakings as at 31 March 2014****United Kingdom**

Renold Power Transmission Limited (held directly by Renold plc)

Renold International Holdings Limited

Renold Europe Limited

Renold Scottish Limited Partnership (Address: 3-5 Melville Street, Edinburgh, Scotland, UK EH3 7PE)

**Europe (other than the United Kingdom)**

**Austria** Renold GmbH

**France** Brampton Renold SAS

**Germany** Renold GmbH

**Russia** Renold Russia (Obshchestvo s Ogranichennoj Otvetstvennost'yu)

**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.

Renold Chain India Private Limited

**India**

**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

# Notes to the Company financial statements

## continued

The subsidiary undertakings listed 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, Renold International Holdings Limited and Renold Europe Limited are registered in England and Wales.

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

	Equity shares	Voting rights
<b>Subsidiary undertaking</b>		
Renold (Hangzhou) Company Limited	90%	90%
Renold Chain India Private Limited	75%	75%
<b>Jointly controlled entity</b>		
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	22 July 2014
Interim management statement (first)	Between 9 June 2014 and 17 August 2014
Half year end 2014/15	30 September 2014
Announcement of half year 2014/15 results	November 2014
Interim management statement (second)	Between 9 December 2014 and 16 February 2015
Year end 2014/15	31 March 2015
Announcement of annual results 2014/15	May 2015
Payment of preference dividends	1 July 2014 and 1 January 2015

## Company details

<b>Registered office</b>	Registered number: 249688
Renold House	Telephone: +44 (0)161 498 4500
Styal Road	Fax: +44 (0)161 437 7782
Wythenshawe	Email: enquiry@renold.com
Manchester	Website: www.renold.com
M22 5WL	

## Company Secretary

Louise Brace

## Auditor

Ernst & Young LLP

## Broker and financial adviser

Arden Partners

## Financial PR consultants

Instinctif Partners Limited

## Registrars

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

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

If calling from overseas: +44 208 639 3399

Email: shareholderenquiries@capita.co.uk

Website: www.capitaassetservices.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.

# Glossary

2013 PSP	2013 Performance Share Plan (approved by shareholders at the 2013 AGM).
Adjusted	Add back pension administration costs and exceptional items.
AGM	Annual General Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.
Board	The Board of Directors of the Company (for more information see pages 46 to 47).
CAGR	Compound Annual Growth Rate.
Company, Group, Renold, we, our or us	We use these terms, depending on the context, to refer to either Renold plc itself or to Renold plc and its subsidiaries collectively.
Directors/Executive Directors/ Non-Executive Directors	The Directors/Executive Directors and Non-Executive Directors of the Company whose names are set out on pages 46 and 47 of this Report.
EBITDA	Earnings before interest, tax, depreciation and amortisation. Calculated as operating profit before pension administration costs and exceptional items adding back depreciation and amortisation charged.
EPS	Earnings per share. Profit for the year attributable to equity shareholders of the parent allocated to each ordinary share.
EY	The Company's external auditor, Ernst and Young LLP.
FCA	Financial Conduct Authority.
Financial Year	For Renold this is an accounting year ending on 31 March.
FRS	A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC).
IAS or IFRS	An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole. Financial statements are prepared in independence with IFRS as adopted by the EU.
LTA	Lost Time Accident.
Ordinary shares	Voting shares entitling the holder to part ownership of a company.
ROCE%	Return on Capital Employed is calculated as follows: operating profit before pension administration expenses and exceptional items divided by average operating assets and goodwill. Operating assets include tangible and intangible fixed assets, working capital, other non-current assets.
ROS%	Return on sales is calculated as follows: operating profit before pension administration expenses and exceptional items divided by revenue.
Subsidiary	A company or other entity that is controlled by Renold.
Governance Code	Guidance, issued by the Financial Reporting Council in 2010, on how companies should be governed, applicable to UK listed companies including Renold. A new edition of the UK Corporate Governance Code was published in September 2012 (the <b>new Governance Code</b> ).
UK GAAP	United Kingdom Generally Accepted Accounting Practice. Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.
Underlying	Restate prior period information at current year exchange rates.



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**Renold plc**

Renold House

Styal Road

Wythenshawe

Manchester M22 5WL

Telephone: +44 (0)161 498 4500

Web: [www.renold.com](http://www.renold.com)