RENOLD

Renold plc Annual Report and Accounts
for the year ended 31 March 2018

Re-shaping for success.

www.renold.com Stock code: RNO

Introduction

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.

Our Values

- Operate with integrity
- Value our people
- Work together to achieve excellence
- Accept accountability
- Be open-minded

READ MORE ABOUT **OUR VALUES**
ON PAGE 42

Our key areas of focus

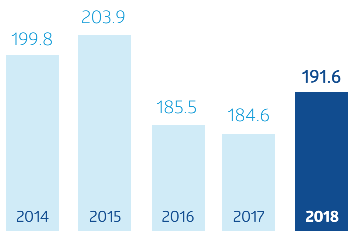
Our objective at Renold is to deliver mid-teens operating margins. The STEP 2020 Strategic Plan provides a framework to deliver the key actions that will generate the improvements supporting progress towards achieving this objective. STEP 2020 is built on a bedrock of continuous improvement that is applied to add value in all of our business processes. Through STEP 2020 and our strategic goals, we are re-engineering everything that we do.

STEP 2020 RENOLD | STEP 2020 RENOLD | STEP 2020 RENOLD | STEP 2020 RENOLD | STEP 2020 RENOLD

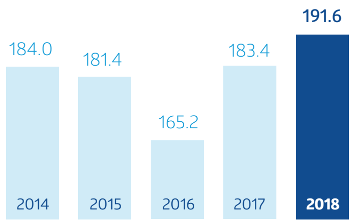
READ MORE ABOUT **OUR STRATEGY**
ON PAGES 12 AND 13

Highlights

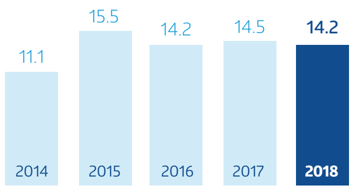
UNDERLYING[1] REVENUE (£m)
£191.6m



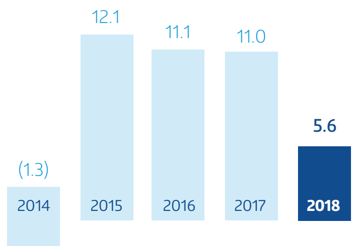
REVENUE (£m)
£191.6m



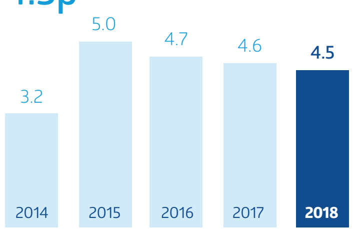
ADJUSTED[2] OPERATING PROFIT (£m)
£14.2m



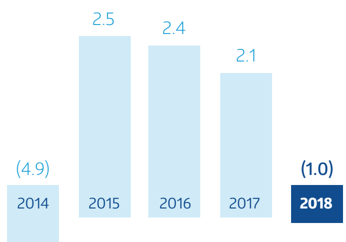
OPERATING PROFIT (£m)
£5.6m



ADJUSTED[2] EARNINGS PER SHARE (pence)
4.5p



EARNINGS PER SHARE (pence)
(1.0)p



1. Underlying results for prior years are retranslated to current year exchange rates for foreign currencies.
2. The Group uses alternative performance measures to provide useful historical financial information to help investors evaluate the underlying performances of the business. A reconciliation to reported results is included in Note 1 to the consolidated financial statements.

Contents

OVERVIEW

Group at a Glance

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

Chain

A global market leading supplier of chain for many applications including heavy duty, high precision, indoor or outdoor, high or low temperature and in clean or contaminated environments. We have manufacturing sites across the world including the USA, Germany, India, China, Malaysia and Australia 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.

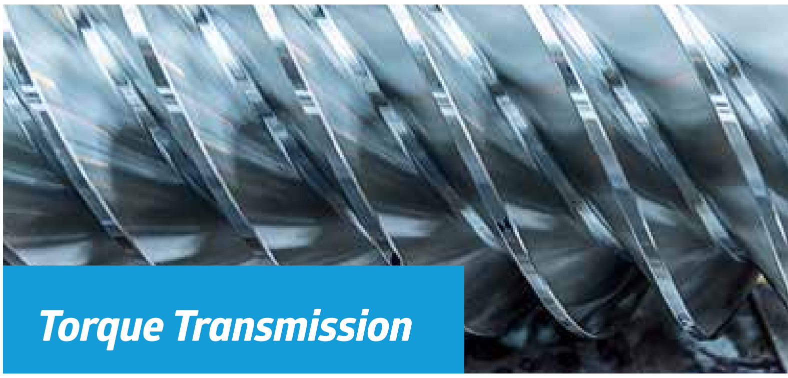
Our vast range of roller chains means that for most requirements there is a Renold solution. Our premier brand, Renold Synergy, offers unbeatable wear and fatigue performance, while our all-purpose range of standard chain provides affordable reliability. Continuous research, development, innovation and 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.

Conveyor chain applications, including theme park rides, water treatment plants, cement mills, agricultural machinery, mining and sugar production, all rely on the high-specification materials and processes used by Renold. Renold is also a market leader in leaf chain used in many of the forklift trucks produced worldwide.

Our high specification Tooth Chain (sometimes known as silent chain) produces a wide range of inverted Tooth Chain for drives and for conveying applications. Offering a high degree of economic efficiency and reliability, Tooth Chain applications are wide-ranging and include glass production and automobile assembly lines.

ADJUSTED OPERATING PROFIT	RETURN ON SALES	EMPLOYEES AT 31 MARCH 2018
£14.7m	**9.6%**	**1,641**

READ ABOUT OUR THE PERFORMANCE OF OUR **CHAIN DIVISION** ON PAGES 20 AND 21



Torque Transmission

A global manufacturer and developer of industrial 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 USA, the UK and South Africa. Our design capability and innovation is recognised by customers around the world and is utilised in customising our gearboxes and couplings to meet our 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.

In a number of locations we also offer service and maintenance from our own teams of engineers. These services can be provided in our own facilities or in the field.

ADJUSTED OPERATING PROFIT	RETURN ON SALES	EMPLOYEES AT 31 MARCH 2018
£4.8m	**12.5%**	**358**

READ ABOUT OUR THE PERFORMANCE OF OUR **TORQUE TRANSMISSION DIVISION** ON PAGES 22 AND 23

Our international network includes **eight countries** where we both manufacture and sell and a further **eleven countries** where we have sales companies, strategically located to support our customers within our two operating divisions.

Renold employed an average of 2,049 people around the world in the last year, with 52% of our staff engaged in direct production activities.

AMERICAS

Renold Jeffrey and Renold Ajax have been well known participants in the North American markets for many years.

Renold Jeffrey manufactures conveyor (engineering) chain and large pitch chain and sells transmission chain sourced from elsewhere in the Group.

Renold Ajax focuses on gear spindles and other HiTec coupling products.

EUROPE

Renold Chain and Renold Tooth Chain operate from our two European manufacturing locations in Germany. Along with our European Distribution Centre, these facilities export transmission chain all over the world.

Renold Torque Transmission operates two plants in the UK exporting a range of gears and couplings products all over the world.

ASIA PACIFIC

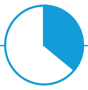
We operate manufacturing plants in Australia and Malaysia. These are supplemented by additional sales centres in New Zealand, Malaysia, Indonesia and Thailand.

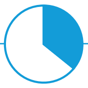
We also operate our own distribution networks in Australia and Malaysia. We sell a wide range of chain and torque transmission products.

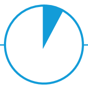
HIGH GROWTH ECONOMIES

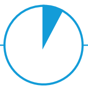
Our Chinese chain plant primarily serves sister companies with a range of transmission chains and has a smaller, but fast-growing, local focus.

Our Indian business was acquired in 2008 and manufactures a broad range of transmission and conveyor chain with 81% of output destined for the local market.


38% of global sales*


39% of global sales*


10% of global sales*


8% of global sales*

* Remaining 5% relates to exports to other territories.

READ MORE ABOUT OUR **MARKETPLACE** ON PAGES 6 AND 7

Chairman's Letter

"We remain focused on executing our STEP 2020 Strategic Plan, in order to deliver sustainable improvements in performance. We have delivered a third year of consistent annual adjusted operating profits in volatile market conditions."

MARK HARPER
CHAIRMAN

READ MORE ABOUT OUR **STRATEGY** ON PAGES 12 AND 13

READ MORE ABOUT OUR **PERFORMANCE** ON PAGES 14 TO 29

READ MORE ABOUT OUR **GOVERNANCE** ON PAGES 56 TO 58

Overview

During the year ended 31 March 2018, Renold has continued to make progress in the delivery of its strategic plan, with the benefits evident in a number of areas across the business. Organic growth has been achieved for the first time in a number of years as improving macroeconomic conditions combine with progress in developing the Group's commercial and sales operations. The financial benefit of this organic growth, however, has been absorbed this year by significant increases in raw material costs. Despite this, adjusted operating profit has been held stable at levels consistent with the previous two financial years, and after increased depreciation from our investment programme.

Our Markets

Market conditions improved through the year as industrial customers returned to growth following the challenging market conditions experienced during the years ended 31 March 2016 and 31 March 2017. European markets moved first during the latter part of the year ended 31 March 2017. The rate of growth in Europe slowed through the year and has been superseded by growth in the Americas, where Canada has been particularly strong, and by India and China. Australasia has lagged the cycle, but recent orders suggest an improving demand in heavy industry, such as the mining and quarrying sectors.

Trading Performance

Revenue grew by 4.5% in the year (3.8% excluding the impact of foreign exchange movements), demonstrating the benefits of the investment that has been made in strengthening the commercial functions across the world over the last few years.

Following a number of years of benign and slowly reducing raw material prices, the year to 31 March 2018 experienced significant increases over a short period of time, particularly for steel, the key raw material for the Group. Sales price increases have been implemented across all territories to recover the additional costs being incurred. However, continuing increases in raw material prices, and the time required for us to pass these on to customers, resulted in a dilution of operating margins.

Adjusted operating profit of £14.2m was broadly consistent with the £14.2m and £14.5m delivered in the financial years ended 31 March 2016 and 31 March 2017 respectively.

While this is disappointing, adjusted operating profits have remained stable despite the significant and rapid movement in raw material costs. This demonstrates that the strategic actions being delivered have improved the resilience of the underlying business and, as the impact of raw material price increases abates, we expect to see these improvements delivering increases in adjusted operating margins.

Step 2020 Strategic Plan

I am pleased to be able to report that we continue to make strong progress in delivering key projects in support of the Step 2020 Strategic Plan.

This time last year, I reported that we had commenced a programme to relocate our chain manufacturing facility in China from Hangzhou to a purpose-built factory in Jintan, near Changzhou in Jiangsu province. I am pleased to confirm that construction of the new facility is well advanced. The transfer of manufacturing operations is scheduled to take place over the coming months, with full production from the new facility projected to commence by the end of the financial year.

In addition to this major change project, we also completed the closure of sub-scale manufacturing facilities in China (Torque Transmission) and New Zealand (Chain) with both locations now focused on sales and distribution. In the latter part of the year, we also closed our sales office in Singapore, transferring all customers to our existing sales office in Kuala Lumpur, Malaysia, from where they can be served more effectively.

We continue with our programme to roll out our chosen business systems solutions, including the ERP system and associated scheduling and engineering systems.

A number of important health and safety initiatives have continued through the year and I am very pleased that we have again seen further improvements. For the first time, we have awarded the Excellence Award, the highest level of our Health and Safety Award Schemes. Sites in Westfield (US), Mulgrave (Australia) and Kuala Lumpur (Malaysia) were awarded the Excellence Award for their performance in the financial year. Many congratulations to all of the teams involved.

The third element of the STEP 2020 Strategic Plan addresses acquisitions and the Group's appetite to grow through selective acquisitions. We continue to be committed to this element of the strategy and, in preparation for future acquisitions, we exercised the accordion facility on the Group's Multi-Currency Revolving Credit Facility during the year. The increased facility creates additional headroom for opportunistic acquisitions as and when they arise.

The Board and People

As previously reported, as part of a programme of orderly succession, John Allkins stepped down as Chairman of the Audit Committee and Senior Independent Director at the AGM in July 2017. David Landless has taken up the role of Chairman of the Audit Committee and Ian Griffiths has been appointed as Senior Independent Director. John will continue as a Non-Executive Director until his retirement from the Board at the 2018 AGM. I would like to extend my thanks to John for his valuable contributions during his tenure.

The Board continues to support the Executive team in reviewing and monitoring key activities under the STEP 2020 Strategic Plan. The Board remains closely involved in the oversight of the major project deliverables and all Board members have continued to give additional time and support on a wide range of issues during the year.

On behalf of the Board, I would like to thank all our employees for their continued hard work during the year as we progress the Group's strategy. The contribution of each employee is valued and appreciated.

Pensions

The Group's retirement benefit obligations decreased to £97.4m (2017: £102.0m), with the largest element of the decrease relating to contributions made to the schemes through the year.

The Group remains committed to progressively de-risking this position over time through a combination of agreed contributions to the schemes and specific de-risking projects as they become viable.

Dividend

The Board fully recognises the importance of dividends to shareholders. However, given the need to balance this with our planned capital investments, particularly in the new Chinese facility, the Board has decided not to recommend the payment of a dividend for the year ended 31 March 2018. We continue to make major investments in the Group's infrastructure and manufacturing plant and believe that this ongoing investment provides the optimal route to increasing shareholder value. This approach will remain under active review for future periods.

Summary

Market conditions improved through the year and combined with strengthened commercial teams to deliver organic growth for the first time in a number of years. While volatile raw material prices have had a disruptive effect during the year, we believe this to be a short term impact which will recover over time. The improved performance in the second half of the year is evidence that this recovery has commenced.

We have not allowed this year's challenges to stand in the way of delivery of the STEP 2020 Strategic Plan and continue to deliver significant business improvements. We are making good progress and continue to believe that mid-teens operating margins can be delivered, supported by volume increases.

Mark Harper
CHAIRMAN

29 May 2018

Market Review

Renold is a leading manufacturer and distributor of power transmission products and operates as two separate divisions: Chain and Torque Transmission. The Chain division has eight production facilities and a local presence in 18 countries, strategically placed to serve our customers on a global basis. In Torque Transmission we operate a number of specialised niche businesses that produce and sell a range of specialist products in both the industrial couplings and industrial gear markets. The key elements of our market proposition are common across both divisions: technical excellence, value adding innovative product ranges and exceptional quality.

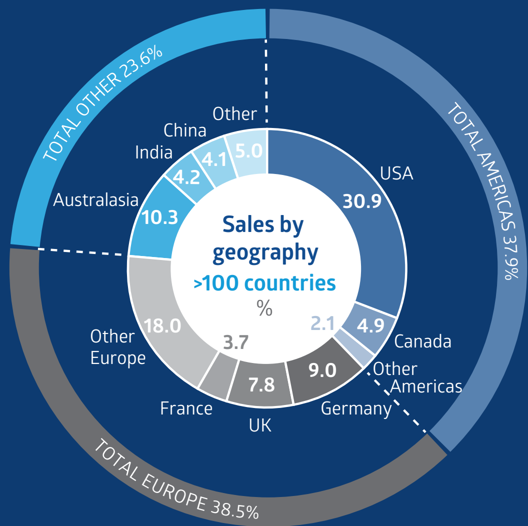
Global presence – local markets

Renold continues to benefit from its presence in a wide spread of geographic markets and even wider range of diverse end user applications across a myriad of industry sectors.

Our global manufacturing footprint not only enables the business to control product specification and quality, but positions us well to service customers with a rapid response in both our traditional geographic territories and within emerging markets. For example, our facilities in India, China and Malaysia combine to offer an excellent platform for growth in Asia whilst also supporting established markets in Europe, the Americas and Australasia.

Our global sales and distribution network is designed to offer local commercial support and rapid delivery, ensuring that we meet our customers' exacting specifications. It also enables the aggregation of overall demand to drive economies of scale within our factories. Whilst engineering and product development is coordinated globally, local support teams ensure that we are able to rapidly understand and provide solutions for customers' often technically challenging power transmission and conveying applications.

Revenue by geography



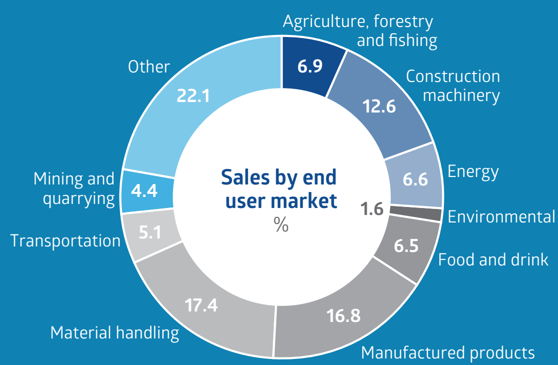
End-user markets

Power transmission products are used within an extremely broad spread of applications. With a very diverse and numerically large customer base, Renold's reliance on any single customer is relatively low. Our biggest global customer represents 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.

Similarly, the business enjoys little reliance on any one particular industry with sales spread across most general industrial markets such as construction machinery, material handling, transportation, mining and quarrying, food processing, energy production, agriculture, leisure and many more.

The chart demonstrates the spread of revenue across a wide range of end-customer markets. However, the data only includes 57% of Renold's revenue as the remaining 43% is supplied by Renold to distributor customers. These distributors will in-turn supply products to their end-customers who are likely to further diversify the end-customer base into which Renold's products are supplied.

Revenue by sector



Routes to market

In order to successfully target the diverse end-customer sectors, Renold goes to market through three main customer channels:

- **Original equipment manufacturers (OEMs);**
- **Distributors; and**
- **End-users.**

This combined approach provides options to our end-user customers to identify and select Renold products in a way that most optimally aligns to their business model.

READ MORE ABOUT OUR **PERFORMANCE** ON PAGES 14 TO 29

OEMs

Customers in this segment typically value the technical expertise that Renold can bring to bear in providing solutions to increasingly demanding applications as their own products are developed. An example of this are our gearbox solutions provided by the Torque Transmission division to lower volume manufacturers of original equipment.

In instances where, due to size or specification requirements, standard products are not suitable, Renold is able to design a solution which becomes integral to the equipment design.

In the year ended 31 March 2018, 38% of revenue was through the OEM channel.

DISTRIBUTORS

The sophistication and reach of distributor networks varies greatly around the world. In India, for example, distributors are generally small single site operations, or small local networks. They provide a local inventory holding for standard products. At the opposite end of the scale are the large national US distribution networks who are able to provide both standard product across a very broad product range and are also able to develop, along with their supply chain partners, specialist solutions for customers.

In the year ended 31 March 2018, 43% of revenue was through the distributor channel.

END-USERS

While not always a well-defined category, end-user demand is generally to support larger and more complex service and MRO (maintenance, repair and overhaul) applications where customers gain value from dealing direct.

In the year ended 31 March 2018, 19% of revenue was through the end-user channel.

38% OF REVENUE

43% OF REVENUE

19% OF REVENUE

Market summary

Performance in the year was against an improving backdrop of macroeconomic conditions within our core geographic markets. While the economic backdrop over the previous few years had been challenging for industrial markets, market conditions have improved with growth in industrial production and an improvement in the number of capital projects.

In anticipation of improving market conditions, we had previously strengthened the commercial team across all areas of the business. Within Europe and the Americas, our sales teams have been reorganised with dedicated teams adopting a more market focused approach. Significant investment in additional sales resource has also been made in higher growth Asian markets.

The combined effect of improving market conditions and the actions implemented to ensure we were well positioned to take advantage of the improvement has resulted in underlying revenue growth of 3.8% in the year ended 31 March 2018.

Our Business Model

The Renold business model is focused on leveraging the unique knowledge and capabilities of our people and facilities to generate value for our stakeholders. The continuous value generation cycle that underpins STEP 2020 is shown below.

KNOWLEDGE

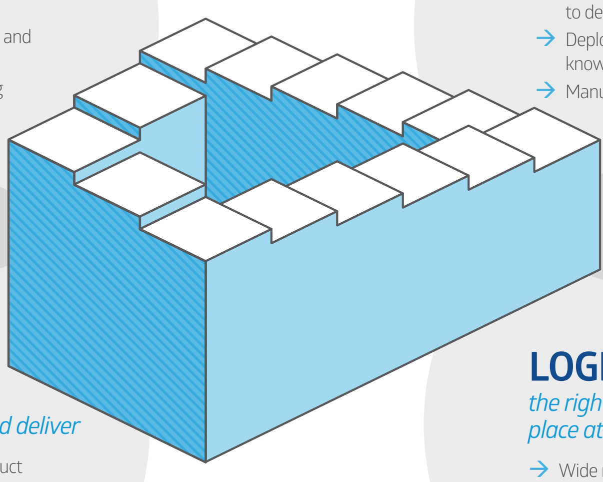
of customer problems, products and solutions

- Reviewing after-sales service means we continue to learn and deliver.
- Deep understanding of metallurgy and chemistry in real world scenarios.
- Practical application of engineering excellence.

SKILLS AND FACILITIES

the ability to conceive and deliver these solutions

- Bringing our unparalleled engineering capability to design customer solutions.
- Deploying over 100 years of manufacturing know-how to create superior products.
- Manufacturing capability in most major regions.



LOGISTICS

the right product in the right place at the right time

- Wide range of stocked products can reduce supply chain complexity.
- Daily shipment options respond to customer specific needs.
- Rapid response cells geared up for swift deliveries.

SERVICE

unique after-sales service means we continue to learn and deliver

- After-sales service centres and product performance monitoring.
- Rapid response offering on standard configured chain and standard transmission chain.
- Getting closer to customers in more locations.

Our business model is underpinned by...

People

We are building a strong, highly skilled team with a clear set of values and stretching targets. Our approach combines new skills for existing staff and new capabilities from recruits.

Assets

We are upgrading our infrastructure and process capability to be an appropriate match for our strategic goals. This will support better quality and service and also lower our breakeven point.

Partners

We work in long-term collaboration with a wide range of general and specialist suppliers. This supports our ability to source complex materials for our leading edge solutions.

Our business model creates value for our customers…

End-users

- Expert knowledge
- Bespoke solutions
- Unique problems understood and solved
- The Renold brand and unparalleled engineering capability

19% of sales

OEMs

- Range of facilities and capabilities
- Bespoke solutions
- Meeting their own customer needs
- The Renold brand and unparalleled engineering capability

38% of sales

Distribution

- Trust and customer support
- Reliability
- Access to broad product range
- The Renold brand and unparalleled engineering capability

43% of sales

READ ABOUT **THE CUSTOMER JOURNEY** ON PAGES 10 AND 11

…and for our stakeholders

Our shareholders

- WE HAVE A DETAILED STRATEGY FOR GROWTH

READ MORE ABOUT OUR **STRATEGY** ON PAGES 12 AND 13

Our partners

- A LONG-TERM RELATIONSHIP
- A COLLABORATIVE PROCESS

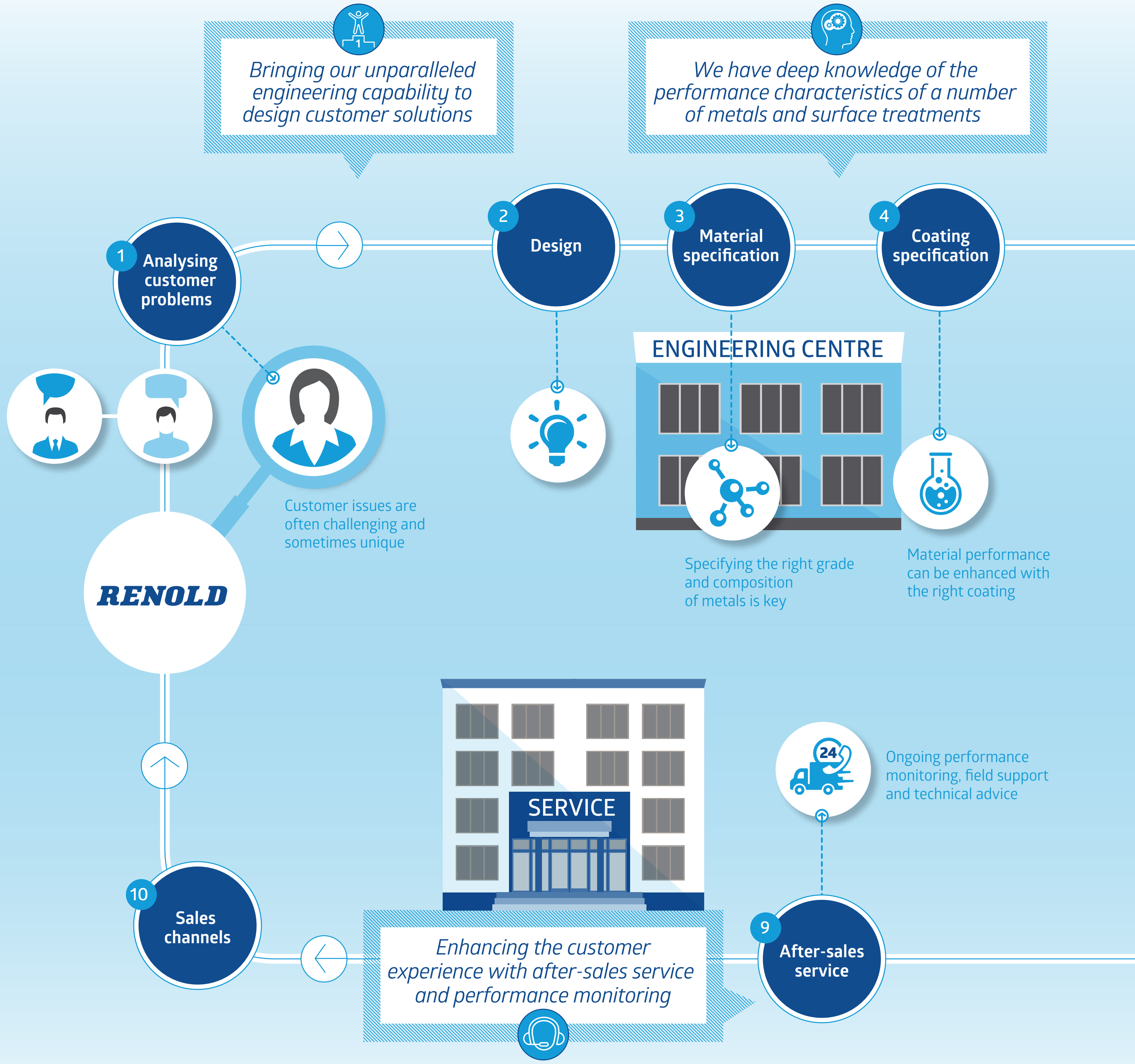
Our employees

- DEVELOPMENT OF TALENT
- THE ABILITY TO WORK FOR A BUSINESS WHOSE VALUES ALIGN WITH THOSE OF THE EMPLOYEE

READ ABOUT **PEOPLE** ON PAGES 40 AND 41

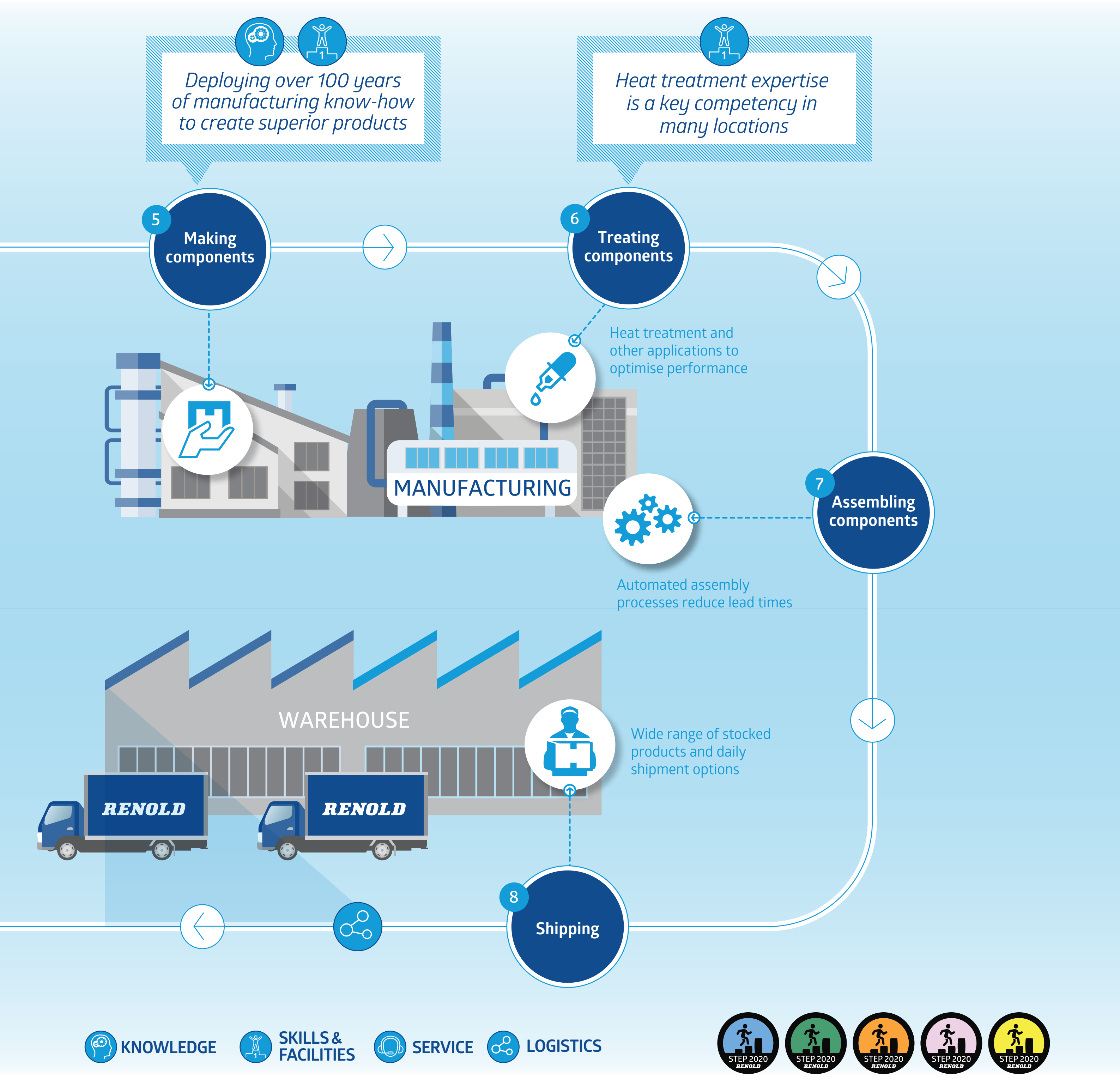
Our Customer Journey

Our activities range from diagnosing our customers' specific power transmission application challenges, to proposing the right material solutions, to formulating their often complex properties, to cutting and heat treating the components and finally to assembling the finished product.



READ MORE ABOUT OUR **STRATEGY** ON PAGES 12 AND 13

We add value during our customer journey from our unrivalled engineering capability, 100+ years of know-how on solving power transmission challenges and enhanced after-sales service.



Chief Executive's Review

"We continue to progress our Strategic Plan. Organic revenue growth is being delivered, and we continue with restructuring and investing in order to sustainably improve operating margins."

ROBERT PURCELL
CHIEF EXECUTIVE

Our Strategy

Our three phase strategic plan...

PHASE 3 *Acquisitions*

The market for industrial chain remains highly fragmented across geographies and sector niches. Acquisitions have the potential to deliver value from:

- Accessing incremental growth opportunities in new product sectors or new end-user markets
- Providing routes to new geographic markets for Renold's existing product range
- Consolidating volume into facilities with efficient business processes and efficient manufacturing capabilities

Renold has the underlying characteristics to make the Group a natural consolidator in the industrial chain market. Our reputation, broad product range and geographic reach provide a strong foundation for integration.

PHASE 2 *Organic Growth*

Renold has strong market share in certain geographic markets and product categories. However, the fragmented nature of the power transmission market and the diversity of end-user markets creates significant opportunities for organic growth.

Improving our sales and marketing

We are targeting specific end-user markets where growth opportunities can help to mitigate the cyclicality experienced in industrial markets. Through direct interaction with our end-customers, we will reinforce our reputation for quality engineering solutions and high performance products.

Enhanced customer service

Historical levels of customer service have not been at sufficiently high standards and have not matched our reputation for product quality. We are working to evolve and enhance our service offer for standard products and for highly engineered bespoke solutions.

PHASE 1 *Restructuring*

Restructuring is the area of greatest progress to date since the commencement of the STEP 2020 Strategic Plan in 2013. While many projects have been successfully implemented, numerous opportunities remain to improve efficiency and effectiveness.

Right size our cost base and improve manufacturing efficiency

We aim to enhance flexibility of existing capacity through enhanced automation, leading to a direct improvement in variable and net margins.

Optimise business processes

We aim to deliver business processes with the same degree of flexibility that we are targeting for our operations. By implementing simple, repeatable and standardised business processes, we will lower our costs.

Improve our product margins

We aim to achieve appropriate value for the highly technical products we offer to the market.

Make the right hires to drive growth

We will invest in our people to enable them to match the performance of our enhanced manufacturing and business processes. In some cases, this will involve new talent and ideas being brought into the business.

...is being implemented through our staircases...

Business process efficiency

Manufacturing efficiency

Commercial positioning

Corporate efficiency

Growth activities

READ MORE ABOUT THE STAIRCASES ON PAGES 14 AND 15

...to deliver our strategic objectives...

SIGNIFICANTLY IMPROVING OUR HEALTH AND SAFETY PERFORMANCE

GENERATING MARGIN ENHANCING GROWTH FROM OUR SUPERIOR PRODUCT CAPABILITY

ENHANCING CUSTOMER SERVICE

OPTIMISING BUSINESS PROCESSES

LOWERING OUR BREAKEVEN POINT

DEVELOPING OUR PEOPLE

STRENGTHENING AND DE-RISKING OUR BALANCE SHEET

...in support of our strategic goal

TO DELIVER MID-TEENS NET OPERATING MARGINS THROUGH A COMBINATION OF RESTRUCTURING THE GROUP, DELIVERING ORGANIC GROWTH AND COMPLETING VALUE ENHANCING ACQUISITIONS

Chief Executive's Review

We continue to progress our Strategic Plan. Organic growth is being delivered, benefiting from the structural changes made over the last few years, combining with improvements in the Group's core industrial markets. Adjusted operating margins have been impacted by significant raw material price increases during the year, and by the pace with which we have been able to pass these through to customers. Action continues to be taken on customer pricing to reflect continuing increases in raw material costs and we expect to see the benefit of these actions when raw material prices stabilise. We have not allowed these challenges to delay or obstruct our strategic progress and continue to take the actions required to deliver sustainable improvements in performance.

Overview

The investment we have made in our commercial teams is now starting to pay off and is being supported by improving market conditions in our end-user markets. Organic growth has been delivered for the year ended 31 March 2018, following two years of declines in underlying revenue. Underlying revenue increased by £7.0m to £191.6m and it is particularly pleasing to note that the revenue growth is spread across our divisions and our geographic territories.

The improving economic backdrop amongst other factors, has resulted in significant price inflation for basic raw materials. For Renold, the most important raw material is steel and prices increased substantially over the year in all our geographic regions. The speed of change has been rapid and at a faster rate than we have passed on to customers through sales price increases. In the year ended 31 March 2018, raw material cost as a percentage of revenue has increased by 200bps, directly impacting upon the Group's adjusted operating profit margin which fell to 7.4% (2017: 7.9%).

In addition to the cost increases arising from increasing raw material prices, margins were also impacted by the effects of major machine breakdowns in the second quarter of the year at our facility in Einbeck, Germany. These breakdowns temporarily reduced manufacturing capacity, resulting in reduced availability of key lines. In order to mitigate the impact on key customers, the business incurred increased shipping costs as air-freight was used to reduce disruption to supply.

On a reported basis, adjusted operating profit decreased to £14.2m (2017: £14.5m). Adjusting for the impact of foreign exchange movements in the year, underlying adjusted operating profit reduced by £0.7m, with a £1.5m reduction for the first half of the year offset by growth of £0.8m in the second half. The increase in adjusted operating profit from £6.0m in the first half of the year to £8.2m for the second half demonstrates progress against the factors impacting first half profitability.

Order intake improved in both the Chain and Torque Transmission divisions, with total orders 5.4% ahead of revenue for the year as a whole. Growth in Chain Europe has been slower, following a strong second half in the prior year. In other territories, order intake grew as market conditions improved.

STEP 2020 Strategic Plan – *update on progress*

PHASE I – *Restructuring*

→ Manufacturing efficiency

In the latter part of the prior year, we merged our UK Couplings manufacturing operations to a single facility in Cardiff. The consolidated business has been operating from the single location from the start of the financial year and is a key element in the improved trading performance of Torque Transmission. Order intake remains strong, and the decision to focus manufacturing in one location, justifying investment in state-of-the-art production equipment, has been well received by key customers.

During the year, we closed the manufacturing activities of two small sub-scale operations: New Zealand in the Chain Division and China in the Torque Transmission Division. In both cases, the manufacturing operations did not have sufficient critical mass to be efficient as stand-alone units and the manufacturing has been absorbed into other sites around the world. In both instances, sales functions continue to operate in-country and act as the point of contact for Renold's products manufactured elsewhere in the world.

We previously set out our plans to relocate the Chinese chain manufacturing facility to a purpose-built facility near Changzhou in Jiangsu province. This is a significant factory move which will take around 18 months to

two years to complete. During the year, we have been coordinating the factory build programme which is now well advanced. The project remains on plan with the new facility expected to open during the second half of the year ending 31 March 2019.

→ Business process efficiency

The most significant element of the programme to improve business process efficiency is the implementation of the Group's ERP system across all its sites. Progress continues and our Swiss Chain business unit was the latest to 'go-live'. This is the first of our European Chain business units to implement the system and a large proportion of the initial set-up relates to the European Chain business as a whole. As a result, we expect the roll out programme to accelerate as the programme progresses. Preparations for roll out to the Chain businesses in China and India are well progressed and they will both implement the system during 2018.

While the ERP system is the base platform for our business processes, there are a number of ancillary applications which interface with the ERP system, where we continue to make progress. Warehousing and scheduling are particular elements of Renold's operations that have historically been reliant on individual knowledge with limited standardised processes. We continue to roll out tools and systems to support operations in these areas and in the year have implemented both scheduling and warehousing solutions in Chain Americas and the scheduling solution in the Torque Transmission Gears business unit. In addition, we continue to make progress with our engineering systems, including our chain design software and our CAD/CAM systems, and in digitising our extensive library of chain designs and specifications.

While there is much that remains to be done to improve our business process efficiency and progress is slower than originally envisaged, I continue to believe that significant opportunity exists to remove cost and non-value adding processes in support of improving our operating profit margins.

PHASE II – *Organic Growth*

→ Growth activities

Over the last few years, Renold has been restructuring and strengthening the commercial and sales teams around the world. This has coincided with sluggish end-user markets; however, following an improving economic back-drop in our core industrial markets, the benefits of these changes is being demonstrated in organic growth across all Chain units and in certain Torque Transmission business units.

Underlying revenue growth accelerated through the year with 2.7% delivered for the first half, increasing to 4.9% for the second half as sales price increases combined with volume growth to deliver organic growth in underlying revenue of 3.8% for the year as a whole.

We continue to target non-traditional sectors where we believe Renold's products can provide a point of difference and where we can reduce our exposure to the cyclicality of core industrial markets. We are seeing progress from this approach in growth markets such as logistics and ports and anticipate further benefits in the future.

→ Commercial positioning

Historically, Renold's customer service levels have not fully measured up to the world class engineering excellence of our products. In order to address this, we have implemented a business wide 'STEP 2 Service' programme which seeks to identify and address the specific underlying issues which result in inadequate levels of customer service. In addition, we are using the programme to shine a light on the cultural changes required at all levels of our businesses if we are to put customer service at the forefront of our business model. We remain in the early stages of this programme, but I believe that if we can match our engineering excellence with sector leading service, we will continue to differentiate ourselves and reinforce Renold's position in the market.

PHASE III – *Acquisitions*

Acquisitions remain a core component of our strategic plan. Acquisitions that can deliver growth or enhance margin, either through access to new markets and products or through consolidation of production facilities, have the opportunity to deliver value whilst reinforcing Renold's reputation as a leading global supplier of chain and torque transmission products. We are actively pursuing acquisition opportunities and during the year, we recruited a Group Corporate Development Director to accelerate our progress in this area. By their nature, the timing of acquisitions is unpredictable and is dependent upon availability of suitable targets. We have clear acquisition criteria by which we will measure opportunities as they arise.

Chief Executive's Review

Progress with Strategic Objectives

STRATEGIC OBJECTIVE	CHANGE	KPI MEASURES (SEE PAGES 19 AND 20)	PROGRESS IN 2017/18
1 Significantly improving our health and safety performance	✓	→ Lost time accident frequency rate → Reportable injury rate → Lost time days → Safety improvements	Health and safety remains our top priority. Our lost time accident frequency rates and our reportable injury rates continue to demonstrate improvement from cumulative efforts to implement a culture of safety across the Group. For the first time we have awarded Excellence Awards – our top category of Health and Safety Award Scheme.
2 Generating margin enhancing growth from our superior product capability	✗	→ Return on sales → Adjusted EPS	Organic revenue growth has been delivered for the first time in a number of years. However, the impact of unrecovered raw material price increases and machine breakdowns at our site in Einbeck, Germany have resulted in declines in the key profitability metrics of return on sales and adjusted EPS.
3 Enhancing customer service	=		Customer service improvements remain key to supporting future organic growth. Customer service has historically been a weak point of the Renold offering. The 'STEP 2 Service' programme launched in the year seeks to develop a stronger customer service ethos across the Group.
4 Optimising business processes	✓	→ Sales per employee	We continue to make progress in creating more effective processes and consistency of procedures in order to lower the cost base of the business.
5 Lowering our breakeven point	✗	→ Total overheads	The breakeven point has historically been measured as the expected monthly sales revenue required to breakeven. As a result of raw material price inflation in the year, the level of revenue required to breakeven has increased.
6 Developing our people	✓		The Group has continued to review and strengthen the management team and organisation structures. We continue to invest in future leaders and apprentices to ensure the continuity and stability into the future.
7 Strengthening and de-risking our balance sheet	✗	→ Cost of servicing legacy pensions → Average working capital ratio → Leverage ratio → Net debt	We continue to invest in the business through restructuring, capital investment and acquisition (deferred consideration paid in the year) increasing net debt and leverage from a low point at 31 March 2017, which benefited from the disposal proceeds of our Melbourne, Australia site.

Macroeconomic landscape and Brexit

There are a number of well-publicised macroeconomic risks on the horizon. We continue to deliver our strategy, cognisant of the risks, but similarly very aware that the impact of these risks is uncertain and should not delay our plans.

In Europe, the Brexit process creates uncertainty for Renold and for our customers. However, with only 7.8% of our Group revenues generated in the UK and with the majority of export sales from our UK Torque Transmission plants to non-European destinations, we do not believe that we are overly exposed to risk in this area.

In the US, which represents 31% of our revenue, the recently introduced import tariffs have the potential to disrupt the markets in which we operate. The initial programme of tariffs does not directly impact our finished products, but does cover a number of our raw materials, which we largely source from US-based suppliers. While it is too early to determine the impact of these changes, or whether the scope of the tariff arrangements will be further extended, our operating model currently includes US-manufactured product combined with imports of products from other global Renold manufacturing locations. As a result, we have flexibility to adjust our manufacturing strategy and adapt our approach if required in response to longer term changes in the competitive environment.

Outlook

Through a combination of strategic action and improving market conditions, we have delivered organic revenue growth for the first time in a number of years. Order intake continues to remain strong with order books meaningfully ahead year-on-year.

During the year ended 31 March 2018, raw material costs increased significantly and we were too slow to respond, resulting in an ongoing lag in passing these increased costs on to customers. This, combined with factory disruption, impacted profitability in the first half. Action to pass increased costs to customers through sales price increases has been implemented and, with the factory disruption behind us, profitability increased in the second half of the year.

For the year ahead, we expect growth to continue as improving macroeconomic conditions strengthen order intake. Those same macroeconomic conditions are resulting in inflationary pressures on raw material costs and labour rates, which have also been impacted by legislative changes in some territories. Despite this, we expect growth, recovery of material price increases and continued efficiencies to overcome cost pressures and deliver improved adjusted operating profit margins.

Despite the challenges this year, we have delivered a third year of stable adjusted operating profits at levels above those delivered before we commenced the STEP 2020 strategic programme. We believe that this demonstrates the benefits being delivered by the programme. Having overcome these short-term challenges, we continue to believe that the STEP 2020 strategy is the correct approach to creating and maintaining a more robust, higher margin business.

Robert Purcell
CHIEF EXECUTIVE

29 May 2018

Our Key Performance Indicators

Our financial and non-financial key performance indicators (KPIs) provide a measure of our performance against the key drivers of our strategy. Their relevance to our strategy and our performance against these measures are explained on these pages.

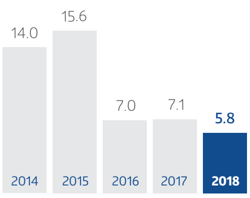
NON-FINANCIAL KPIS

Health & safety measures

Relevance to strategy 1

Safety is our number one priority. We believe that every work-related incident and injury is preventable and are committed to providing a safe workplace

Lost time accident frequency rate

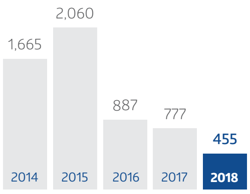


Definition: Over a 12 month period, this ratio shows the total number of lost time accidents, irrespective of severity, against the hours worked. An internationally recognised standard measure

Performance 5.8

Change ✓

Reportable injury rates

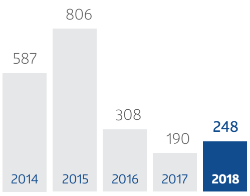


Definition: Over a 12 month period this ratio shows the number of accidents greater than three lost days, against the average number of employees in the same period. An internationally recognised standard measure

Performance 455

Change ✓

Lost time days

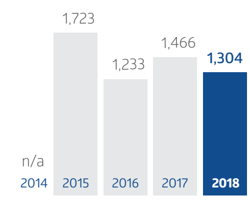


Definition: The total number of lost days attributable to all accidents in the 12 month period. An internationally recognised standard measure

Performance 248

Change ✗

Safety improvements



Definition: We drive all our sites to capture and implement safety improvements. An internationally recognised concept with different measures applied by different businesses

Performance 1,304

Change =

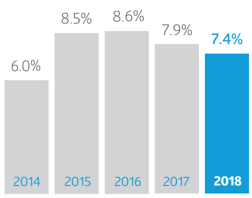
FINANCIAL KPIS

Profit measures

Relevance to strategy 2 4 5

Profit measures give insight into cost management, performance efficiency and growth. We are focused on increasing productivity, reducing operating costs and delivering organic growth

Return on sales (%)

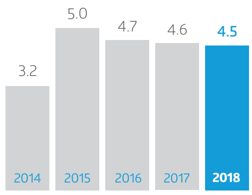


Definition: Adjusted operating profit divided by sales

Performance 7.4%

Change ✗

Adjusted earnings per share (p)



Definition: Earnings per share before restructuring costs or adjusting items. This is a key metric used by capital markets and stakeholders in assessing performance improvement and value generation

Performance 4.5p

Change ✗

STRATEGIC OBJECTIVES

1. Significantly improving our health and safety performance
2. Generating margin enhancing growth from our superior product capability
3. Enhancing customer service
4. Optimising business processes
5. Lowering our breakeven point
6. Developing our people
7. Strengthening and de-risking our balance sheet

READ MORE ABOUT OUR **STRATEGY** ON PAGES 12 AND 13

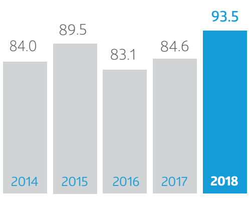
READ MORE ABOUT **HEALTH & SAFETY** ON PAGES 38 AND 39

Efficiency measures

Relevance to strategy 4 5 6

Delivering improved efficiency in everything we do is a core element of our strategic goal of delivering mid-teens operating margins

Sales per employee (£000)

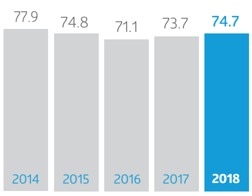


Definition: Total sales divided by the average number of employees. A simple way to assess the efficiency of our business processes

Performance £93,500

Change ✓

Total overheads (£m)*



Definition: Costs that are, in theory, fixed or very inflexible. Driving these down is one way to lower our breakeven point and to enhance our operational gearing

Performance £74.7m

Change ✗

KEY:

- ✓ KPI result is an improvement on the prior year
- = KPI result is unchanged on the prior year
- ✗ KPI result is a deterioration on the prior year

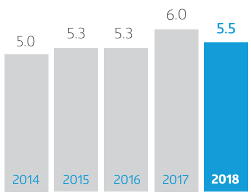
* Overheads increased by c.£3.0m following acquisition of Tooth Chain in late FY16.

Capital and cash measures

Relevance to strategy 7

Capital and cash measures reflect how we are managing our cash and balance sheet. A strong balance sheet is essential to remaining robust through the economic cycle and creating the ability to deliver appropriate shareholder returns

Cost of servicing legacy pensions (£m)

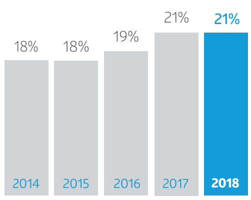


Definition: Annual cash contributions to closed legacy defined benefit pension schemes, including associated administrative costs. The goal is to maintain stability and certainty of cash costs

Performance £5.5m

Change ✓

Average working capital ratio (%)

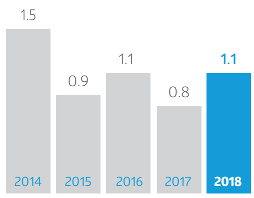


Definition: Working capital as a ratio of rolling 12 month sales. Calculated as a simple average of the previous 12 months

Performance 21%

Change =

Leverage ratio

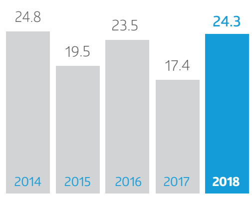


Definition: Ratio of net debt to adjusted EBITDA. 'Banking' leverage means the figure reflects our banking agreements which differ from IFRS (e.g. preference shares are debt in IFRS but ignored in our banking agreement)

Performance 1.1x

Change ✗

Net debt (£m)



Definition: Total borrowing less cash balances

Performance £24.3m

Change ✗

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 and the Renold name is known for industry leading design and specification, high quality and technical support. Reducing overall cost of ownership is important to our customers, with extended product life and reduced maintenance key factors in specifying our products.

Chain performance review

	2018 £m	2017 £m
Revenue	**153.1**	146.1
Foreign exchange	**–**	1.1
Underlying revenue	**153.1**	147.2
Adjusted operating profit	**14.7**	16.6
Foreign exchange	**–**	0.5
Underlying adjusted operating profit	**14.7**	17.1

Underlying revenue of £153.1m was £5.9m (4.0%) ahead of the prior year. Improving macroeconomic conditions have combined with a restructured and expanded commercial team to deliver organic revenue growth across all Chain regions. While regional performance has varied, the fact that improvement is present in all territories is reflective of a broad underlying improvement in end market conditions.

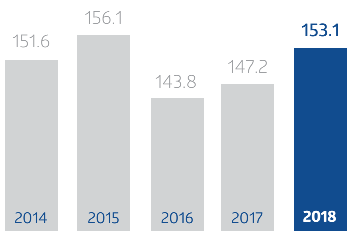
European revenue improved strongly during the second half of the prior year and growth has continued through the year ended 31 March 2018, with an underlying revenue increase of 1.8%. Revenue in the Americas finished 5.7% ahead of the prior year on an underlying basis, with improving demand in the US from major distributors and larger OEM accounts and strong demand from Canadian customers. This is a positive sign following challenging market conditions over the previous few years.

Underlying revenue in Australasia increased by 3.6%. Australia continued to see lower levels of maintenance spend from key mining customers and together with New Zealand, revenues were broadly flat for the year. The growth in Australasia was substantially delivered in South East Asia, where key palm oil markets recovered following weakness in prior years.

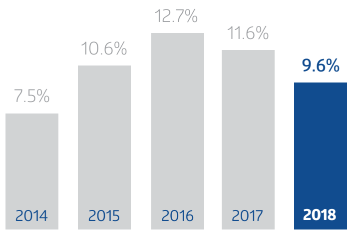
Domestic revenues in our developing market regions of China and India grew by 12.6% and 6.1% respectively.

Underlying order intake of £158.8m was up by £8.3m (5.5%) on the previous year. At a regional level, European underlying order intake increased by 1.0% following a strong second half of the prior year, and orders remain ahead of revenue for the year. In the Americas, order intake grew strongly with an increase of 11.7% reflecting an improvement in underlying market conditions and, critically, a recovery of major project work which has been absent until recently. Order intake in Australasia followed a similar trend to revenue and was marginally up by 0.5%. Order intake increased by 13.0% in China and 7.4% in India. Total orders for the year finished £5.7m (3.7%) ahead of sales.

UNDERLYING REVENUE (£m)
£153.1m



UNDERLYING ADJUSTED OPERATING MARGIN (%)
9.6%



Contribution margin, the margin after all variable production costs, fell by 150bps (as a percentage of revenue) as rapidly increasing material prices impacted on the cost of production, partially offset by direct labour efficiencies. The key raw material is steel, which we purchase in different forms and to different specifications around the world. Steel prices increased significantly during 2017, initially in Europe, but with other regions subsequently following the same trend. While the value and timing of increases varied across different territories and different grades of steel, we estimate the year-on-year increase in raw material costs to be around 10%.

Programmes to increase selling prices were implemented, but due to the variety of customer arrangements and the lag as the order book translated into sales, there was a significant time delay in the new prices being delivered in revenue. Raw material prices have continued to increase in certain territories necessitating further rounds of sales price increases.

The pressure on operating margins created by increasing raw material costs was compounded by additional costs incurred due to machine breakdowns in Einbeck, Germany in the first half of the year. As factory output was reduced for a period of time, increased air-freight costs were incurred in order to expedite deliveries and minimise the impact on customers.

As a result of these disruptive factors, underlying adjusted operating profit finished at £14.7m compared to £17.1m last year, with an adjusted operating profit margin of 9.6% (2017: 11.4%).

Progress in mitigating the impact of raw material cost increases through the year is demonstrated by improvement in the adjusted operating profit margin from 8.0% in the first half of the year to 11.2% in the second half.

Summary

A return to organic growth is a positive sign and justifies the investment made in strengthening the commercial and sales teams across the Chain division. We have worked hard to pass on the raw material prices to our customers and good progress has been made. We expect to continue this work into the new financial year where the financial benefit will help to offset headwinds created by union and legislation driven labour rate inflation in Germany and the impact of the weakening US Dollar. In the longer term, we remain confident that the continued progress of the STEP 2020 Strategic Plan will deliver sustainable improvement in the division's operating margins.

Our Performance: *Torque Transmission*

Renold Torque Transmission is an international manufacturer of high integrity torque transmitting products. 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 industrial applications across the world.

Torque Transmission performance review

	2018 £m	2017 £m
Revenue	**38.5**	37.3
Foreign exchange	**–**	0.1
Underlying revenue	**38.5**	37.4
Adjusted operating profit	**4.8**	3.9
Foreign exchange	**–**	(0.1)
Underlying adjusted operating profit	**4.8**	3.8

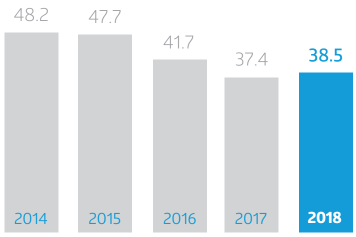
Underlying external revenue of £38.5m was £1.1m (2.9%) above the prior year primarily reflecting growth of the Couplings business unit.

The decision to consolidate the UK Couplings manufacturing operations was influenced by a number of factors, including the potential to improve manufacturing efficiency and to support investment that was difficult to justify in separate smaller locations. Following the successful execution of the consolidation to our Cardiff facility at the beginning of the year, the performance of the Couplings business unit has improved, combining operational efficiency with revenue growth. This revenue growth has been supported by key customers who have reacted well to the changes and the investment we have made in the business. In the period, UK Couplings won a major multi-year order from the marine industry, which has contributed to revenue growth in the year, but also enhances the order book for future years.

Progress in the other Torque Transmission business units has been slower. Our US business, which has specific strength in products for the steel and mass transit sectors, has been stable in the year as these markets remained subdued. It is too early to determine whether the introduction of US steel tariffs will stimulate US-based steel manufacturers to reinvest in their infrastructure which would create growth opportunities for Renold in this market.

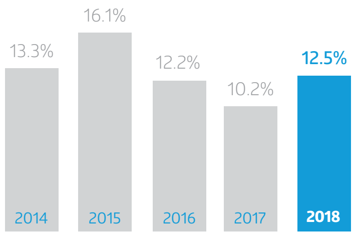
UNDERLYING REVENUE (£m)

£38.5m



UNDERLYING ADJUSTED OPERATING MARGIN (%)

12.5%



A combination of growth in the Couplings business unit, combined with strong cost control in the other Torque Transmission business units has resulted in adjusted underlying operating profit increasing by £1.0m to £4.8m (2017: £3.8m).

Underlying order intake was £5.3m (14.1%) above the prior year, supported by the multi-year order won by UK Couplings. Even after removing the element of this contract that was not delivered in the year, order growth remained strong, increasing by £1.5m (4.0%) above the prior year.

We continue with our programme of product development, encompassing RBI Couplings, escalator drives and bespoke gearbox solutions for OEMs, amongst others. The timeline for introducing new products and for customers to adopt those new products in industrial markets is long, but we continue to believe that these actions will deliver growth for Torque Transmission over time.

Summary

The division has a strong portfolio of niche products and a reputation in the market for product performance and quality. Market conditions improved during the year for certain business units while remaining subdued for others. We have made progress in the year and have improved profitability, but are not yet seeing demand recover to historical levels. Continued focus on cost control has been a key element contributing to profit improvement for the division as a whole.

While growth has returned, revenue remains some way behind the levels experienced in more buoyant market conditions three to five years ago. As market conditions improve over the medium term, the division will be better placed to maximise returns.

Finance Director's Review

"A difficult year has delivered broadly stable adjusted operating profits following improved performance during the second half of the year. As planned, we continue to invest through capital investment and restructuring."

IAN SCAPENS
FINANCE DIRECTOR

Overview

Organic growth in revenue has been delivered, building on investment in the commercial teams and improving market conditions. Machine breakdowns and unrecovered raw material price increases impacted profitability of the Chain division in the year, most significantly in the first half. The actions delivered have mitigated the impact of these disruptive factors in the second half of the year, resulting in improved adjusted operating margins.

Growing order books are being generated by strong order intake, which if sustained, will support underlying organic growth into the new financial year. However, the weakening of the US Dollar against Sterling in the latter part of the year will moderate the impact of this growth in reported results in the next financial year.

Orders and revenue

	2018			2017		
Reconciliation to reported results	**Order intake £m**	**Revenue £m**	**Operating profit £m**	Order intake £m	Revenue £m	Operating profit £m
As reported	**201.9**	**191.6**	**5.6**	186.8	183.4	11.0
Impact of foreign exchange	**–**	**–**	**–**	1.4	1.2	0.4
Pension administration costs	**–**	**–**	**0.9**	–	–	0.7
Restructuring costs	**–**	**–**	**4.7**	–	–	1.7
Amortisation of acquired intangible assets	**–**	**–**	**0.9**	–	–	1.1
Impairment of goodwill	**–**	**–**	**2.1**	–	–	–
Underlying adjusted	**201.9**	**191.6**	**14.2**	188.2	184.6	14.9

Order intake in the Chain division was higher than revenue with the underlying ratio of orders to revenue (book to bill) being 103.7% in the year (2017: 102.2%). All Chain regions, with the exception of Australasia, had book to bill ratios greater than 100% for the year. Underlying order intake demonstrated good progress in the year with growth in the second half of 4.7% over the second half of the prior year (2017: 12.0%). This compared to growth of 5.2% for the first half (2017: 4.9%), and together resulted in growth for the full year of 5.5%.

Underlying orders in the Torque Transmission division grew strongly, by 14.1% (2017: 7.0% decline), benefiting from the win of a major multi-year order for UK Couplings to provide large HiTec couplings for marine applications. Excluding the element of this order which extends beyond 31 March 2018, underlying order intake remains strong, increasing by 4.0%. The book to bill ratio for the division was 112.0% (2017: 100.8%).

Group revenue for the year increased by £8.2m (4.5%) to £191.6m. Underlying revenue demonstrated a similar trend increasing by £7.0m (3.8%), with underlying growth of 2.7% for the first half accelerating to 4.9% for the second half which benefited from greater progress in passing sales price increases on to customers.

On a divisional basis, the Chain division saw underlying revenue increase by 4.0% and Torque Transmission by 2.9%.

Operating profit

The Group generated £6.0m of adjusted operating profit in the first half (2017: £7.0m) and £8.2m in the second half (2017: £7.5m), corresponding to a full year result of £14.2m (2017: £14.5m).

At the half-year, we reported underlying adjusted operating profit down by £1.0m compared to the first half of the prior year, impacted by the combined effects of machine break-downs in Germany and increased raw material costs across the Group, most significantly in the Chain Division. Adjusted operating profit of £8.2m in the second half represents underlying growth of 36.7% over the first half and demonstrates significant progress against the disruptive factors which impacted trading in the first half of the year.

Underlying adjusted operating margins fell during the year to 7.4% (2017: 7.9%). However, this reflects a disappointing first half margin of 6.3%, increasing to 8.5% for the second half.

The volatility of the margin over the year is largely driven by the Chain division where a disappointing adjusted operating margin for the first half of the year of 8.0% improved to 11.2% for the second half of the year as progress was made to mitigate the raw material price and factory disruption factors influencing the first half of the year.

Performance of the Torque Transmission division was more stable with a first half adjusted operating profit margin of 12.6% compared with 12.4% for the second half of the year.

Foreign exchange rates

Foreign exchange rates have remained volatile during the year reflecting an appreciation of Sterling against a number of currencies. The most significant movement for Renold has been the 12% weakening of the US Dollar against Sterling. Due to the phasing of movements over the current and prior years, the impact on the weighted average exchange rate used to translate US Dollar trading results reflects a 2% weakening of the US Dollar based on a rate of 1.33 for the year ended 31 March 2018 (2017: 1.31).

The Sterling to Euro rate has remained more stable than in the prior year, with the Euro 3% stronger at 31 March 2018 when compared to 31 March 2017. Again, due to the timing of the Brexit-vote related deterioration of Sterling in the prior year, the weighted average exchange rate used to translate Euro trading results reflects a 5% average strengthening of the Euro based on a rate of 1.13 for the year ended 31 March 2018 (2017: 1.19).

The effect of these two opposing movements is that the natural hedge provided by the Group's diverse operating territories and currencies reduced the impact of individual foreign exchange movements on the Group's trading results for the year.

FX Rates (% of Group sales)	Mar 17 FX rate	Sep 17 FX rate	Sep 17 Var %	Mar 18 FX rate	Mar 18 Var %
£GBP / Euro (31%)	1.17	1.13	(3%)	1.14	(3%)
£GBP / US$ (33%)	1.25	1.34	7%	1.40	12%
£GBP / C$ (5%)	1.67	1.68	1%	1.81	8%
£GBP / A$ (5%)	1.64	1.71	4%	1.83	12%

If the year end exchange rates had applied throughout the year, there would be an estimated decrease of £5.8m to revenue and £0.3m to operating profit, principally as a result of the significant movement in the US Dollar rate towards the end of the year.

Restructuring costs

Various restructuring costs were incurred in the year as part of STEP 2020. Redundancy and restructuring costs of £0.8m were incurred across a number of the restructuring activities completed in the year. These included the closure of sub-scale manufacturing operations in New Zealand (Chain) and China (Torque Transmission), the closure of the Singapore office and final costs relating to the transfer of HiTec Couplings to Cardiff. The completion of the HiTec transfer enabled the sale in May 2017 of the Halifax facility for net proceeds of £0.5m, generating a gain on disposal of £0.2m, which has also been treated as restructuring income.

The largest individual element of the restructuring costs, which totals £3.9m, relates to the multi-year project to transfer the Chinese Chain manufacturing facility to a purpose-built facility in Jintan, near Changzhou. Of this value, £0.8m relates to costs incurred in the year, with the remaining £3.1m being a provision against closure costs and other costs associated with the transfer to be paid over the next twelve months.

Other adjusting items

Other adjusting items include legacy pension scheme administration costs of £0.9m (2017: £0.7m) and amortisation of acquired intangible assets of £0.9m (2016: £1.1m).

In addition, as a result of lower profitability from our Chain Americas site and an increase in the post-tax discount rate used to discount future cash flows, the annual impairment review has identified a requirement to impair the goodwill relating to the acquisition by £2.1m. The goodwill relates to the acquisition of Jeffrey Chain which was completed in 2000.

Financing costs

External net interest costs in the year were £1.7m (2017: £1.7m). The annual charge includes £0.3m (2017: £0.2m charge) in respect of amortisation of the residual refinancing costs paid in 2012, 2015 and 2017 (relating to the exercise of the accordion). Financing costs also include £0.1m of unwinding discounts on onerous lease provisions established for the Bredbury factory site.

The net IAS 19R finance charge (which is a non-cash item) is £2.4m (2017: £2.5m). In the current year, the actual return on assets was £0.9m higher than the return used in the interest calculation as specified in IAS 19R due primarily to stronger equity markets.

Result before tax

Profit before tax was £1.4m (2017: £6.7m). Adjusted profit before tax, which excludes restructuring costs, IAS 19R financing costs, amortisation of acquired intangible assets and legacy pension scheme costs, was £12.5m (2017: £12.8m).

Finance Director's Review

Taxation

The current year tax charge of £3.6m (2017: £1.9m) is made up of a current tax charge of £1.1m (2017: £2.9m) and a deferred tax charge of £2.5m (2017: credit of £1.0m). The charge in the year is heavily impacted by US tax reform which has reduced the tax rate applied to the US deferred tax assets and combined with a one-off deferred tax charge relating to restrictions on interest deductibility. The total effect of US tax reform in the year is a deferred tax charge of £2.4m.

The Group cash tax paid increased to £3.8m (2017: £1.0m). The difference between tax charges and cash tax paid is due to the utilisation of tax losses and other tax assets in various parts of the Group. The last of our historical tax losses in Germany were utilised in the year ended 31 March 2017. The effect of this was to increase the current tax charge in the prior year, which became payable in the year ended 31 March 2018 and combined with a move to payments on account in this territory.

Group results for the financial period

A loss of £2.2m was incurred for the financial year ended 31 March 2018 (2017: profit of £4.8m). The basic and diluted adjusted earnings per share were both 4.5p (2017: earnings both 4.6p). Basic loss per share of 1.0p compares with earnings per share of 2.1p for the year ended 31 March 2017.

Balance sheet

Net assets at 31 March 2018 were £1.1m (2017: £7.8m). The fall was driven by a number of one-off factors including the provision for costs of the China factory move, the impairment of goodwill relating to the Jeffrey Chain acquisition in the US and the impact of US tax reform.

Net assets continue to be impacted by the net pension deficit which reduced to £97.4m (2017: £102.0m) as contributions to the scheme combined with small increases in discount rates. The net liability for pension benefit obligations was £81.7m (2017: £84.8m) after allowing for a net deferred tax asset of £15.7m (2017: £17.2m). Overseas schemes now account for £27.8m (28.5%) of the net pension deficits and £25.1m of this is in respect of the German scheme which is not required to be funded.

Cash flow and borrowings

Cash generated from operations was £6.1m (2017: £7.4m). Gross capital expenditure was up in the year at £10.1m (2017: £9.6m). This is lower than expected and partially reflects capital expenditure for the new Chinese factory now expected to be incurred in the year ending 31 March 2019. Consequently, capital expenditure in the new financial year is expected to increase in support of the new factory in China, the continued reinvestment of plant and equipment and the ongoing implementation of new IT systems.

The absolute level of working capital was £2.6m higher than in the prior year, reflecting increased raw material costs being absorbed into inventory and a lower level of capital creditors at 31 March 2018. The net effect of these changes is that our working capital KPI (average working capital as a ratio of rolling 12 month sales) remained stable at 21%.

Group net borrowings at 31 March 2018 of £24.3m were £6.9m higher than the opening position of £17.4m comprising cash and cash equivalents of £13.9m (2017: £16.4m) and borrowings of £38.2m (2017: £33.8m). The increase in net debt reflects the cash restructuring costs and increased tax payments made in the year in addition to the £1.2m final payment of deferred consideration for the Tooth Chain acquisition.

Debt facility and capital structure

The Group's core banking facilities were increased in the year through the exercise of the accordion facility. Following the increase, the Group's committed Multi-Currency Revolving Credit Facility (MCRF) totalled £61.5m and borrowing under the facility at 31 March 2018 was £38.5m. The facility matures in May 2020.

The Group continues to operate comfortably within covenant limits. The net debt/adjusted EBITDA ratio as at 31 March 2018 is 1.12 times (covenant requirement: up to 2.5 times; 2017: 0.82 times), based on the reported figures for the period as adjusted for the banking agreement. The adjusted EBITDA/interest cover as at 31 March 2018 is 12.0 times (covenant requirement: greater than 4.0 times; 2017: 12.1 times), again on a banking basis.

At 31 March 2018, the Group had unused credit facilities totalling £23.0m and cash balances of £13.9m. Total Group credit facilities amounted to £63.5m, all of which were committed.

Treasury and financial instruments

The Group's treasury policy, approved by the Board, 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.

To manage foreign currency exchange risk on the translation of net investments, certain US Dollar denominated borrowings taken out in the UK to finance US acquisitions are designated as a hedge of the net investment in US subsidiaries. At 31 March 2018 this hedge was fully effective. The carrying value of these borrowings at 31 March 2018 was £6.2m (2017: £6.9m).

At 31 March 2018, the Group had 1% (2017: 1%) 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 assets and liabilities

The Group has a mix of UK (84% of gross liabilities) and overseas (16%) defined benefit pension obligations as shown below.

	2018			2017		
	Assets £m	Liabilities £m	Deficit £m	Assets £m	Liabilities £m	Deficit £m
Defined benefit schemes						
UK funded	140.7	(210.3)	(69.6)	146.4	(218.4)	(72.0)
Overseas funded	13.1	(15.8)	(2.7)	14.2	(18.0)	(3.8)
Overseas unfunded	–	(25.1)	(25.1)	–	(26.2)	(26.2)
	153.8	(251.2)	(97.4)	160.6	(262.6)	(102.0)
Deferred tax asset			15.7			17.2
Net deficit			(81.7)			(84.8)

The Group's retirement benefit obligations decreased from £102.0m (£84.4m net of deferred tax) at 31 March 2017 to £97.4m (£81.7m net of deferred tax) at 31 March 2018. The largest element of the decrease relates to the UK scheme where the deficit decreased from £72.0m to £69.6m. The decrease in the deficit of the overseas schemes of £2.2m arises from an underlying reduction in the deficit of £2.4m, offset by a £0.2m increase arising from foreign exchange movements in the year.

→ UK funded scheme

The reduction in the UK scheme deficit of £2.4m reflects a number of offsetting factors. Decreases in the liability arise from contributions to the scheme of £2.9m and £3.0m arising from the increase in the discount rate applied. Offsetting increases in the deficit arise from the shortfall in asset returns to offset the discount unwind of the liabilities (net effect of £1.3m), changes to commutation factors and the removal of the Pension Increase Exchange Option, which together increase liabilities by £2.2m. The impact of changes in the mortality assumptions are broadly neutral.

There was an increase in the benefits paid by the scheme during the year, which totalled £12.5m (2017: £9.8m). This largely reflects an increase in transfers out of the scheme arising from the introduction of greater 'pension freedoms' in the UK.

→ Overseas funded schemes

The overseas funded schemes comprise a number of smaller schemes around the world. Deficits on these schemes reduced in the year by £1.1m, benefiting from a £0.5m reduction in net liability due to the movement in foreign exchange rates. In local currencies, the schemes benefited from contributions to the scheme combining with greater levels of asset return in order to reduce the net deficit.

→ Overseas unfunded schemes

This category largely relates to unfunded German schemes. The local currency deficit decreased by £1.6m as £1.3m of contributions paid combined with smaller benefits from actuarial remeasurements. A strengthening of the Euro against Sterling resulted in an increase in the deficit of £0.6m.

The aggregate expense of administering the pension schemes was £0.9m (2017: £0.7m) and is included in operating costs but is excluded in arriving at adjusted operating profit.

The latest triennial actuarial valuation of the UK Scheme, with an effective date of 5 April 2016, was agreed in May 2017. This process concluded that contributions to the UK Scheme should continue unchanged with no additional contributions in excess of contributions from the previously agreed asset backed funding structure. The next triennial valuation date will be 5 April 2019. The detailed structure and mechanics of the 2013 scheme merger and the underpinning asset backed funding structure are set out in Note 18 to the accounts.

Total cash costs for UK deficit repair payments were £2.9m (2017: £3.2m). For overseas pension schemes, the Company contributions in the period were £1.7m (2017: £2.1m).

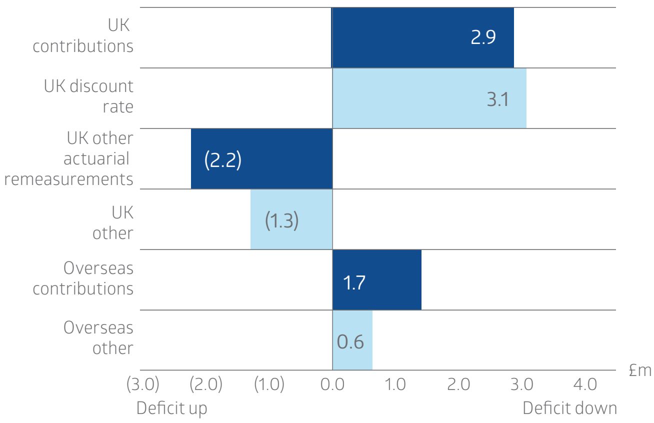
Ian Scapens
FINANCE DIRECTOR
29 May 2018

STRATEGIC REPORT

Finance Director's Review

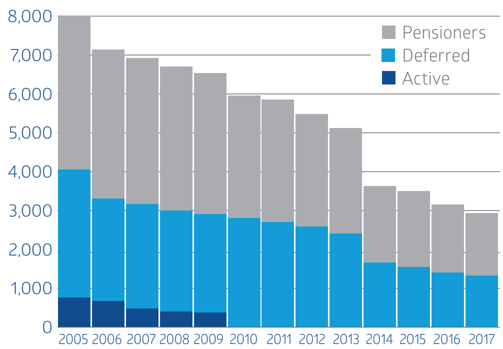
PENSION INSIGHTS

Drivers of pension deficit movement



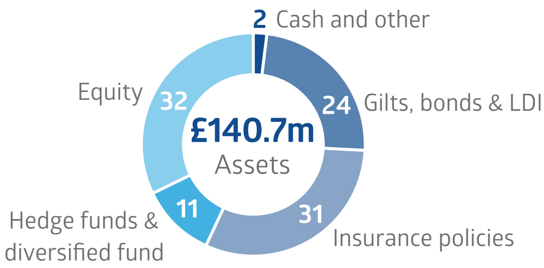
- The net pension deficit decreased by 4.5% in the year to £97.4m.
- Contributions to the various schemes of £4.6m (including £1.3m to the unfunded German scheme) are the key reason for the deficit reduction.
- UK discount rates increased marginally to 2.6% (2017: 2.5%) resulting in a reduction in liabilities for the UK scheme of £3.1m.
- Other actuarial movements arise from alignment of commutation factors across the schemes and the removal of the PIE (Pension Increase Exchange) option.
- For the overseas schemes, foreign exchange rates for the US Dollar and the Euro moved in opposite directions against Sterling resulting in a net foreign exchange deficit of £0.2m.
- Similar to the UK scheme, contributions to the overseas schemes was the key reason for the reduction in the deficit.
- Across all the schemes, it is estimated that an increase in the discount rate of 0.25% (with all other factors being equal) would reduce the net deficit by c.£8.5m.

Trends in UK scheme membership



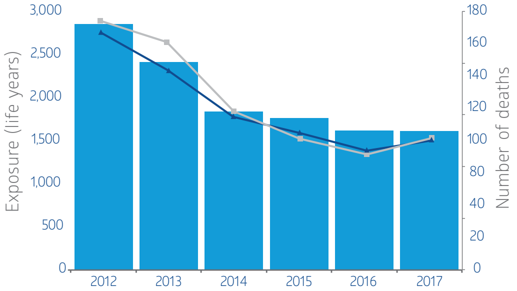
- The bar chart shows the evolution of the total membership of the UK scheme since 2005 and the numbers in each category.
- Total membership has fallen by 51% or 3,013 since 2010 or 63% since 2005.
- The step change in 2014 followed the merger of the three UK schemes when 1,316 members had their benefits paid out in full in wind-up lump sums.
- Of the remaining 2,950 members, a number are expected to have their benefits discharged as a lump sum on retirement or dependency.

UK assets %



- Given the relative maturity of the scheme, and following the medically underwritten insured buy-ins, 66% of assets are invested in insurance policies, corporate bonds, liability driven investments and diversified growth funds. They are held primarily to generate an income stream that supports the ongoing annual pension payments (currently circa £12m including cash lump sums on retirement).
- The overall target for UK portfolio returns is 2.6% over gilts. The actual UK return in the year was a gain of £3.9m (or 4.0% gain on assets excluding insurance policies).
- It should be noted that the diversified growth funds have characteristics of both protection assets (returns are lower and less volatile than equities) and growth assets (return targets are higher than simple gilts and bonds).

Mortality and mortality exposure



- The chart to the left shows a comparison between expected and actual mortality in the UK scheme based on the assumptions underlying the March 2018 Annual Report and the actual mortality experience.
- The chart also shows the number of life years that could be expected to die each year (referred to as 'Exposure').
- The fall in Exposure over the years has largely been driven by the significant falls in membership numbers resulting from the scheme merger and various small pots exercises as well as mortality itself and the age of the membership.
- The chart clearly shows that even based on the current strong mortality assumptions, actual deaths have been higher than expected levels. If mortality continues at a higher rate than assumed, all else being equal, the level of future pension payments would fall.

Our Risks

Proactive risk management is a key business process at Renold and is used to help management create and protect value. In the current environment, with geopolitical and economic uncertainty, its relevance to safeguarding shareholder value is even more critical.

RISK MANAGEMENT FRAMEWORK

As described in the chart below, we consider risk across the organisation, blending a holistic top down view with site, functional and project specific assessments.

THE BOARD

- Sets the 'Tone from the Top' – the culture adopted in respect of risk.
- Responsible for risk management and internal control processes.
- Sets direction for key focus areas (e.g. health and safety).
- Defines acceptable levels of risk (referred to as our 'risk appetite').
- Monitors compliance with our risk appetite and management's responsiveness to actions designed to address excessive risk.

AUDIT COMMITTEE

- Supports the Board, reviewing the end-to-end risk management process.
- Particular emphasis is placed upon monitoring the implementation of risk mitigation actions.

EXECUTIVE RISK MANAGEMENT AND MONITORING COMMITTEE

- Oversight of risk registers and their maintenance.
- Challenge and review of completed actions.
- Review and critique of risk profiles presented by senior business leaders and challenge of risk mitigation plans.
- Shares best practice risk management and solutions across the Group.

GROUP RISK FUNCTION

- Facilitates the maintenance of risk registers and action plans.
- Reviews status of risk management actions.
- Performs internal audits on areas of significant risk.

BUSINESS UNITS

- Maintain local risk registers and action plans.
- Ongoing action management and tracking.
- Embedding Group culture and risk appetite at a local level.

Our approach to risk

Renold's risk management framework is designed to identify and assess the probabilities and consequences of risks occurring, to manage the actions necessary to reduce those risks, and to mitigate their potential impact.

The Board has overall responsibility and oversight of the risk management framework and is also responsible for setting the parameters of acceptable and unacceptable risk (referred to as 'risk appetite').

Renold's risk appetite

The Board acknowledges that the Group is exposed to risk during the normal course of business. Renold must be willing to accept an appropriate level of risk in order to achieve its Strategic Objectives. The Board's attitude to risk management and its appetite for risk can be described as 'tending to risk averse'.

Our risk management process:

The Executive Risk Management and Monitoring Committee

The Group Audit Committee reviews the principal risks and uncertainties together with the actions taken and relevant mitigating controls. The Group Executive Risk Management and Monitoring Committee (ERMMC) is a sub-committee of the main Board. The ERMMC is chaired by the Chief Executive and meets at least four times per year.

The ERMMC comprises the Executive Directors. Senior members of the business attend by invitation and are required to present risk profiles for their functional areas and the aligned action plans to manage or mitigate risk. The Group Business Systems Director, the Group HR Director, the Group Head of Risk and Assurance and the Group Legal Manager and Company Secretary also attend each meeting.

Each ERMMC meeting is informed by a detailed risk management status report. This report provides an insight on new risks and progress on mitigating actions on all risks. Other topical risk issues also feature on the standing agenda, e.g. there is focus on the Group's response to, and management of, important health and safety related events. The ERMMC is also provided with information in the form of reports on health and safety, treasury, insurance, material litigation and whistle-blowing.

All ERMMC minutes and the risk status reports are reviewed and discussed by the Audit Committee. The Audit Committee reports on these discussions to the Board.

How we assess risk

Our approach combines sharing best practice across sites, guidance from the Group Head of Risk and Assurance, and local 'on the ground' experience and knowledge of specific risk factors.

Risk workshops involving local and functional staff are used to develop risk profiles and action plans. The Group Head of Risk and Assurance facilitates the end-to-end risk management process, ensuring consistency of approach and compliance with Group Policy.

Risks are assessed against the framework defined in the Group Risk Management Policy. Our risk assessment model considers:

- → The probability of a risk crystallising.
- → The potential impact if the risk crystallised – impact definitions cover a range of criteria including direct financial impact, reputational impact, people impact, e.g. in the event of an accident, regulatory censure, adverse publicity and fines.

These are scored and then placed on the risk heat map below, which is a matrix of probability and impact and shows our principal risks and uncertainties. Our model also considers each risk from two different perspectives:

- → The extent of inherent risk (i.e. before any mitigating controls or actions).
- → The extent of residual risk (i.e. after mitigating controls and actions).

This allows us to identify the impact of controls on the underlying inherent risk.

How we manage risk

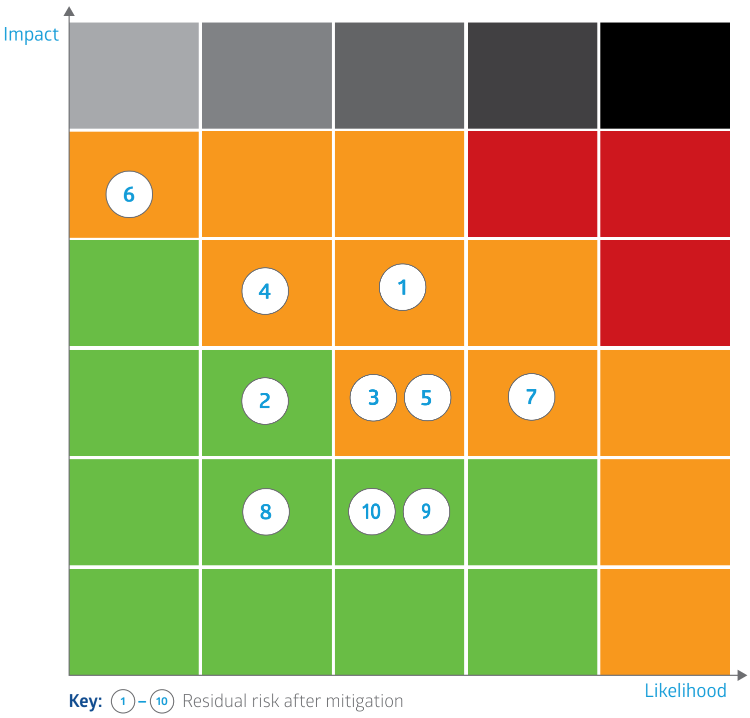
Having identified the risks the business faces and having scored them against the risk appetite set by the Board, our Group Policy then provides guidance on how to manage those risks, depending on where they sit on the risk heat map.

The 'heat map' shows the four bandings in the different shades of risks as set out below as well as expected actions and responses to risks in these areas:

- → Green: within appetite. Ongoing monitoring in place.
- → Amber: out of appetite. Some actions are required to treat the risk to bring this within acceptable levels.
- → Red: significantly out of appetite. High combination of residual probability and impact. Management actions required, with some urgency, to treat the risk, reducing this to acceptable levels.
- → Grey/black: risks that are deemed to have such an impact that they could theoretically impact the ability of the business to continue in existence. If any, they would need consideration in assessing the Directors' Viability Statement.

The Group has deployed an online Integrated Risk Management System (IRMS) across all locations. This is used to capture risk profiles and action plans are maintained across the Group. The IRMS operates as a live management tool that assists staff in actions management and also in the production of real time risk status reports. Risk reports for the various Executive committees derive data from the IRMS.

RISK HEAT MAP AS AT 31 MARCH 2018



Key: 1 – 10 Residual risk after mitigation

KEY: RISK HEAT MAP

1. Macroeconomic and political volatility
2. Strategy execution
3. Acquisitions/business development
4. Health and safety in the workplace
5. Effective deployment and utilisation of information technology systems
6. Prolonged loss of a manufacturing site
7. People and change
8. Liquidity, foreign exchange and banking arrangements
9. Pensions deficit volatility
10. Regulatory and legal compliance

Principal Risks and Uncertainties

The Board continues to carry out a robust assessment of the principal risks facing the business. The Executive Risk Management and Monitoring Committee monitors the ongoing identification and assessment of risks, reviews all risks in the IRMS and reports material risks to the Audit Committee.

Set out on pages 32 to 36 are the principal risks and uncertainties which could have a material impact on the Group. The numbers correspond to the risk identified on the heat map.

These risks are continually monitored. The Board has critically reassessed the risks we face in light of the Group's progress on its STEP 2020 Strategic Plan coupled with the volatility in our end markets.

We indicate whether or not we consider the probability or impact of the risks materialising are increasing, decreasing or unchanged and set out the corresponding mitigating actions that have been taken by the Group. We also show which of our Strategic Objectives could be impacted by the risk.

1 MACROECONOMIC AND POLITICAL VOLATILITY

FY17 → FY18 ↗

DETAILED RISK

Material changes in prevailing macroeconomic or political conditions could have a detrimental impact on business performance. We operate in 19 countries and sell to customers in over 100 and therefore we are necessarily exposed to economic and political risks in these territories.

Link to strategic objectives 2 7

POTENTIAL IMPACT

Potential touchpoints include:

- Commodity prices which have a negative impact on demand in the whole supply chain or a direct impact on raw material purchases.
- Foreign exchange volatility can impact customer buying patterns, leading to lower demand or the need to rapidly switch supply chains.

EXISTING MITIGATION CONTROLS

- Our diversified geographic footprint inherently exposes us to more countries where risks arise but conversely provides some degree of resilience.
- Actions to lower the Group's overall breakeven point also serve to reduce the impact of any global economic slowdown.
- A focus on 'predict and respond', e.g. sales forecasting and raw material price monitoring.
- Strong core banking group with multi-currency debt facility.
- Operation of a net cash flow hedging strategy approved by the Board.

2 STRATEGY EXECUTION

FY17 → FY18 →

DETAILED RISK

The Group's strategy requires the co-ordinated delivery of a number of complex projects e.g. during the year we have rationalised certain production facilities and are in the process of moving others.

Link to strategic objectives 2 3 4 5 6 7

POTENTIAL IMPACT

- While these projects are designed to deliver targeted benefits, if not appropriately managed, they have the potential to negatively impact the Group's operations.

EXISTING MITIGATION CONTROLS

- The STEP 2020 Strategic Plan has been developed to deliver a turnaround in performance and to make that performance more stable and less exposed to revenue volatility.
- The Board reviews progress against the different STEP 2020 projects in each of its meetings. This is based on a regularly updated report from the CEO which groups the individual projects into themes linked directly to our Strategic Objectives.
- Major projects are all managed in accordance with best practice project management techniques with at least one member of the Executive team on the relevant Steering Committees.

STRATEGIC OBJECTIVES

1. Significantly improving our health and safety performance
2. Generating margin enhancing growth from our superior product capability
3. Enhancing customer service
4. Optimising business processes
5. Lowering our breakeven point
6. Developing our people
7. Strengthening and de-risking our balance sheet

3 ACQUISITIONS/BUSINESS DEVELOPMENT

FY17 FY18

DETAILED RISK

Part of the Group's strategy is to grow through selective acquisitions. Performance of acquired businesses may not reach expectations, impacting Group profitability and cash flows.

Link to strategic objectives 2 5 7

POTENTIAL IMPACT

- Any acquisition involves risks at various stages of the project life cycle.
- During the Acquisitions phase, value can be lost through over-paying, missing key issues in due diligence or potential value leakage through poor contract negotiation. Value can also be lost through a poorly planned or executed integration phase. Finally, failure to deliver anticipated benefits during the 'business as usual' phase can also lead to a loss of value.

EXISTING MITIGATION CONTROLS

- Monitoring of specific acquisition targets: Business Acquisition Process incorporating Concept Evaluation, Business Case, Indicative Offer/Heads of Terms, Due Diligence (covering a range of criteria), Integration Planning and Execution and Post Integration Appraisal which in turn feeds back to the Business Acquisition Process.
- Use of third party specialists to address risks specific to each acquisition.
- Formation of top-down cross functional business integration project teams and plans coordinated by the newly appointed Group Corporate Development Director. These specifically address any issues or risks identified during the acquisitions phase.
- Deployment of detailed benefits realisation plans.

4 HEALTH AND SAFETY IN THE WORKPLACE

FY17 FY18

DETAILED RISK

The risk of death or serious injury to employees or third parties associated with Renold's worldwide operations.

We are proud of the progress we have made in recent years, but recognise that we have more to do.

Link to strategic objectives 1 6 7

POTENTIAL IMPACT

- Accidents caused by a lack of robust safety procedures could result in life changing impacts for employees, visitors or contractors. This will always be unacceptable. In addition, accidents could result in civil or criminal liability for both the Group and the Directors and officers of the Group and Group companies, leading to financial loss or reputational damage.

EXISTING MITIGATION CONTROLS

- Group policies and a Group-wide management system known as the Framework, to set control expectations, with a support training programme for all managers.
- The Group operates a rolling programme of health and safety audits to assess compliance against the Framework.
- Continual hazard assessments to ensure awareness of risks.
- Live tracking of accident rates and root cause analysis via the IRMS plus monthly Board reporting focused on a range of KPIs.
- Specific initiatives include the BAT (Be safe; Act safe; Think safe) safety logo and the Annual Health and Safety Awards Scheme to recognise success.

SEVERITY

High Medium Low

TREND DIRECTION

increasing unchanged decreasing

Principal Risks and Uncertainties

5 EFFECTIVE DEPLOYMENT AND UTILISATION OF INFORMATION TECHNOLOGY SYSTEMS

FY17 FY18

DETAILED RISK

We seek to leverage the use of IT to achieve competitive advantage. The Group continues to implement a global ERP system to replace numerous legacy systems which inherently brings with it the risks associated with a large scale change programme.

Link to strategic objectives 3 4 5

POTENTIAL IMPACT

- Interruption or failure of IT systems (including the impact of a cyber attack) would negatively impact or prevent some business activities from occurring. If the interruption was long lasting, significant damage could be done to the business.
- It is essential that we are able to rely on the data derived from our business system to feed routine but fundamental business performance monitoring.
- An unsuccessful implementation of the global ERP system has the potential to materially impact that site's, and possibly the Group's, performance.
- The risk is assessed as stable as we have already successfully implemented the ERP at three locations.

EXISTING MITIGATION CONTROLS

- Short-term stabilisation of existing hardware and legacy software platforms.
- Governance and control arrangement operating over the Group's ERP implementation programme.
- Use of specialist external consultants and recruitment of experienced personnel.
- Phased implementation rather than 'big bang'.
- Project assurance and 'lessons learned' reviews to continuously improve the quality of successive roll outs.
- Template blueprint agreed to form the basis of the implementations.
- Steering Committee in operation with cascading project management disciplines.
- A range of preventative and detective controls to manage the risk of a cyber attack.

6 PROLONGED LOSS OF A MANUFACTURING SITE

FY17 FY18

DETAILED RISK

A catastrophic loss of the use of all or a significant portion of a strategic production facility. This could result from an accident, a strike by employees, fire, severe weather or other cause outside of management control.

Link to strategic objectives 1 5 7

POTENTIAL IMPACT

- In the short or long term, a related risk event could adversely affect the Group's ability to meet the demands of its customers.
- Specifically, this could entail significant repair costs or costs of alternate supply while repairs are made. A significant proportion of the Group's revenue is on relatively short lead times and a break in our supply chain could result in loss of revenue. All of this translates into lower sales and profits.

EXISTING MITIGATION CONTROLS

- Preventative maintenance programmes and new investments to reduce risk of interruption of manufacturing.
- A Group Fire Safety Policy mandating preventive, detective and containment controls.
- Alternate manufacturing capacity exists for a substantial portion of the Group's product range.
- Core sites are required to maintain a Business Continuity Plan for use in the event of a serious business disruption.
- Inventory maintained to absorb and flatten out raw material supply and production volatility.
- The Group has comprehensive insurance policies to mitigate the impact of a number of these risks.

7 PEOPLE AND CHANGE

FY17 FY18

DETAILED RISK

The Group's operations are dependent upon the ability to attract and retain the right people with an appropriate range of skills and experience, which is a greater challenge in an increasingly competitive environment.

Succession planning and the ability to swiftly replace staff retiring or leaving is also critical.

Link to strategic objectives 1 4 6

POTENTIAL IMPACT

- Failure to retain, attract or motivate the required calibre of employees will negatively impact business performance. The delivery of the STEP 2020 Strategic Plan and our strategic goals may also be delayed.

EXISTING MITIGATION CONTROLS

- Competitive reward programmes, focused training and development, and a talent retention programme.
- Ongoing reviews of succession plans based on business needs.
- Performance management and training programmes in operation. Formal personal development review process to be rolled out in the new financial year.
- Management team strengthened with new capability from external hires and internal promotions.
- The Renold Values, launched in 2015, continue to be embedded.

8 LIQUIDITY, FOREIGN EXCHANGE AND BANKING ARRANGEMENTS

FY17 FY18

DETAILED RISK

A lack of sufficient liquidity and flexibility in banking arrangements could inhibit the Group's ability to invest for the future or, in extremes, restrict day-to-day operations.

In the past, banking markets and Renold's own performance have made access to debt facilities difficult.

Link to strategic objectives 4 5 7

POTENTIAL IMPACT

- Potentially cause under-investment and sub-optimal short-term decision making.
- Limiting investment could prevent efficiency savings and reduce competitiveness.
- In an extreme situation, the Group's ability to operate as a Going Concern could also be jeopardised.

EXISTING MITIGATION CONTROLS

- The Group's primary banking facility expires in May 2020 and is fully available given current levels of profitability.
- The facility includes additional drawdown capability, accessible as long as financial covenants are complied with.
- Rolling foreign exchange forward contracts covering expected future cashflows.

SEVERITY

High Medium Low

TREND DIRECTION

increasing unchanged decreasing

Principal Risks and Uncertainties

9 PENSIONS DEFICIT VOLATILITY

FY17 → FY18 →

DETAILED RISK

The principal pensions risk is that short-term cash funding requirements of legacy pension scheme diverts much needed investment away from the Group's operations, particularly in an increasingly regulated environment in the UK.

Secondly, the size of the reported balance sheet deficit can operate as a disincentive to potential investors or other stakeholders.

Thirdly, balance sheet deficits can fluctuate based on market conditions outside the control of management.

Link to strategic objectives 7

POTENTIAL IMPACT

- Given the Group's cash needs to invest in the business, the pace of performance improvement could be slowed if cash has to be diverted to the pension schemes.
- The balance sheet pension deficit and its volatility could act as a disincentive to potential investors and could reduce the Group's ability to raise new equity or debt financing.

EXISTING MITIGATION CONTROLS

- The Pension Strategy has been updated to 2020.
- The major UK pension cash flows (50% of all defined benefit pension cash costs) are stable 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.

10 REGULATORY AND LEGAL COMPLIANCE

FY17 → FY18 ↗

DETAILED RISK

The risk of censure, fine or business prohibition as a result of any part of the Group failing to comply with regulatory or legal obligations.

Risks related to regulatory and legislative changes include the inability of the Group to comply with current, changing or new requirements.

Many of the Group's business activities are subject to increasing regulation and enforcement by relevant authorities.

Link to strategic objectives 7

POTENTIAL IMPACT

- Failure by the Group or its representatives to abide by applicable laws and regulations could result in:
  - Administrative, civil or criminal liability.
  - Significant fines and penalties.
  - Suspension of the Group from trading.
  - Reputational damage.

EXISTING MITIGATION CONTROLS

- Communication of a clear compliance culture.
- Risk assessments and ongoing compliance reviews at least annually at all major locations.
- Published up to date policies and procedures with clear guidance and training issued to all employees.
- Monitoring of compliance with nominated accountable managers in each business unit.

SEVERITY

High | Medium | Low

TREND DIRECTION

↗ increasing | → unchanged | ↘ decreasing

Viability Statement

The UK Corporate Governance Code requires the Directors to assess the prospects of the Group over a period significantly longer than 12 months from the date of approval of the financial statements which is used as the basis for assessing Going Concern.

The Group's Strategic Plan covers the three year period to March 2021. The Group's core financing facility expires in May 2020 but, following normal market practice, is likely to be renegotiated at least 12 months earlier. The Board determined that the period to March 2021 was the appropriate and relevant period over which to perform the viability review as it would be based on a set of forecasts already contained in the Group's Strategic Plan. The Board is not aware of any reason why the Group would not be able to refinance its core financing facility prior to expiry on comparable market-based terms at that time.

As in prior years, the Board and Audit Committee have continued to review and assess the Group's ongoing risk appetite, register of principal risks and uncertainties and progress on actions to mitigate the probability and impact of risks crystallising. The internal control structures and processes described on pages 56 to 58 also serve to mitigate exposure to single risk events that could threaten the Group's longer term viability. While all risks have the potential to impact longer term viability, the principal risks deemed more relevant for a reasonable assessment of viability are set out below:

- Strategy Execution: the risk of the Group's inability to successfully implement the STEP 2020 Strategic Plan which could lead to the Group continuing to experience volatile financial results and weak levels of cash generation.
- Macroeconomic and political volatility: uncertainty driven by global events is undoubtedly creating volatility. These events range from Brexit, increased protectionism to geopolitical uncertainty. As an international manufacturing business, the Group is dependent on stable trading environments to deliver our products and the resulting shareholder value. Significant changes in global trading dynamics have the potential to undermine the Group's longer term prospects.

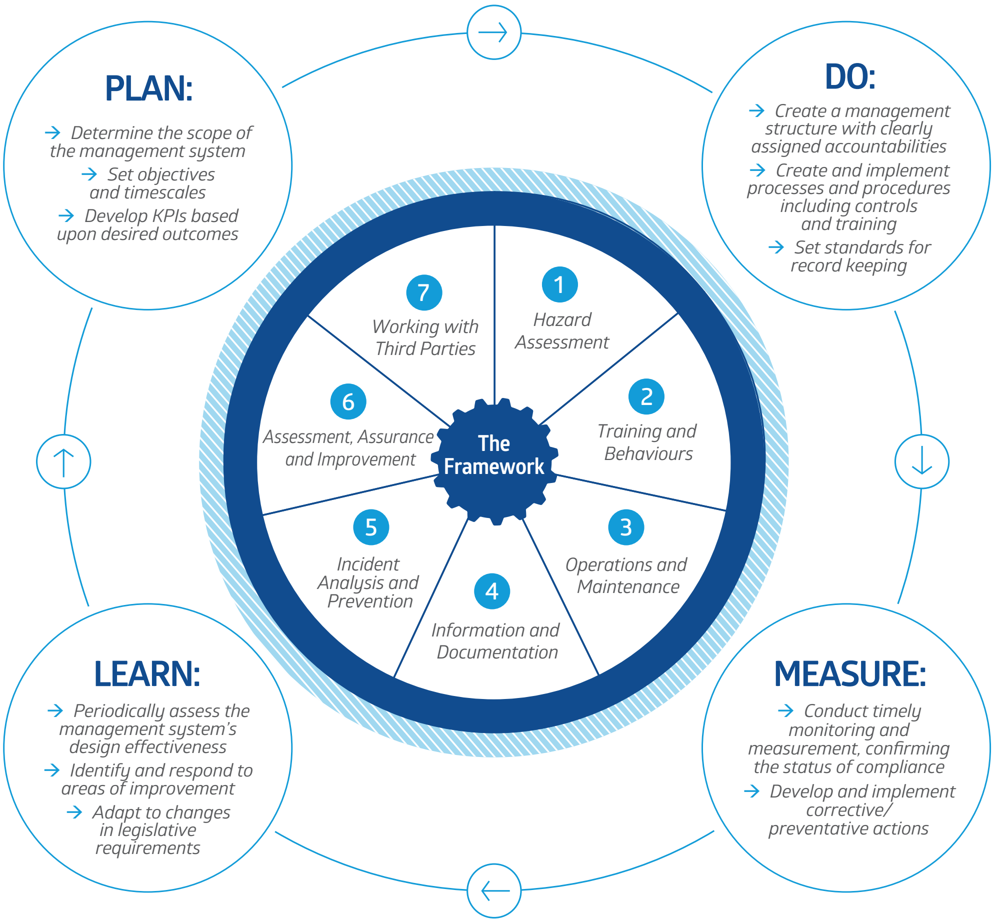
The Board has continued to review the STEP 2020 Strategic Plan during the current year. This included an additional detailed review of our markets, competitors and product strategies in addition to financial forecasts. The review assessed the results of stress tests on financial forecasts and also financing options around our acquisition strategy in Phase III of the STEP 2020 Strategic Plan. In these stress tests a number of scenarios were reviewed including one in which sales levels were a further 10% below the year ended 31 March 2018 and a second in which sales growth was limited to being 50% below future growth plans. The Board thereby assessed the potential impact of the risks noted above which could affect solvency or liquidity in 'severe but plausible' scenarios over the three year period and concluded that the business would remain viable.

The Group maintains a conservative approach to borrowing and while our banking covenants have leverage limits of 2.5x Adjusted EBITDA, the Board seeks to operate within an internally imposed 2.0x leverage limit which ensures there is access to short-term borrowing to cope with any short-term financial shocks.

Based on the results of the processes described above and the Board's overall comprehensive and proactive approach to risk management, the Directors have a reasonable expectation, subject to the successful renewal of the Group's banking facilities which expire in May 2020, that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of assessment.

Health and Safety

Our focus on improving our health and safety performance has been unwavering and despite the improvement in our health and safety KPIs, we remain resolutely focused on striving for further improvement.



Key Strategic Objective

Significantly improving our health and safety performance remains a key Strategic Objective and all Renold's locations across the world operate against a Group Health and Safety Management Framework (the Framework).

In 2014, an annual Health and Safety Awards Scheme was introduced and the rules of the scheme encourage continuous improvement aligned to the framework. Recognising the further improvements being made across the Group, ten awards were made in 2018 (eight in 2017), including, for the first time, three 'Excellence' awards, the highest level of award currently available.

Health and safety governance

Governance structures are clearly defined and include a Group Health and Safety policy which is reviewed annually. Cascading from this is the Framework, which defines the Board's expectations regarding health and safety control and performance. Management across all locations are required to adhere to the Framework. This Framework contains principles and expectations describing a set of outcomes and provides a structure to manage health and safety. The Framework is consistent with recognised standards, including the internationally adopted model of Plan-Do-Measure-Learn and OHSAS 18001, with accredited certification held by all of our major production facilities.

The Framework consists of seven core components, which include setting a supportive leadership tone, with sub-processes covering hazard assessment, incident management and the management of third parties.

We use a web-based Integrated Risk Management System (IRMS) which provides aligned processes and data mining functionality. This allows sites to manage accident reporting, opportunities for improvement, hazard assessment and to track all improvement actions. Performance data to inform monthly Board reporting and site reviews are derived from the system.

An independent programme of audits is in place, which requires all material sites to be audited within a 12 month period. This assesses compliance and performance against the Framework. Each audit typically takes a week to perform, to support a robust assessment of compliance against the Framework. The assurance results, along with other typical KPIs, are reported each month to the Board. There is particular focus on any serious accidents and the quality of accident investigations, ensuring that root causes are identified and addressed.

Improvement initiatives

The following examples of health and safety initiatives and specific site improvements are indicative of the broad range of positive changes which continue to be made:

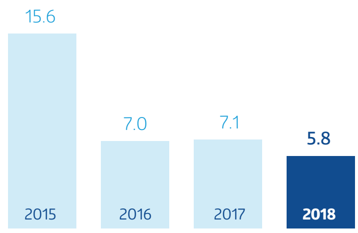
- Renold's Health and Safety Awards scheme is now an important part of the calendar for all sites.
- Renold's BAT logo continues to be used by all sites to reinforce the message: Be safe; Act safe; Think safe.
- Personal protective equipment requirements are regularly reviewed and we have ensured that clear communication of standards is observed.
- All core production sites have standardised health and safety information boards, which include themes which align to the Framework and the Health and Safety Awards.
- Replacement guarding fitted to machinery to prevent strike hazards from materials, with best practice shared across the Group.
- Mandated standards relevant to fire safety have been developed and are being rolled out.
- Guidance regarding workplace transport hazard management.

Improved Group-wide performance

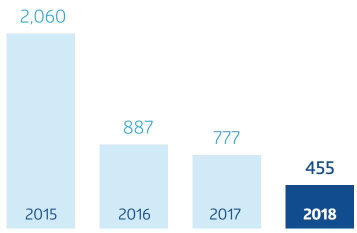
The Group uses a number of KPIs to monitor performance. Each Board meeting considers a comprehensive report from the Group Risk and Assurance function, which includes a rolling analysis of a range of KPIs along with other relevant criteria. Examples are provided on this page showing performance for the four years to 31 March 2018. Some key highlights during the year include:

- A year on year reduction of 41% in our reportable accident rate (greater than three lost days).
- A total of 1,304 employee generated safety improvement opportunities.

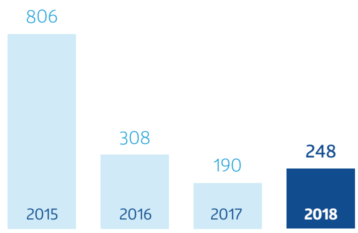
LOST TIME ACCIDENT FREQUENCY RATES[1]



TREND OF REPORTABLE INCIDENTS[2]



LOST TIME DAYS



1. Lost time accident frequency rate = (no. of lost time accidents in the 12 month period/total hours worked in the 12 month period) x 1,000,000.
2. Trend of reportable injury rates = (no. of accidents greater than three lost days divided by average number of employees in the 12 month period) x 100,000. Note that while accidents greater than seven days are reportable events in the UK, Renold monitors both three and seven lost day categories.

Corporate Social Responsibility

We remain committed to ensuring that our business activities are conducted in a responsible manner for the benefit of our customers, our people, our local communities, our partners and our investors.

Our Commitments

- Provide a rewarding and safe working environment
- Work in accordance with our values
- Act in an ethical manner in all our business relationships
- Work with the communities in which we operate
- Minimise the environmental impact of our products and processes

The Board is mindful of the importance to the business of its responsibility to stakeholders and the wider community. Our approach to corporate social responsibility has three key elements: our people, our community and our environment. The commitment to our people includes the provision of a rewarding and safe environment for our employees and the way in which we work according to our Values.

Detailed information in relation to health and safety matters is reported upon at pages 38 and 39 of this Annual Report.

The Board has overall responsibility for corporate social responsibility with the Chief Executive taking direct leadership responsibility supported by the regional and business unit Executive teams.

Aligned to this is our continuous commitment to uphold good corporate governance principles, in respect of which further details are set out in our Corporate Governance Report on pages 50 to 59.

Our People

The Group requires motivated, talented employees, with a clear understanding of their role within the business to deliver our Strategic Objectives. Consequently, Renold remains actively focused on the delivery of actions in the following areas:

Talent acquisition and optimisation of organisation structures

As in previous years, the Group has continued to review and strengthen the management team and organisation structures, with new appointments into key roles including the Managing Director – Global Chain and the Group Corporate Development Director. The business has increasingly been able to focus on clarifying, developing and strengthening the capability of management and staff at deeper levels in the organisation.

During the year, we have continued to evolve our recruitment processes to enable the sourcing and assessment of high calibre people at the right time into well-defined roles with clear deliverables and accountabilities. We focus on the key competencies and capacities that are critical to the job role and seek to measure potential candidates against these factors. We continue to apply a more rigorous use of skills assessments in areas such as numerical and verbal reasoning, and the insistence on standards of high performance in these areas is beginning to bear fruit. We will continue to refine and standardise our capability in this area in the coming financial year.

As in the past, Renold invests in programmes to develop 'home grown' talent and we continue to operate our apprenticeship programmes, particularly in the UK and Germany.

The UK currently has seven apprentices within our Torque Transmission business. Our Chain business in Einbeck, Germany, has 17 apprentices working across a broad range of levels and disciplines including engineering, technical, administration and logistics functions.

Renold continues to support our Future Leaders Graduate Programme. This year, the business celebrated the 'graduation' of our first intake. Each of these graduate Future Leaders has had a real job in the organisation from their first day of employment and are participants in a structured programme of training and development with 12 training modules being delivered by external experts over a two year period. These modules aim to provide participants with a broad range of skills and knowledge to act as a base upon which they can further develop as their careers progress. Additionally, they have the opportunity to be involved in critical business projects and have regular exposure to the senior leadership team.

We expect this programme to be one of the key processes through which the business continues to ensure that we internally develop our leaders of the future. The intention is to continue to invest in this programme and we expect another intake of Future Leaders in the next financial year.

We continue to evolve and broaden our Talent Review Process through a review of our people in critical areas of the business. We assess both the performance and the longer term potential of key individuals and their teams. Based on these assessments, we prioritise meaningful actions to enable organisational improvement. In future years, this process will continue to evolve, taking into account the global nature of our business, enabling us to create a straightforward and practical continuous improvement ethos in the area of talent development.

Corporate Social Responsibility

Our Values

- Operate with integrity
- Value our people
- Work together to achieve excellence
- Accept accountability
- Be open-minded

Values, behaviour and engagement

The Renold Values and Behaviours continue to act as an important standard to which we hold both ourselves and our employees. Since the launch of the Renold Values we have continued the work of embedding these in the business.

The Values and Behaviours are clearly communicated across the Group and are increasingly becoming integrated into the way in which we do things. In particular, we have focused on ensuring that our recruitment methodology incorporates our Values and Behaviours and that we specifically seek future hires who are able to demonstrate alignment with these desirable traits. The Values and Behaviours have also been incorporated into our Performance and Development Review Process.

Across our global locations we continue to align the requirement to embed Organisational Values and Behaviours in the terms and conditions of employment. The importance of our Values is emphasised during the induction process for new employees.

We plan to continue to focus on the process of further embedding our Values and Behaviours in the business as Renold continues to develop, ensuring that, for the long term, our Values and Behaviours shape our evolving culture.

Compliance

Arrangements for consulting and involving Group employees on matters affecting their interests at work 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.

The Group's intranet site enables access to the latest Group information as well as Group policies. We also undertake 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.

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

We monitor developments in employment law that may affect our employees in the regions in which we operate and make adjustments as necessary.

Business integrity and ethics

We operate the business in an ethical and responsible manner and 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, 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 in accordance with the Group Gifts and Hospitality policy.

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.

The Group is also committed to compliance with anti-corruption laws in all countries and operates a zero tolerance policy.

The Group Anti-Corruption policy forms part of that commitment, together with the Gifts and Hospitality policy, both of which are designed to assist Renold employees in meeting corporate and individual obligations under anti-corruption laws and specifically the UK Bribery Act.

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.

The underlying objective in all these measures is to maintain the highest standards of integrity throughout the business and ensure that all business dealings are transparent.

Across the Group we have a well-established employee whistle-blowing procedure. This is provided and managed by an external third party. Through this process employees are able to pass information to the senior leaders in the business about areas of concern to them. This can be done with full anonymity. The number of reports, the nature of them and the business response is regularly reviewed at senior management and Board level.

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. Respect for the individual is also enshrined in Renold's statement of Values and Behaviours.

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

Following the introduction of the UK Modern Slavery Act 2015, we have published a statement on our website which sets out the steps being taken by the Group to ensure that slavery and human trafficking are not taking place in the business or the supply chain relating to our goods. The Group is committed to ensuring that our business and business partners do not undertake any activity which contravenes the Modern Slavery Act.

READ MORE ON OUR WEBSITE
www.renold.com

Corporate Social Responsibility

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 2018, the Group employed 2,044 people including 350 in the UK. Of the total number of employees, 354 (17%) are female. The Company recognises the need to encourage and support more gender diversity throughout the employee population as well as at Board level.

Set out in the table below is a breakdown of the gender of employees as at 31 March 2018.

	As at 31 March 2018			As at 31 March 2017		
	Male	Female	Total	Male	Female	Total
Board of Directors	6	–	6	6	–	6
	100%	–		100%	–	
Executive Management Team (excluding Directors)	5	1	6	3	1	4
	83%	17%		75%	25%	
Other Senior Managers[1]	28	3	31	33	3	36
	90%	10%		92%	8%	
Other employees	1,651	350	2,001	1,729	364	2,093
	83%	17%		83%	17%	
Total	1,690	354	2,044	1,771	368	2,139
	83%	17%		83%	17%	

1. A senior manager is defined in the legislation as an employee who has responsibility for planning, directing or controlling the activities of a company or a strategically significant part of a company. While falling within the definition of 'senior manager', the most senior leadership population (below the Board), the Executive Management Team, is shown in a separate category.

Our community

We aim to be a part of the communities in which we work and seek to assist local projects with support where possible. Although the Group is limited in our ability to provide extensive financial support to projects, we do seek to provide support where we can in a number of ways.

We continue to support The Outwardbound Trust, an educational charity that uses the outdoors to help develop young people from all walks of life. In addition to providing some financial support to the Trust, a number of our employees are involved in the activities of the Trust, in particular acting as mentors to the young people attending the outdoor learning programmes. As well as supporting the amazing work that the Trust does, this will help with the engagement and development of our own employees, particularly those that participate in the mentoring opportunities.

We are delighted to have been a supporter of the Museum of Science and Industry in Manchester over many years, and particularly through the support of the Manchester Science Festival. Each October, it attracts the best scientists from Manchester and beyond to showcase current research and promote the region's rich heritage of innovation.

In India, Renold has been working with communities and relevant stakeholders to assist local government schools in the provision of better infrastructure and educational facilities. Renold India's 'Corporate Social Responsibility Vision' has been formulated in connection with the statutory requirement in India. The areas listed in the statute include promoting education. Renold India believes that education is the tool for creating an empowered, enlightened society. More than 60% of children in India are enrolled in government schools; however, the infrastructure and facilities and quality of the education are often below acceptable levels. Through better facilities and higher quality education all round it is anticipated there will be a reduction in the dropout rate of students.

Our environment

The environmental impact of our activities is at the forefront of our strategy. Across all our operations, we meet all legislative requirements concerning environmental issues, including those relating to energy usage. As a part of the Group's commitment to minimising the impacts of its business operations on the environment, we co-operate with regulators, suppliers, neighbours and customers to develop and achieve improved standards of environmental protection. All of our production facilities either hold or are working towards ISO 14001.

During the year, a range of projects have delivered further environmental improvements. These include emission reductions at our Einbeck, Germany site following investment in a new heat treatment line, waste reduction initiatives across a number of sites and insulation improvements from new and modified roofing structures. Our ongoing programme of investment in new equipment will continue to bring further efficiencies over the coming year.

Energy Saving Opportunities Scheme (ESOS)

ESOS is a mandatory energy assessment scheme for organisations in the UK that meet the qualification criteria. The Environment Agency is the UK scheme administrator.

Renold qualifies for ESOS and must carry out ESOS assessments every four years. These assessments are audits of the energy used in our buildings, industrial processes and transport to identify cost-effective energy saving measures.

To deliver our obligations under phase 1 of the ESOS legislation, we opted to undertake an ESOS Energy Survey. A specialist consultancy was appointed to assist the Company in completing the survey in June 2015. The reported findings are being used to inform the development of a series of energy reduction and management measures.

Greenhouse gas (GHG) emissions

Renold continues to comply with its obligations under the carbon reporting requirements of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Energy usage across the Group is collated using data captured through the Group's Integrated Risk Management web-based IT system. This energy consumption database makes data readily available. Data is actively reviewed in order to target additional energy reduction programmes.

The main contributors to GHG emissions arise from our use of electricity and fuels, such as natural gas and fuel oil, burnt on our premises.

The table below shows the Group's GHG data in tonnes for the last five financial years across all locations, derived from the consumption data collected and the DEFRA and International Energy Agency published conversion factor tables.

Renold continues to sustain an underlying reduction in energy usage. Related cross-site initiatives include:

- New roof and insulation projects;
- Low energy lighting; and
- More efficient production arising from investment.

	2014	2015	2016	2017	**2018**
Scope[1]	11,175	9,750	8,097	9,104	**8,258**
Scope[2]	21,353	20,503	18,012	19,264	**17,667**
Total annual GHG emissions[3] on (tCO_2e)	32,528	30,253	26,109	28,368	**25,925**
Emissions Intensity[4]	176.8	165.8	158.1	154.5	**135.3**

Notes

1. Scope 1 emissions are from those direct sources that are owned by the Group (e.g. from direct combustion of natural gas within our facilities' boilers and heaters). Fugitive gases are not included.
2. Scope 2 emissions comprise those emissions for which the Group is indirectly responsible, excluding transmission and distribution losses (e.g. from the electricity we purchase to operate machinery or equipment). An amendment made during 2015 to the Greenhouse Gas Protocol incorporates two calculation methodologies for scope 2 emissions. There are no contractual instruments in place for the purchase of renewable energy. Hence, we report the same figure when applying the market and location based methodologies.
3. The calculation methodology is based on the Greenhouse Gas Protocol developed jointly by the World Resources Institute and the World Business Council for Sustainable Development.
4. The UK Government guidance was considered when selecting the Company's chosen intensity measurement which is total emissions reported normalised to £m external revenue for the financial year ended 31 March 2017.

Strategic Report approval

The Strategic Report, on pages 6 to 45, incorporates: Market Review, Our Business Model, Our Customer Journey, Our Key Performance Indicators, Chief Executive's Review, Our Performance, Finance Director's Review, Our Risks, Principal Risks and Uncertainties, Viability Statement, Health and Safety and Corporate Social Responsibility and was approved by the Board on 29 May 2018.

For and on behalf of the Board
Ian Scapens
DIRECTOR

29 May 2018

Chairman's Letter

"The Board is committed to maintaining high standards of corporate governance and behaviour and recognises that good governance is critical to long-term business success."

MARK HARPER
CHAIRMAN

Dear Shareholder,

On behalf of the Board I am pleased to present the Governance Report for the year ended 31 March 2018.

This section of the Annual Report and Accounts highlights the Group's governance processes, alongside the work of the Board and Board Committees. We explain our approach to corporate governance and provide the information required of us by the UK Corporate Governance Code 2016 (2016 Code) which applies to the Company for this reporting period. The Group's principal risks and uncertainties are described in the Strategic Report and that section of the Annual Report and Accounts also forms part of the Governance Report.

We appreciate the importance of upholding the principles of good corporate governance, not only for compliance purposes, but because we recognise that good governance reduces risk and adds value to the business.

Board composition

This year has been a period of consolidation for the Board and transition of some roles. Prior to the start of the financial year we welcomed Ian Scapens to the Board as our Group Finance Director, and David Landless joined as a Non-Executive Director.

David Landless became Chairman of the Audit Committee on completion of the AGM on 19 July 2017, succeeding John Allkins who stepped down after nine years in the role. John was also our Senior Independent Director and Ian Griffiths stepped into this role after the AGM. John has continued as a Non-Executive Director, facilitating a valuable handover period to David in particular.

As John Allkins will retire from the Board at the 2018 AGM I would like to take this opportunity to thank John for his extremely valuable contribution to the Board, his chairmanship of the Audit Committee and assistance during this period of orderly transition.

Tone from the top

The Board continues to strongly believe in operating to the highest standards of ethical business conduct and in the importance of setting the right 'tone from the top'. These principles are reflected in the statement of our Values and Behaviours and Renold requires the same from all employees in the performance of their duties.

We continue to be mindful of developments in legislation, regulations and codes of practice of relevance to corporate governance and ethics. We are particularly alert to the Financial Reporting Council's proposed reforms to the UK Corporate Governance Code and that resultant reforms will need to be taken into account in planning for the future.

In addition to matters of corporate governance and ethics, the key priority for the Board remains the delivery of the STEP 2020 Strategic Plan. On page 53 of our Corporate Governance Report we set out the areas of focus for the Board this year and highlight the links between the issues considered and the Group's Strategic Objectives.

Annual General Meeting

Our AGM will be held at 11.00am on Wednesday 18 July 2018 at the Manchester International Office Centre, Styal Road, Wythenshawe, Manchester, M22 5WB. We are pleased to receive feedback from shareholders at all times and I would encourage our shareholders to attend the AGM.

Mark Harper
CHAIRMAN

29 May 2018

Compliance with the UK Corporate 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.

In this report, we explain the Group's approach to corporate governance and provide the information required of us by the UK Corporate Governance Code 2016 (2016 Code) which applies to the Company for this reporting period. The Board's compliance is therefore provided against the requirements of the 2016 Code.

The 2016 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 Financial Conduct Authority (FCA) require UK-listed companies to disclose how they have applied those principles and whether they have complied with the provisions throughout the financial year.

The obligation of all listed companies is to comply with the provisions of the UK Corporate Governance Code, or to explain why it has not done so. The Board considers that the Company has complied with all provisions set out in the 2016 Code that are applicable to it throughout the year ended 31 March 2018, except where highlighted in this section.

The 2016 Code is available to view on the Financial Reporting Council (FRC) website, www.frc.org.uk.

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.

Mark Harper
Chairman

Committee memberships N
Appointment to the Board: May 2012

Experience

Mark, aged 62, 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 AGM on 12 July 2012. His appointment was extended on 1 May 2018 to May 2021. 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 E
Appointment to the Board: January 2013

Experience

Robert, aged 56, 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.

Ian Scapens
Finance Director

Committee memberships E
Appointment to the Board: January 2017

Experience

Ian, aged 44, joined the Group on 3 January 2017 as Group Finance Director. Ian has extensive experience in all aspects of finance in large complex organisations. He joined Renold from Keepmoat Group, where he had been Deputy Chief Financial Officer since June 2015. Previously, Ian spent ten years at Speedy Hire Plc, latterly as Group Financial Controller, from 2010 to 2015. Ian is a member of the Institute of Chartered Accountants of England and Wales.

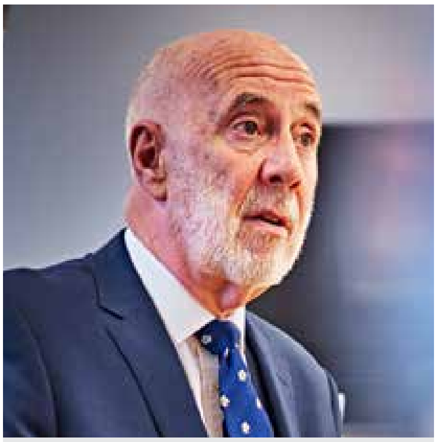
Committee memberships key:

A Audit Committee N Nomination Committee R Remuneration Committee E Executive Risk Management and Monitoring Committee

Ian Griffiths
Senior Independent Non-Executive Director

Committee memberships A N R
Appointment to the Board: January 2010

Experience
Ian, aged 67, was appointed to the Board in January 2010 and to the chair of the Remuneration Committee in November 2010. His appointments to both were extended in January 2016 and on 19 July 2017 he became the Senior Independent Non-Executive Director. Ian is a Non-Executive Director of Autins plc, a company listed on the AIM Market of the London Stock Exchange. He has also been a Non-Executive Director and Chairman of Hydro International plc and a Non-Executive Director of Ultra Electronics Holdings plc. Ian has also previously held Executive Director roles at Royal Mail Letters where he was Managing Director and was a Director of Royal Mail Holdings plc and at GKN plc and GKN Holdings plc where he was Group Managing Director, GKN Automotive.



John Allkins
Non-Executive Director

Committee memberships A N R
Appointment to the Board: April 2008

Experience
John, aged 68, 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. He stepped down from the chair of the Audit Committee and as Senior Independent Non-Executive Director on 19 July 2017. John brings strong Executive Director experience to the Board and Audit Committee, 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 Punch Taverns plc and Nobina AB. John is a fellow of the Chartered Institute of Management Accountants.

David Landless
Non-Executive Director

Committee memberships A N R
Appointment to the Board: January 2017

Experience
David, aged 58, was appointed to the Board as Non-Executive Director on 9 January 2017 and became chair of the Audit Committee from 19 July 2017. David, a fellow of the Chartered Institute of Management Accountants, has significant experience at senior levels of international businesses in the industrials sector. He was most recently Group Finance Director of Bodycote plc from 1999 until his retirement on 1 January 2017. Prior to that, he held a range of finance roles for 15 years at Courtaulds in the UK and US, latterly as Finance Director of Courtaulds Coatings (Holdings) Ltd, from 1997 to 1999. David is currently a Non-Executive Director of European Metal Recycling Limited, a large private scrap metal recycling company, and a Non-Executive Director and chair of the Audit Committee of both Luxfer Holdings plc and Innospec Inc.

Corporate Governance Report

Compliance with the UK Corporate 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.

In this report, we explain the Group's approach to corporate governance and provide the information required of us by the UK Corporate Governance Code 2016 (2016 Code) which applies to the Company for this reporting period. The Board's compliance is therefore provided against the requirements of the 2016 Code.

The 2016 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 Financial Conduct Authority (FCA) require UK-listed companies to disclose how they have applied those principles and whether they have complied with the provisions throughout the financial year.

The obligation of all listed companies is to comply with the provisions of the UK Corporate Governance Code, or to explain why it has not done so. The Board considers that the Company has complied with all provisions set out in the 2016 Code that are applicable to it throughout the year ended 31 March 2018, except where highlighted in this report.

The 2016 Code is available to view on the Financial Reporting Council (FRC) website, www.frc.org.uk.

Board composition, responsibilities and activities

Membership of the Board

During the year ended 31 March 2018, there have been no changes to the composition of the Board, whilst there have been two transitions in roles of Board members.

Prior to the end of the previous financial year, Ian Scapens joined the Company as Group Finance Director and David Landless joined the Board as a Non-Executive Director. As part of a programme of orderly succession, John Allkins stepped down as Chairman of the Audit Committee and as Senior Independent Director at the AGM in July 2017. David Landless took up the role of Chairman of the Audit Committee and Ian Griffiths assumed the responsibilities of Senior Independent Director. John will continue as a Non-Executive Director until his retirement from the Board at the 2018 AGM.

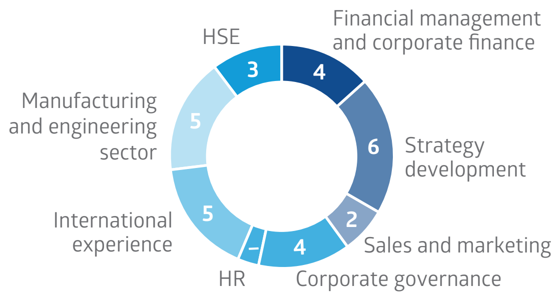
The Board continues to have a balance of Executive and Non-Executive Directors. Currently, the Board comprises a Non-Executive Chairman, three Non-Executive Directors and two Executive Directors as shown below.

The Board's consideration of its composition in the context of its diversity is set out in the Nomination Committee Report on pages 66 and 67.

Experience of the Board

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 below graphic shows the number of Directors with significant experience in the areas listed.



Responsibilities of the Board

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 in areas such as health, safety and environmental matters and Directors' and senior managers' remuneration and ethics. The Executive Directors have authority to deal with all other matters affecting the Group.

The Board has approved a schedule of reserved matters 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.

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.

Individual Directors' key responsibilities

The roles of Chairman and Chief Executive are separated, with a clear division of responsibilities set out in writing and agreed by the Board.

TITLE	RESPONSIBILITY
CHAIRMAN Mark Harper	To ensure the effectiveness of the Board in setting the direction of the Company and the agenda of the Board.
CHIEF EXECUTIVE Robert Purcell	To manage the business and implement the strategy agreed by the Board.
FINANCE DIRECTOR Ian Scapens	To ensure sound financial management of the Group's business and provide strategic and financial guidance to ensure that the Company's financial commitments are met.
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR Ian Griffiths	In addition to the role of an independent Non-Executive Director, to ensure that the views of each Non-Executive Director are given due consideration and act as a sounding board for the Chairman.
INDEPENDENT NON-EXECUTIVE DIRECTORS John Allkins David Landless	To constructively challenge the Executive Directors and help develop proposals on strategy, including satisfying themselves on the integrity of financial information and ensuring financial controls and systems of risk management are robust and defensible.

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 a Company Secretary, who ensures that Board procedures are complied with.

Corporate Governance Report

Board and Committee membership and attendance

The Board meets on a regular basis with an agenda and necessary papers for discussion distributed electronically in advance of each meeting via board portal software, Diligent. Agenda items are agreed in advance and set out in an annual planning schedule. 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 Board's responsibilities are discharged by way of scheduled Board meetings. In addition, the Board reviews written reports in months where there is no meeting and convenes ad hoc meetings during the year in order to resolve matters by written resolutions to deal with specific business requirements.

The table below 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. Seven core meetings have been held this year. In addition, the Board met for a separate full day to discuss the further evolution of the STEP 2020 Strategic Plan. All Directors attended all core scheduled Board meetings, as can be seen in the table of attendance below.

	Mark Harper[1]	Robert Purcell[2]	Ian Scapens[2]	Ian Griffiths	John Allkins	David Landless
BOARD 7 meetings	7	7	7	7	7	7
AUDIT COMMITTEE 4 meetings	4	4	4	4	4	4
NOMINATION COMMITTEE 4 meetings	4	3	3	4	4	4
REMUNERATION COMMITTEE 6 meetings	6	5	4	6	6	6
ERMM COMMITTEE 5 meetings	–	4	5	–	–	–

1. Mark Harper attended Audit and Remuneration Committee meetings or part thereof by invitation.
2. Robert Purcell and Ian Scapens attended Audit, Nomination and Remuneration Committee meetings or part thereof by invitation.

Risk monitoring

The Board has overall responsibility for implementing the Group's system of internal control including financial, operational and regulatory compliance controls and risk management systems. The Board is also responsible for reviewing internal control effectiveness and compliance and accords with the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

The ongoing process for the review of the system of internal controls by the Directors has been in place for the whole of the year ended 31 March 2018 and up to the date of approval of this report and the financial statements.

Internal controls and the risk management processes 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 (ERMMC) after each meeting to the Audit Committee.

Further details about the composition and activities of the ERMMC and the Group's risk management framework can be found on pages 30 to 36 of the Strategic Report. A description of the Audit Committee's oversight of the ERMMC can be found in the Audit Committee Report on page 60.

Board focus during the year

During the year ended 31 March 2018, the Board has provided its main focus on the following matters:

	OVERVIEW	ACTIVITY IN YEAR	STRATEGIC OBJECTIVE*
GOVERNANCE AND RISK	→ Implementation and reviewing compliance with the requirements of the UK Corporate Governance Code. → Ensure a sound system of internal control and risk management including review of the Group risk profile.	→ Consideration of the 2016 Corporate Governance Code. → Consideration of the Viability Statement and agreeing the Group's risk profile, principal risks and uncertainties and risk appetite. → Review of the effectiveness of the risk management and internal control systems. → Conducting and reviewing an evaluation of the effectiveness of the Board and its Committees.	1 7
STRATEGY	→ Responsibility for approval of the Group's strategic aims and objectives and review of performance. → Approval of major capital projects and oversight of benefits expectation and delivery.	→ Board Strategy day held to debate and discuss the STEP 2020 Strategic Plan. → Continued review of STEP 2020 and supporting the Chief Executive in the evolution of the Group's Strategic Plan. → Review of ERP effectiveness and monitoring progress of new ERP implementation. → Review of customer service enhancement initiatives including the 'STEP 2 Service' service improvement programme. → Oversight of programme to relocate Chain manufacturing facility in China. → Considered and approved the plans to close manufacturing operations in New Zealand (Chain) and China (Torque Transmission). → Considered and approved capital availability through exercise of accordion on the Group's borrowing facilities. → Received presentations from Group senior management on operations and continued implementation of STEP 2020 across the divisions and functions.	1 2 3 4 5 6 7
LEADERSHIP	→ Responsibility for the overall leadership of the Group and setting the Group's Values. → Setting the 'tone from the top'.	→ Monitoring health and safety performance. → Succession planning in relation to the Board and senior management. → Support to ongoing organisational development.	1 6
FINANCIAL STEWARDSHIP	→ Approval of financial reporting and controls. → Approval of relevant policies.	→ Approval of the annual operating and capital expenditure budgets. → Review of monthly business performance reports. → Review of dividend policy. → Review and approval of the half year and full year results and related announcements. → Review and approval of the delegated authorities matrix. → Review and approval of the Group tax strategy. → Review of pension scheme de-risking initiatives. → Specific approval for major capital investment projects. → Review of matters affecting the Group involving material litigation or disputes.	2 5 7
SHAREHOLDER RELATIONS	→ Ensuring a satisfactory dialogue with shareholders, including approval of key information to shareholders.	→ Received and discussed a presentation in relation to feedback from roadshows and presentations to shareholders. → Approval of Annual Report and Accounts and information to shareholders for the AGM.	

* See key on page 18.

Corporate Governance Report

Expected Board focus for next year

The Board will continue to review the areas set out in the chart on page 53. In addition, it is anticipated that the following areas will receive focus by the Board for the year ending 31 March 2019:

- Consider Board composition and succession planning in conjunction with proposed changes to the regulatory landscape.
- Review the Group's governance structures to align with regulatory developments and evolving market practice.
- Review the Group's capital structure to ensure it supports the acquisition strategy.
- Continue to monitor progress and governance of the programme to establish new manufacturing facilities in China.
- Monitor the progress of the 'STEP 2 Service' programme against delivery of the programme objectives.

Director induction and development

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. Training is arranged primarily by the Company Secretary or the Group Finance Director in consultation with the Chairman. The Board has received an update from Deloitte LLP in relation to corporate governance best practice and developments. Remuneration advisers, PwC, have also provided updates to the Remuneration Committee in relation to market trends in executive remuneration.

The Company has a detailed framework for the induction of new Directors. This includes the issuing of all key documents relating to each new Director's role on the Board, as well as site visits and face-to-face meetings with senior executives. Throughout the year the Executive Directors have continued to visit Renold sites around the world including: the USA, India, Malaysia, South Africa, Germany and Australia. The Board itself also met during the year at Renold's manufacturing site in China, including a visit to the location of the new manufacturing facility, and at Cardiff, the UK Couplings manufacturing site.

Non-Executive Director independence

The Non-Executive Directors are considered to be independent in character and judgement, notwithstanding in the case of John Allkins that he has served on the Board for more than nine years. 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-making. The balance between Non-Executive and Executive Directors allows independent challenge to the Executive Directors and senior management.

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 2016 Code, and recognises that evaluation of its performance is important in enabling it to realise its maximum potential. 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.

In addition, evaluations of the Audit Committee, the Nomination Committee and the Remuneration Committee were also carried out during the year.

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. The subsequent Board discussion highlighted a number of areas where objectives might be set by the Board and practical issues for consideration. The Board has continued to allocate separate time for review and consideration of the STEP 2020 Strategic Plan.

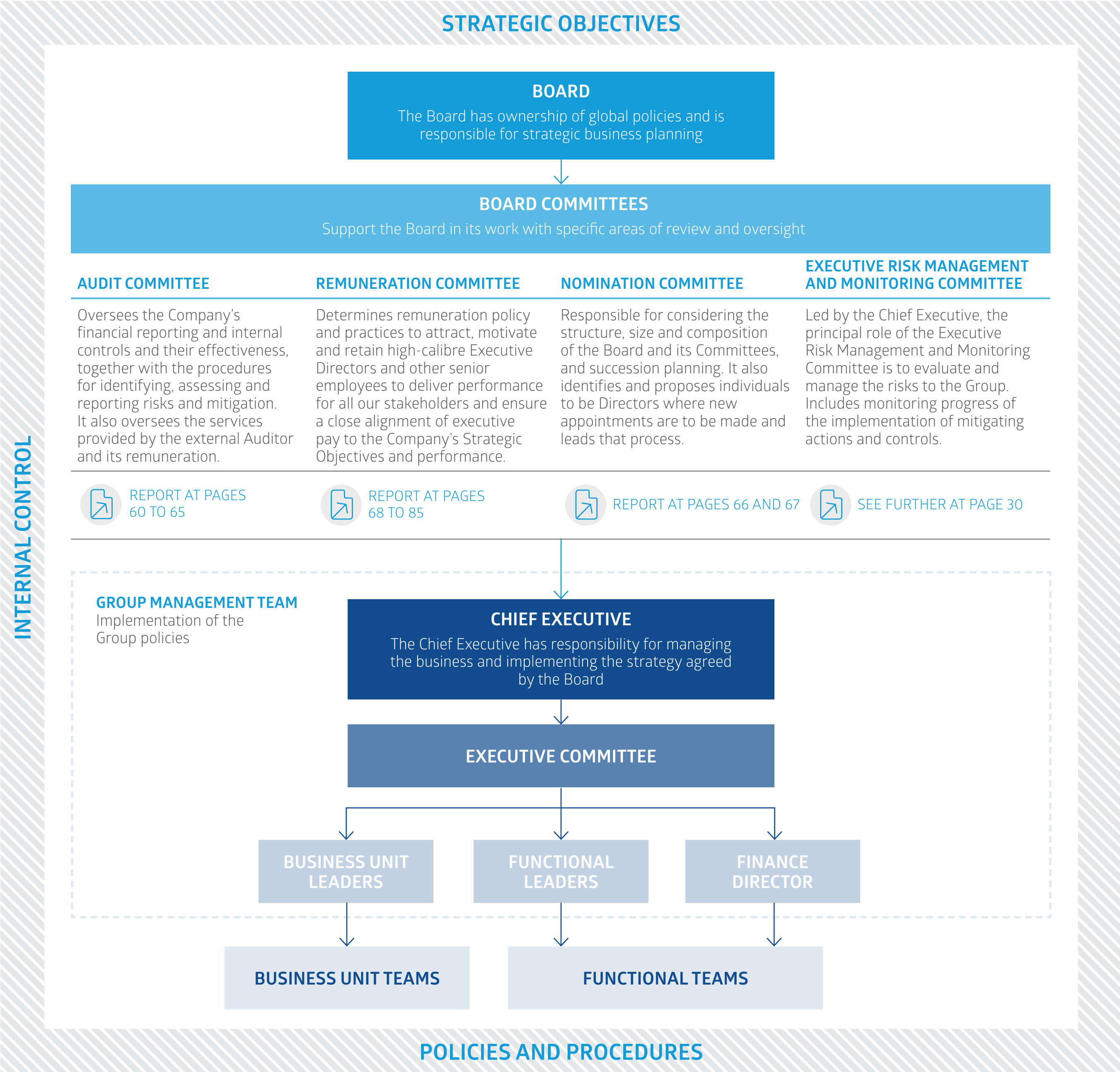
In accordance with the 2016 Code, the evaluation process also included a number of discussions during the year between the Chairman and the Non-Executive Directors, without the Executive Directors present, to discuss feedback arising from the process and the performance of each Executive Director. The Senior Independent Director also met with the other Directors as part of the Chairman's performance evaluation process.

Election of Directors

The 2016 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 2016 Code where practical, all Non-Executive Directors are subject to annual election.

Corporate Governance Report

Governance structure



Biographical and experience details of the current Directors appear on pages 48 and 49. Further details of the Directors' service contracts and letters of appointment are set out in the Directors' Remuneration Report.

Key features of governance structures

The key features of the Group's governance structures, as shown in the schematic on the prior page, are as follows:

- 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, www.renold.com. Internal controls are in place at both local and Group level;
- The ERMMC which oversees, on behalf of the Audit Committee and ultimately the Board, that appropriate policies are implemented to identify and evaluate risks;
- 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 and the balance sheet, 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; and
- 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.

The Board and its Committees

- The Board delegates authority to various Committees to deal with specific aspects of corporate governance.
- These Committees are summarised on the prior page. Details about the structure and activities of each are set out in the separate Committee reports. The Committees communicate and work together where required.
- 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.
- Terms of reference for each Committee, together with the schedule of matters reserved for the Board, are available on the Company's website, www.renold.com.

Corporate Governance Report

Internal control

During the year ended 31 March 2018, the responsibility to review internal control effectiveness was delegated to 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;
- 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 findings.

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.

Financial reporting

There are also established 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:

- relate 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.

Fair, balanced and understandable reporting

The Annual Report and Accounts taken as a whole must be fair, balanced and understandable (FBU). The process for ensuring the Annual Report and Accounts meets the FBU requirement involves it being reviewed in the first instance by a Disclosure Committee and subsequently the Audit Committee and the Board. Further details on this process are in the Audit Committee Report on page 65 and the Board's responsibility statement for the FBU requirement is on page 90.

Communications with shareholders

Communications with shareholders are given high priority and are made in a number of ways. 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, can 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. Formal regulatory news service announcements are also made in accordance with the Company's reporting obligations. 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 30 to 36.

The Company continues to keep shareholders informed of its strategy and progress at other times during the year, with updates provided to the London Stock Exchange and shareholders via the Company's website, www.renold.com. The Board receives feedback from the Company's brokers throughout the year. In addition, the Chief Executive and Finance Director meet with major shareholders and potential investors to discuss Group strategy and performance and update the Board as a whole accordingly at each meeting. The Board also receives reports prior to each Board meeting which set out the main changes to the composition of the Company's share register.

The Senior Independent Non-Executive Director does not generally attend meetings with shareholders although he makes himself available to attend such meetings if and when required. Whilst the Company is not in compliance with paragraph E1.1 of the 2016 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. Brokers' briefings are also 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.

Annual General Meeting

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

At the AGM, the Chairman of the Board and the three Non-Executive Directors (including therefore the chairmen of the Audit and Remuneration Committees), together with the Executive Directors, will be available to answer questions. The Chairman of the Board is also Chairman of the Nomination Committee and the Chief Executive chairs the Executive Risk Management and Monitoring Committee.

Notice of the AGM 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.

The AGM will be held at 11.00am on Wednesday 18 July 2018 at the Manchester International Office Centre, Styal Road, Wythenshawe, Manchester, M22 5WB.

The Notice of Meeting will be sent to shareholders prior to the AGM. This will set out a detailed explanation of each item of business for consideration at the AGM. Shareholders who are unable to attend the AGM are encouraged to vote before the meeting by using the Proxy Card which will be sent with the Notice of Meeting.

All resolutions were passed at last year's AGM with votes in support all exceeding 98%.

Audit Committee Report

"During the year, the Committee's focus has centred upon the integrity of the Group's financial reporting and the continuing development of the internal control environment and risk management processes."

DAVID LANDLESS
AUDIT COMMITTEE CHAIRMAN

Key objectives

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, financial reporting, internal audit and other compliance matters such as UK anti-bribery legislation. We monitor the integrity of financial information published externally for use by shareholders. We also ensure that the integrity of the financial statements is supported by an effective external audit.

We monitor that effective control structures operate over major change initiatives and targeted benefits are measured and delivered. We also support the efforts of the executive team to continuously improve the financial control and risk monitoring environment. Our approach is to ensure that risk management operates to pre-empt potential business issues and that embedded proactive financial controls prevent or mitigate unnecessary losses that may arise if a business risk does crystallise.

Governance

The terms of reference of the Audit Committee appear on the Company's website, www.renold.com.

Responsibilities

The primary function of the Audit Committee is to assist the Board in fulfilling its responsibilities with regard to financial reporting, external and internal audit, risk management and controls. The Committee's responsibilities include:

- Reviewing the Group's financial results, announcements and financial statements;
- Reporting to the Board on the appropriateness of existing accounting policies and their application across the Group;
- As a matter of course, confirming that the Going Concern basis remains appropriate for the financial statements and advising the Board on the Viability Statement;
- Advising the Board on the application of any new or modified accounting and reporting standards;
- Advising the Board 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;
- Overseeing the internal audit function and its effectiveness by reviewing the annual internal audit plan, identifying specific areas of focus for new or emerging business risks and receiving internal audit reports;
- Oversight of the relationship with, and effectiveness of, the external Auditor, including the appointment and, where appropriate, reappointment of the external Auditor;
- Assessing and making recommendations to the Board on the activities and performance of the Group's Executive Risk Management and Monitoring Committee (ERMMC);
- Reviewing and reporting to the Board on the Group's internal control and compliance processes;
- Reviewing the procedures for responding to whistle-blowing, fraud or potential breaches of anti-bribery legislation. This includes oversight of any and all reports summarising the concerns raised, how they were investigated and the response to the same; and
- Reporting to the Board at regular intervals on how the Committee is discharging its responsibilities.

Composition

John Allkins was Chairman of the Committee until he stepped down as Chairman at the AGM in July 2017, but continues as a Committee member. At this point, I became Chairman of the Committee. Ian Griffiths, also an independent Non-Executive Director, was a member of the Committee throughout the year.

As a result of John stepping down as Chairman, the individual roles played by members of the Committee changed during the year, but at all times complied with the requirements of the UK Corporate Governance Code for a smaller company, this being to have at least two independent Non-Executive members.

Audit Committee members and meetings attended

Names	Position	Meetings attended
David Landless	Chairman (since July 2017)	4 of 4
John Allkins	Non-Executive Director (Chairman until July 2017)	4 of 4
Ian Griffiths	Non-Executive Director	4 of 4

Biographical details and experience of members are set out on pages 48 and 49.

Expertise

The Committee members have been selected to give an appropriate range of financial, operational, 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 UK Corporate 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 2018 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, the Group Head of Risk and Assurance and the Group Financial Controller. Full details of Director attendance during the year are set out in the table of all Committee meetings on page 52.

From time to time, other members of the Group's management team are invited to attend to present or respond to queries on particular areas of focus. Our external Auditor, Deloitte, also attended the majority of Committee meetings and receives all papers submitted to the Committee. Each meeting so attended includes an opportunity for the external Auditor to raise any matters in confidence which they consider should be brought to the attention of the Committee without the Executive Directors being present. Similarly, the Group Head of Risk and Assurance has a regular opportunity to address the Committee without the Executive Directors being 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 Group. In this respect, the Committee also considers significant estimates and judgements made by management in preparing the financial statements.

The Committee's considerations are supported by input from other assurance providers, e.g. the Group's actuarial advisers and the Group Head of Risk and Assurance, as well as our external Auditor.

Summarised in the table on page 62 are some of the significant issues the Committee considered during the year in relation to the financial statements. These are separated into items of particular focus this year and recurring items that the Committee regularly addresses. The table also sets out the key performance indicators impacted by each of these issues in the financial statements, their relevance to the financial statements and an assessment of the degree of judgement required in concluding on each item.

Audit Committee Report

Review matters	Relevant KPIs	Relevance	Judgement required
Pension accounting and disclosure	Financing charges Net assets	→ IAS 19R finance charge £2.4m → Net pension liability £97.4m	Moderate
Carrying value of intangible assets, deferred tax assets and investments in subsidiary undertakings	Adjusted results Net assets	→ Amortisation charge £0.9m → Goodwill impairment £2.1m → Net intangible assets £8.3m → Deferred tax assets £20.6m → Unrecognised deferred tax assets £24.3m → Investments in subsidiary undertakings (Company balance sheet) £157.6m	High
Inventory valuations and provisioning	Inventory value Average working capital ratio Net assets	→ Net inventory value £41.0m → Working capital percentage of sales 21% → Net assets £1.1m	Moderate
Restructuring costs	Adjusted results RoS%	→ Adjusted operating profit impact £4.7m → RoS impact 2.5%	Moderate

Pension accounting and disclosure

(recurring annual item: see Note 18 to the financial statements)

Defined benefit pension scheme accounting is a complex matter. The values disclosed can fluctuate materially, particularly in a period of significant changes in gilt yields and interest rates. The values disclosed are also sensitive to a range of assumptions where judgement is required. This is illustrated in the table below.

Assumption sensitivity	Change in liability
Impact of 0.5% increase in UK discount rates	£14.7m decrease
Impact of 0.5% decrease in UK discount rates	£16.5m increase
Impact of 0.5% increase in UK inflation rates	£9.3m increase
Impact of 0.5% decrease in UK inflation rates	£10.3m decrease
Impact of 1 year higher life expectancy in UK	£10.1m increase

As has been the case for a number of years, the Committee reviews management estimates which are produced following independent actuarial advice and are compared to third party benchmarks on the reasonableness of the assumptions used. We ensure the Group's underlying assumptions and methodology used in deriving them are consistent year-on-year or are justified by experience of the scheme or by third party metrics. In respect of the relatively high mortality assumption, the Committee considered scheme-specific data which underpins and supports the level of mortality assumed by the Group. The Committee was satisfied that the assumptions are within an acceptable range and no changes were made to management assumptions.

The Committee has also encouraged additional disclosure of financial information in respect of defined benefit pension schemes. Largely graphical in nature, this is designed to give greater clarity of the risks, issues and opportunities in what is a complex area of accounting: see pages 28 and 29 of the Finance Director's Review.

The Committee considered again but continues to conclude that the financing charges and administration costs of the closed defined benefit pension schemes should, for the purposes of assessing underlying performance as reported in adjusted operating profit and adjusted EPS, be excluded from these calculations. The costs involved relate to closed legacy pension schemes that have no bearing or relevance to understanding the underlying performance of the ongoing business; see Note 18 to the financial statements.

Whilst the level of judgement on assumptions used in arriving at the deficit numbers is judged to be low as these use known published data/indices, there is more judgement in the nature of the disclosure hence the overall judgement required is viewed as moderate.

Carrying value of intangible assets, deferred tax assets and investments in subsidiary undertakings

(recurring annual item: see Notes 7, 8 and 17 to the financial statements)

The Group holds a number of valuable intangible assets such as goodwill and deferred tax. In addition, the parent company and other subsidiary holding companies hold investments in various subsidiaries (which are relevant in their individual statutory accounts as opposed to the consolidated financial statements).

The judgements on the carrying value of these assets are normally a key area for Committee scrutiny as carrying values are based on discounted estimates of future profitability over a number of years and hence are highly sensitive to the assumptions used.

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. The details of the impairment reviews performed are in Note 7. Short-term cash flows are confirmed by reference to the Board approved budget for the following year and sense checked against the longer term Strategic Plan. Specific focus was given to the carrying value of goodwill of Jeffrey Chain and the associated impairment charge in the year ended 31 March 2018. This was also a key area of focus for the external Auditor.

As part of the review of defined benefit pension accounting the Committee also reviews the carrying value and recoverability of the related deferred tax assets. 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 expectations of future taxable profitability.

Inventory valuations and provisioning

(recurring annual item: see Note 11 to the financial statements)

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. Inventory therefore represents a material component of the Group's balance sheet. The basis of valuation includes the allocation of amounts for labour and overhead costs which require the exercise of management judgement. The overall process is governed by accepted accounting methodologies for the absorption of labour and overheads into stock. Whilst these methodologies help to reduce risk, based on the scale of inventory holdings and the extensive product range, the overall level of judgement required is assessed as moderate.

The Committee reviews both the valuation bases and the application of the Group's policy on providing for slow-moving and obsolete stock. The Committee reviews both the rules governing the automatic generation of provisions based on the age of stock and any management judgemental overrides. The Committee is satisfied that the net book value shown in Note 11 is appropriate and that any management judgements formed in arriving at those values are reasonable.

Viability Statement

(recurring annual item: see page 37)

In accordance with provision C2.2 of the UK Corporate Governance Code, the Board is required to assess the prospects of the Company over a period longer than 12 months from the approval of the financial statements.

In addition to assessing that the Going Concern basis remains appropriate for the financial statements, the Committee has helped the Board prepare the Viability Statement and the period over which it will apply. The Committee considered the STEP 2020 Strategic Plan and sensitivities against it in preparing the Viability Statement as well as the appropriateness of the three-year review period. The Company's current position and principal risks were also reviewed in detail by the Committee prior to advising the Board.

The Company's full Viability Statement can be found on page 37 of the Strategic Report.

Other recurring matters reviewed by the Committee:

- Corporate risk reporting processes and action plans;
- The annual process for control self-assurance and reporting;
- Reviewing medium-term financial planning assumptions; and
- The ongoing programme to improve the efficiency of financial control processes in the business.

Restructuring costs

(current year focus item: see Note 2(c) to the financial statements)

The STEP 2020 Strategic Plan envisages and requires a number of years of restructuring activity within the Group. Each year the Committee focuses on and challenges management's allocation of costs and credits between adjusting and ordinary items. We ensure that the adjusting items genuinely need to be excluded so as to allow users of the accounts to form an accurate assessment of the performance of the underlying business.

We concluded that the net charges were sufficiently material and not related to the underlying business so as to require separate disclosure.

Internal control, risk and compliance

We regularly evaluate 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 for identifying material business risks and action plans aimed at reducing the likelihood of risks crystallising and mitigating the impact if they do.

The ERMMC receives 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 ERMMC reports the results of its meetings to the Committee.

Further details of our internal control and risk management systems, including the financial reporting process, can be found on pages 30 to 31 and 58.

Audit Committee Report

Our primary risk factors are shown in the Strategic Report on pages 32 to 36. Even though cybersecurity is not considered a key risk, due to the devolved and diffuse nature of the systems environment and the IT estate, the Committee did review cybersecurity risk. It reviewed policies and current mitigation strategies as well as third party testing of aspects of cybersecurity.

Confidential reporting procedures and whistle-blowing

The stewardship of the Group's assets and the integrity of the financial statements are further supported by confidential reporting and whistle-blowing procedures. The Committee reviews these procedures once a year to ensure that appropriate processes are in place to treat complaints confidentially and implement proportionate and independent investigation in all cases. The Committee is diligent in ensuring a high degree of visibility and accessibility of whistle-blowing communications methods to all staff, including first-hand inspection during site visits.

The Committee considers the number and nature of reports received in the year to be small in number and scale of risk in comparison to businesses of a similar size and geographical distribution.

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 at each meeting. The audit plan, which contains mandatory, risk-based and cyclical review, has been built around focus areas such as organisational change, major projects, IT security, business resilience and capital spend.

In the new financial year, the internal audit plan will include site financial control audits, site health and safety audits and project assurance.

The Committee also undertakes an annual review of the effectiveness of the internal audit function.

External audit

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

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

Auditor independence and objectivity

The independence of the external Auditor 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 Auditor. The Group has a policy of not recruiting senior employees of the external Auditor, 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 was appointed during the audit tender process in 2015 and this is therefore the third year end he has been in post.

Non-audit services provided by the external Auditor

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 Auditor if there is no potential conflict of interest or material risk of values being included in the financial statements that have been both advised on and audited by the external Auditor.

To safeguard the independence and objectivity of the Auditor, the Committee has approved a policy on non-audit services provided by the Auditor in line with professional practice and in accordance with ethical standards published by the Audit Practices Board of the Financial Reporting Council. Control of non-audit services is exercised by ensuring that all non-audit services where fees exceed an agreed limit are subject to the prior approval of the Committee. The policy is available on the Company's website, www.renold.com.

During the year ended 31 March 2018, 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 2019.

Total non-audit services provided by Deloitte during the year ended 31 March 2018 were £nil (2017: £nil). Total audit and audit-related fees include the statutory audit fee and fees paid to Deloitte for other services which the external Auditor is required to perform. Examples might include reporting to banking partners in territories where no statutory accounts are required to be prepared. Non-audit fees represent all other services provided by Deloitte not included in the above. There were no significant non-audit services provided by Deloitte in the year.

The Committee also discussed the overall 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.

Audit focus

To ensure appropriate focus on key risk areas identified by the Committee, the proposed external audit plan is challenged before the audit commences to ensure that Deloitte 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

The Committee has a formal system for evaluating the performance and independence of the external Auditor. 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 Deloitte's response to accounting, financial control and audit issues as these arise.

The Committee conducts an annual review 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 Auditor. 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 noted above.

The results of the review are discussed with the external Auditor.

Following this year's annual review, the Committee was satisfied with the effectiveness, independence and objectivity of the external Auditor. As noted below, the Committee has made a recommendation to the Board to reappoint Deloitte as the Group's external Auditor and a resolution to that effect will be included in the ordinary business of the AGM scheduled on Wednesday 18 July 2018. There are no contractual obligations restricting the choice of external Auditor nor has the Company entered into any Auditor liability agreements.

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 Auditor is unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

Fair, balanced and understandable: the role of the Disclosure Committee

As part of the process of ensuring that all disclosures made by the Company are timely, accurate and importantly meet the 'fair, balanced and understandable' requirement arising under the UK Corporate Governance Code, the Group maintains a Disclosure Committee whose membership includes the Chairman of the Audit Committee (as Chair), the Group Finance Director, the Group Financial Controller and the Company Secretary.

The consideration of the fair, balanced and understandable requirement is detailed on page 58. In summary, the Disclosure Committee carried out the following activities:

- All those contributing to the Annual Report and Accounts were briefed on the requirements of the UK Corporate Governance Code with specific emphasis on the fair, balanced and understandable requirement;
- A number of senior managers who were knowledgeable about the business, but otherwise not significantly involved in the preparation of the Annual Report and Accounts, each performed an independent review of the draft Annual Report and Accounts. The feedback and comments received as a result were reviewed and amendments made accordingly; and
- 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 Audit Committee as part of its review of processes to enable the fair, balanced and understandable statement to be made.

Committee evaluation

The Committee's effectiveness is assessed annually and on the basis of a programme of continuous improvement. Lessons from the assessment are used to try to improve the process, but the Committee has concluded that it acts within its terms of reference and carried out its responsibilities effectively.

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

David Landless
CHAIRMAN OF THE AUDIT COMMITTEE

29 May 2018

Nomination Committee Report

"Following a year when we welcomed two new Directors to our Board of six, we have experienced a year of stability. We are confident that our current Board is both balanced and diverse, in a broad sense, with a range of relevant skills, knowledge and experience. We are committed to maintaining and building on this broad base of skills, and continue to focus on enhancing our succession planning."

MARK HARPER
NOMINATION COMMITTEE CHAIRMAN

Key objectives

In support of the Board's duty of good stewardship, the Committee aims to ensure appropriate corporate governance is applied to considering the structure, size and composition of the Board and the Board's Committees. Succession planning is at the top of the Committee's agenda, with processes in place to ensure the Board has a broad skill set and a diverse make-up.

Governance

The Committee's terms of reference are available on the Company's website, www.renold.com.

Responsibilities

The Committee has delegated authority from the Board, in accordance with the UK Corporate Governance Code. The Committee's responsibilities include:

- Reviewing the structure, size and composition of the Board. This includes assessing skills, knowledge, experience and diversity of Board members and any resulting recommendations for change;
- 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
- Giving 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 three Non-Executive Directors are members of the Committee and have been so throughout the year. The Committee meets during the year as required.

Nomination Committee members and meetings attended

Names	Position	Meetings attended
Mark Harper	Chairman	4 of 4
John Allkins	Non-Executive Director	4 of 4
Ian Griffiths	Non-Executive Director	4 of 4
David Landless	Non-Executive Director	4 of 4

Policy on appointments to the Board and diversity

In accordance with the provisions of the UK Corporate Governance Code, when reviewing the Board's 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 its current stage of development. 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.

The Board is aware of the need to consider the benefits of diversity on the Board in all its aspects, with a Board diversity policy having been adopted and described in the 2014 Annual Report. The Board continues to believe that it is not appropriate to set measurable objectives for the implementation of the diversity policy at this time. In any future changes to its composition, the Board will continue to be mindful of the issues of diversity, including gender, and these factors will be taken into account alongside the overriding objective of appointing the best possible candidate for the role.

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

Other than in relation to gender and ethnicity, 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 with most of the Board members having worked and lived overseas for significant periods. For further information, see the chart on page 50.

A formal and rigorous process is followed during the recruitment process for a new Director. The process for making appointments commences with the evaluation process 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. 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 and who do not have any other connection with the Company.

Board composition

During the current reporting period, we experienced a period of stability and continuity of the current Board. This followed a period during the previous financial year when two new Directors, David Landless and Ian Scapens, joined our Board of six.

The Committee considers that the current capability and financial burden imposed by the Board has been appropriate in the current reporting period. This view reflects the need to deliver excellent corporate governance while balancing the need for cost control as we continue to progress the STEP 2020 Strategic Plan.

Succession planning and responsibilities of Directors

As previously reported, as part of a programme of orderly succession, John Allkins stepped down as Chairman of the Audit Committee and Senior Independent Director at the AGM in July 2017. David Landless took up the role of Chairman of the Audit Committee and Ian Griffiths assumed the responsibilities of Senior Independent Director. John will continue as a Non-Executive Director until his retirement from the Board at the 2018 AGM.

Other succession planning

I reported last year that the Board is mindful of its obligations under the UK Corporate Governance Code in relation to succession planning and a detailed review of succession planning for the Board and senior management took place. The review, as it related to senior management, concluded that the continued strengthening of the management team, led by the Chief Executive, is ongoing and will continue to be an area of focus for the Committee. In relation to succession planning for the Board, the Committee noted the Financial Reporting Council's proposed reforms to the UK Corporate Governance Code and acknowledges that resultant reforms will need to be taken into account in further Board succession planning.

Effectiveness review

During the year, the Committee has also carried out its annual evaluation. Again, this has proved a useful exercise in reviewing the Committee's work and concluded that it continues to work effectively.

Mark Harper
CHAIRMAN OF THE NOMINATION COMMITTEE

29 May 2018

Directors' Remuneration Report
Annual Statement

"The Directors' Remuneration Policy was most recently amended and approved by shareholders at the 2016 AGM. The Committee believes that the current policy continues to align executive remuneration arrangements with the interests of our shareholders whilst supporting the delivery of the Company's STEP 2020 Strategic Plan."

IAN GRIFFITHS
REMUNERATION COMMITTEE CHAIRMAN

As Chairman of the Remuneration Committee I present the Directors' Remuneration Report for the year ended 31 March 2018.

Structure of our Directors' Remuneration Report

Our report is structured in the following sections after this Annual Statement:

- The Committee and its Activities, which sets out the responsibilities and work undertaken by the Remuneration Committee.
- At a Glance section, which gives an easily accessible overview of this year's Directors' Remuneration Report.
- The Directors' Remuneration Policy, which sets out the Company's policy on Directors' remuneration and is intended to apply for three years from the 2016 AGM.
- The Annual Report on Remuneration, which shows the implementation of the Directors' Remuneration Policy during the year ended 31 March 2018 and how it is proposed to be applied for the year ending 31 March 2019.

Other than the Directors' Remuneration Policy, all of our Directors' Remuneration Report is subject to an advisory shareholder vote at the 2018 AGM.

In this Annual Statement I summarise the main outcomes in the year for the remuneration of the Executive Directors and also the continued application of the remuneration policy.

Key remuneration outcomes for the year

In line with the Group's ongoing strategy of lowering the Group's breakeven point through pay restraint, the Chief Executive's salary has remained unchanged since 2013. In accordance with the approved Directors' Remuneration Policy, the Group Finance Director's salary was increased by 8.1% during the year, to bring it more into line with market benchmarks and recognise his progression in the role.

The key outcomes under the elements of variable pay for the year are:

- Annual bonus: The Company has again faced challenging market conditions during the year which resulted in an adjusted EBITDA performance below the levels required to trigger bonus payments. As a result, no annual bonus payments were earned by the Executive Directors for the year ended 31 March 2018.
- The Committee determined this outcome having formally assessed performance against adjusted EBITDA and net debt targets (both based on constant budgeted exchange rates) set at the beginning of the year, as follows. The adjusted EBITDA for the year ended 31 March 2018 of £22.0m was below the threshold of £23.6m required for any payment of bonus. Average net debt during the year was £29.4m, which was within the target range of £28.7m to £30.2m.
- The performance period for the PSP awards granted in June 2015 ended on 31 March 2018. The performance conditions required growth of 10% per year in adjusted EPS for threshold vesting. EPS declined over the testing period from 5.0p for the period ended 31 March 2015 to 4.5p for the period ended 31 March 2018, and therefore the awards will not vest.

Remuneration policy

The Directors' Remuneration Policy was amended and approved by over 90% of voting shareholders at the 2016 AGM and it is intended that it will continue to apply until its expiry in July 2019. The Committee is planning to undertake a full review of remuneration and established best practice prior to proposing a replacement remuneration policy for shareholder approval at the 2019 AGM.

The Committee continues to believe that the current remuneration policy aligns executive remuneration arrangements with the interests of our shareholders whilst supporting the delivery of the Company's STEP 2020 Strategic Plan.

Market conditions remain challenging; however, the Committee firmly believes that the Long Term Incentive Plan (LTIP) appropriately incentivises the Executive Directors and supports the delivery of the STEP 2020 Strategic Plan. In addition, the shareholding requirements for Executive Directors continue to align management's interests with those of shareholders.

The Committee believes that the structure and implementation of total remuneration for the Executive Directors is market competitive with companies of a similar size, and consistent with maintaining support for the Company's cash position. The LTIP opportunity will only become payable if the minimum threshold EPS improvement target is delivered. This supports the Group's objective of delivering improving operating margins.

The Committee continues to focus on clear reporting of past remuneration and future policy. We are also aware of the Financial Reporting Council's proposed reforms to the UK Corporate Governance Code and that the landscape for executive pay is changing. We will respond appropriately to changes and best practice as they develop.

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

Ian Griffiths
REMUNERATION COMMITTEE CHAIRMAN

29 May 2018

Directors' Remuneration Report

The Committee and its Activities

This section of our report describes the membership of the Committee, its key responsibilities and principal activities during the year. It forms part of the Annual Report on Remuneration section of the Directors' Remuneration Report.

Remuneration Committee composition and meetings attended

The members of the Committee are the Non-Executive Directors, all of whom are considered by the Board to be independent. Members of the Committee during the year are set out below and further biographical details can be found on pages 48 and 49.

The Committee's terms of reference require meetings to be held at least twice a year. This year, the Committee met on six occasions

Remuneration Committee members and meetings attended

Names	Position	Meetings attended
Ian Griffiths	Chairman	6 of 6
John Allkins	Non-Executive Director	6 of 6
David Landless	Non-Executive Director	6 of 6

The Executive Directors, the Chairman of the Board and the Group HR Director attend meetings by invitation. PwC, the external advisers to the Committee, also attend meetings by invitation. Further details in relation to PwC's engagement as adviser to the Committee can be found below. 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.

Governance

The terms of reference of the Committee are available on the Company's website, www.renold.com. None of the Committee members have 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.

An evaluation of the Committee was undertaken during the year ended 31 March 2018 and this review concluded the Committee has operated effectively.

The Company's Auditor is required to report on certain parts of the Directors' Remuneration Report and to state whether in its 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.

Key responsibilities of the Committee

The Committee has delegated authority from the Board. In accordance with the UK Corporate Governance Code, the Committee's responsibilities include:

- → 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 key aim is to ensure that executive pay is strongly aligned to the Company's business priorities and the interests of shareholders. The remuneration 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 the Executive Directors' remuneration.

Adviser to the Committee

During the year, the Committee received independent advice from PwC in relation to remuneration reporting, operation of the Company's share plans, advice on long-term incentive performance measurement and information on market trends in executive remuneration. Total fees for services provided over the year amounted to £26,750.

PwC was appointed by the Committee in 2014 following an assessment and interview process and has advised on various issues including remuneration policy, the regulations governing reporting on remuneration 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, tax and pensions related services to the Company. The Committee has chosen to retain PwC as its adviser.

The Committee is satisfied that the advice given on executive remuneration is objective and independent and that no conflict of interest arises as a result of these services.

In addition to external advice received from PwC, the Committee consulted and received reports from the Group Finance Director and the Group HR Director. At all times, the Committee recognises the need to identify and manage conflicts of interest when receiving reports from, or consulting with, the Executive Directors or members of senior management.

Main activities of the Committee during the year

This year, the Committee discussed the following themes and agenda items in accordance with its terms of reference:

Theme	Agenda items
Best practice	Considering the current UK corporate governance environment and the implications for the Company
Annual Report on Remuneration	Considering and approving of the Annual Report on Remuneration to be put to shareholders
Executive Directors	Reviewing the base salaries payable to each of the Executive Directors
	Reviewing performance under the annual bonus and consideration of any bonuses payable for the financial year ended 31 March 2018
	Approving the annual bonus structure, quantum and performance targets for the financial year ending 31 March 2019
	Approving the awards made under the Company's Performance Share Plan ('PSP') during the year
Chairman	Reviewing the fee payable to the Chairman
Committee performance	Reviewing the Committee's performance
Performance of external advisers	Reviewing the performance of PwC and considering whether to retain them as external remuneration consultants
Policy	Reviewing and determining administrative amendments to the Company's PSP scheme rules

Directors' Remuneration Report
At a Glance

Our remuneration principles and elements of remuneration

Principle	Attract, retain and motivate executives to deliver high performance	Align executive pay to Company strategy and performance
Elements	Fixed pay → Base salary → Pension → Other benefits	Short-term variable → Annual bonus Long-term variable → PSP
Purpose	→ Provide appropriate level of minimum pay commensurate with role	→ Drive annual Company performance → Align to earnings generation and shareholder value

How we have performed this year

Element	Measure	Threshold target	Maximum target	Actual
Bonus*	Adjusted EBITDA Average net debt	£23.6m £30.2m	£26.6m £28.7m	£22.0m £29.4m
PSP	Growth in adjusted EPS	10% p.a. growth	15% p.a. growth	3.2% p.a. decline

* The 'actual' amounts disclosed are calculated using constant budgeted exchange rates in accordance with the rule of the Scheme.

Single total figure of remuneration for Executive Directors

Executive Directors	Salary (£'000)	Benefits (£'000)	Bonus (£'000)	LTIP (£'000)	Pensions (£'000)	Total 2018 (£'000)	Total 2017 (£'000)
Robert Purcell	300	19	–	–	45	**364**	363
Ian Scapens*	195	13	–	–	29	**237**	56

* Ian Scapens joined the Company on 3 January 2017.

Directors' Remuneration Report

Directors' Remuneration Policy

Introduction

This section of the Directors' Remuneration Report (from pages 73 to 79) sets out the Company's policy for the remuneration of its Directors. The application of the policy is set out on pages 80 to 85.

Following a review of remuneration carried out during the year ended 31 March 2016, the Directors' Remuneration Policy was approved by shareholders at the AGM on 20 July 2016 and took effect from that date. The Directors' Remuneration Policy will therefore apply for three years beginning on that date.

Remuneration principles for Executive Directors

Our Directors' Remuneration Policy has been designed to deliver two key aims, which remain unchanged since the policy was first approved by shareholders at the 2014 AGM:

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.

This is consistent with the key strategic objective of lowering our breakeven point – 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 shareholders' interests, while continuing to motivate and engage the Executive team to achieve stretching targets.

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

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.

Purpose and link to corporate strategy	Operation of the element	Maximum potential value and payment at threshold/ review basis	Performance metrics
BASE SALARY			
Competitive salaries to attract, retain and motivate those responsible for executing strategy while ensuring the Company pays no more than is necessary.	Paid in 12 equal monthly instalments during the year. The policy is to provide fourth quartile base 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 typically set on 1 August each year. Annual rate for each Executive Director is set out in the Annual Report on Remuneration. Salaries have been frozen for a number of years and this will continue compared to modest inflation-linked increases for the wider employee population. Higher increases may be awarded following recruitment into a role at a below-market rate until the individual is aligned with market levels or due to a change in role or responsibilities.	None.

Directors' Remuneration Report

Directors' Remuneration Policy

Purpose and link to corporate strategy	Operation of the element	Maximum potential value and payment at threshold/ review basis	Performance metrics
BENEFITS			
As base salary above. Benefits are non-pensionable.	Paid monthly or as required for one-off events, consisting of: → Fully expensed company car (or cash equivalent). → Private medical insurance. → Lump sum death-in-service benefit of five times base salary. The same level of death-in-service benefit is available to most UK staff and at two times for those opting out of the Company pension scheme. 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 business needs.	Car benefit is reviewed annually and set on 1 August each year 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.
PENSION			
As base salary above.	The Executive Directors are not members of the Company pension scheme and have their own pension arrangements. The Company makes pension provision in the form of annual contributions to personal pension arrangements or cash supplements in lieu of pension.	Cash allowances equivalent to 15% of base salary.	None.
ANNUAL BONUS			
To incentivise delivery of the corporate strategy and reward delivery of superior performance. Bonuses are not pensionable.	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 share-based deferral if deemed appropriate. Maximum bonus payments are made only on the achievement of outstanding performance. 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. Part or all of the cash bonus may be forfeited or clawed back should exceptional circumstances occur. Such circumstances would include: fraud, misconduct, significant misstatement of financial results or incorrect calculation of performance conditions.	Maximum annual bonus payable is 100% of base salary. No bonuses will be payable unless a minimum level of financial performance has been achieved. Threshold performance results in nil bonus being awarded and on-target performance results in up to 50% of the maximum bonus being awarded.	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. Details of the targets will be set out in the Annual Report on Remuneration following the end of each financial year. The Committee has the right to exercise its discretion fairly and reasonably in assessing the bonus outcome, including making adjustments for exceptional events occurring during the year. The Committee has the discretion to vary the performance metrics over the life of this policy.

Purpose and link to corporate strategy	Operation of the element	Maximum potential value and payment at threshold/ review basis	Performance metrics
PERFORMANCE SHARE PLAN			
To incentivise delivery of long-term shareholder value.	Key features of the PSP are: → Conditional share awards or nil-cost options. → Outstanding commitments to issue new shares under all share plans are subject to a maximum of 10% of the Company's issued share capital in any ten-year period. → The PSP includes the ability to grant options under an HM Revenue & Customs approved schedule. → Part or the whole of the PSP award can be recovered prior to vesting should exceptional circumstances occur. Such circumstances would include: fraud, misconduct, significant misstatement of financial results or incorrect calculation of performance conditions.	A maximum annual grant is permitted of 200% of base salary each year. Vesting is dependent on performance conditions. On achievement of threshold performance, 25% of the award vests.	For the Chief Executive, there is an absolute TSR condition that will account for 50% of the total award. The adjusted EPS minimum targets will be a threshold trigger for the TSR condition to be measured. The performance condition for the Group Finance Director is based on growth in adjusted EPS which must be met over a three-year period. 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. 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.
SHAREHOLDING REQUIREMENT			
To strengthen the alignment between the interests of Executive Directors and those of shareholders.	Executive Directors have five years to build the minimum holding. Unvested PSP or deferred shares are not taken into account. Share price is measured at the end of each financial year. All PSP or deferred share awards vesting (net of income tax and National Insurance contributions) must be retained until the shareholding requirement is met.	Chief Executive – 200% of base salary. Other Executive Directors – 100% of base salary.	None.

Directors' Remuneration Report

Directors' Remuneration Policy

Notes to the Policy table

Performance measures and targets for the annual bonus plan and the PSP

The performance targets are determined annually by the Committee. The following table sets out the performance measures for the annual bonus and PSP, together with relevant definitions and how each measure supports strategy.

Performance measure	Definition	How measure supports strategy
ANNUAL BONUS		
Adjusted EBITDA	Earnings before interest, tax, depreciation, amortisation, closed defined benefit pension scheme charges and costs and excludes exceptional items	→ Central to overall strategy → Aligned to Strategic Objective of delivering improving operating margins → Driver of shareholder value → Adjustments ensure areas outside management control are excluded
Average net debt	The net sum of external borrowings, finance leases and cash and cash equivalents, measured each month end to produce a simple annual average (excludes preference stock from targets and results)	→ Ensures continuous focus on cash and working capital management throughout the year
PSP		
Compound Annual Growth Rate (CAGR) in adjusted earnings per share (EPS)	EPS excluding exceptional items, pension administration costs, IAS 19R financing charges and the tax thereon	→ Align executives with goals for long-term growth → EPS is a driver of shareholder value
Total shareholder returns (TSR)	Based on absolute share price targets	→ TSR is a measure of increases in shareholder value → Transparent and accessible measure for assessing corporate performance → Award in shares ensures further alignment with shareholders

The Committee considers that the annual bonus performance targets are commercially and price sensitive in respect of the Group and that it would be detrimental to the interests of the Group to disclose them in advance. Performance targets will be disclosed retrospectively.

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 amendments may be made to remuneration policy where thought necessary.

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 the implementation of the 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.

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 or nil-cost options are only available to senior executives and Executive Directors.

Statement of consideration of employment conditions elsewhere in the Group

The Committee invites the Group 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 Group 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 PSP 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.

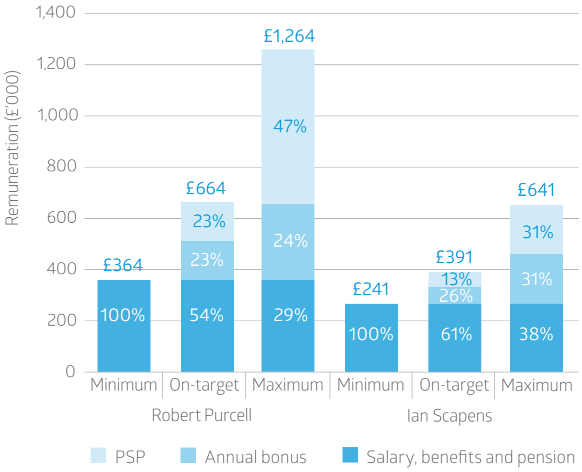
The Committee is provided with data on the remuneration structure for senior management in the three tiers below Executive Director and uses this information to work with the human resources team to ensure consistency of approach throughout the Group.

Total remuneration opportunity

The chart below demonstrates the total amount of remuneration payable to the Chief Executive, Robert Purcell and Group Finance Director, Ian Scapens, under the proposed remuneration policy for the year ending 31 March 2019 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.

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.



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 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
Ian Scapens	18 July 2017	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. None of the Executive Directors' contracts provide for compensation in the event of a change of control of the Company. Copies of the 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 PSP 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.

Directors' Remuneration Report

Directors' Remuneration Policy

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, retirement, ill-health or disability, an individual will be treated as a good leaver. Bad leavers will forfeit outstanding PSP awards.	Good leavers' awards shall ordinarily vest at the normal vesting date, pro-rata based on the proportion of the vesting period completed and based on the extent to which the performance condition has been met. In the event of death, awards vest immediately subject to time pro-rating and assessment of performance. The Committee has discretion to accelerate vesting to date of cessation for other good leavers. Awards may be exercised within a six-month period following date of leaving or vesting if later. In the case of death, the award may be exercised within a 12-month period following death.

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 73 to 76 in accordance with the Company's remuneration policy and be subject to the same discretions.

The Committee's approach to recruitment remuneration is to set the base 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 value, timing of vesting and type of these awards with replacement awards. Any buy out awards would be an additional element of remuneration to the normal maxima as set out in the Policy table on pages 73 to 76.

Details of the Company's approach to the remuneration of Non-Executive Directors are set out on page 79.

External Non-Executive Directorships

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

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[1]	35	19 July 2017	£114,500
John Allkins	17 April 2008[2]	2	19 July 2017	£37,000[3]
Ian Griffiths	13 January 2010[4]	7	19 July 2017	£42,500[5]
David Landless	9 January 2017	21	19 July 2017	£42,500[6]

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.

Given the period since the last review in 2011, a full review of the fees for Non-Executive Directors was undertaken by the Board during the year, with reference to fees paid in comparable organisations and the time commitments required. The Chairman's remuneration was reviewed by the Committee on a similar basis to the review of the fees for the other Non-Executive Directors. The determined fee levels for the Non-Executive Directors and Chairman are set out in the above table and the Board resolved to review fee levels annually.

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.

1. Mark Harper's appointment was renewed with effect from 1 May 2018 for a period of three years in line with best practice guidelines.
2. John Allkins' appointment was renewed with effect from 17 April 2017 until the 2018 AGM.
3. John Allkins' fee decreased with effect from 19 July 2017 as a result of him stepping down as the Senior Independent Non-Executive Director and Chairman of the Audit Committee.
4. Ian Griffiths' appointment was renewed on 14 January 2016 for a period of three years in line with best practice guidelines.
5. Ian Griffiths' fee includes an additional £2,500 paid with effect from 19 July 2017 as a result of his appointment as the Senior Independent Non-Executive Director.
6. David Landless' fee includes an additional £5,000 paid with effect from 19 July 2017 as a result of his appointment as Chairman of the Audit Committee.

Directors' Remuneration Report

Annual Report on Remuneration

Introduction

This section of the Directors' Remuneration Report sets out the remuneration paid to Directors for the financial year ending 31 March 2018. This section, together with the description of the composition of the Committee, which is set out on page 70 of the report, constitutes the Annual Report on Remuneration. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM on 18 July 2018.

Directors' remuneration (audited information)

Total remuneration – single total figure table

The total remuneration for each Director for the period and for the prior year is set out below:

Executive Directors		Salary (£'000)	Benefits (£'000)	Bonus (£'000)	LTIP (£'000)	Pensions (£'000)	Total (£'000)
Robert Purcell	**2018**	**300**	**19**	**–**	**–**	**45**	**364**
	2017	300	18	–	–	45	363
Ian Scapens*	**2018**	**195**	**13**	**–**	**–**	**29**	**237**
	2017	46	3	–	–	7	56

* Ian Scapens joined the Company on 3 January 2017.

Non-Executive Directors' fees	**2018 £'000**	2017 £'000	Change £'000
Mark Harper	**113**	110	3
John Allkins	**39**	43	(4)
Ian Griffiths	**41**	38	3
David Landless‡	**40**	8	32

‡ David Landless joined the Board on 9 January 2017.

(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, the Chief Executive did not receive an increase in his annual salary during the period, which remained at £300,000. The Group Finance Director's annual salary was increased from £185,000 to £200,000, to reflect his development in the role and to bring it more into line with market benchmarks. These figures are reflected in the single total figure of 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 2018 was 0.80% (2017: 0.80%).

(ii) Pension

The Executive Directors' only pension entitlements are Company contributions equivalent to 15% of base salary. During the year ended 31 March 2018, cash payments of £45,000 (2017: £45,000) and £29,000 (2017: £6,866) were made by the Company to Robert Purcell and Ian Scapens, respectively. These figures are shown in the Total remuneration table above.

(iii) Benefits

Benefits received by the Executive Directors during the period included company car or car allowance and private healthcare. These figures are outlined in the Total remuneration table above.

Non-Executive Directors do not receive any benefits.

(2) Variable elements of pay – awards vested in the 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 of up to 100% of base salary on achievement of adjusted EBITDA and average net debt targets. For the year ended 31 March 2018, the annual bonus targets for Executive Directors were based upon the matrix below.

	Average Net Debt (£m)				
Adjusted EBITDA (£m)	**30.2**	**29.7**	**29.2**	**29.0**	**28.7**
23.6	–	15.0%	20.0%	30.0%	40.0%
24.6	20.0%	30.0%	35.0%	50.0%	65.0%
25.6	30.0%	45.0%	50.0%	70.0%	90.0%
26.1	45.0%	62.5%	70.0%	82.5%	95.0%
26.6	60.0%	80.0%	90.0%	95.0%	100.0%

Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, closed defined benefit pension scheme charges and restructuring costs. 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 impact of acquisitions are excluded.

The two metrics shown were structured as a matrix such that failure to deliver a minimum result in either metric 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.

For the year ended 31 March 2018, the adjusted EBITDA for the year was £22.0m and the average net debt was £29.4m (measured at budget exchange rates in accordance with the annual bonus rules). As adjusted EBITDA was below the threshold target, no bonus was payable.

(ii) PSP awards performance testing

The performance period for PSP awards granted on 5 June 2015 completed on 31 March 2018. The performance conditions applying to these awards are as follows:

	Threshold		Maximum		
Award date	EPS CAGR	% Vesting	EPS CAGR	% Vesting	Performance period
5 June 2015	10%	25%	15%	100%	3 years to 31 March 2018

EPS declined by 3.2% per annum between 2015 and 2018. As this is below the threshold growth of 10% p.a., none of the awards will vest.

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

Awards made to Executive Directors during the year under the PSP and associated performance conditions are set out below. Awards equal to 200% and 100% of salary were made respectively to the Chief Executive and Group Finance Director.

	Type of award	Face value	Number of shares[1]	Date of award
Robert Purcell	Nil-cost option	£600,000	1,095,090	5 June 2017
Ian Scapens	Nil-cost option	£185,000	337,653	5 June 2017

The year ended 31 March 2018 was the fifth year in which awards were made under the PSP. The performance conditions attaching to options granted under the PSP during the year are:

- For the Group Finance Director, 100% of the award is based on the compound annual growth rate in adjusted EPS over a three-year period (EPS CAGR).
- For the Chief Executive, 50% of the award is based on this EPS condition and 50% is based on TSR.

1. The number of shares is based on the average mid-market share price for the three business days preceding the date of grant (54.79 pence).

Directors' Remuneration Report

Annual Report on Remuneration

The targets applying to the awards are as follows:

	Threshold		Maximum		
Award date	EPS CAGR	% Vesting	EPS CAGR	% Vesting	Performance period
5 June 2017	10%	25%	15%	100%	3 years to 31 March 2020

	Threshold		Maximum		
Award date	TSR	% Vesting	TSR	% Vesting	Performance period
5 June 2017	83.9p	25%	109.9p	100%	3 years to 31 March 2020

On achievement of threshold performance, 25% of the award vests. Straight line vesting occurs between threshold and maximum performance.

(4) Payments to past Directors

No payments were made to past Directors during the year in respect of services provided to the Company as a Director. No payments for loss of office were made to any Directors during the year.

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 Plan and PSP over the last five years as a percentage of the total award to Executive Directors.

	Award 2010/11 Vesting 2013/14	Award 2011/12 Vesting 2014/15	Award 2012/13 Vesting 2015/16	Award 2013/14 Vesting 2016/17	Award 2014/15 Vesting 2017/18
Vesting %	Nil	Nil	100%	Nil	**Nil**

The vested awards relate to options awarded to Robert Purcell in the year ended 31 March 2013. Further details are set out on page 100 in the 2016 Directors' Remuneration Report.

(2) Directors' interests

The beneficial interest of each of the Executive and Non-Executive 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 2018 and the date of this report.

	Shareholding requirement (% of salary)	Holding as per Remuneration Policy at 31 March 2018	Shareholding at 31 March 2018 (% of salary)
Robert Purcell	200%	**5,958,653***	**576%**
Ian Scapens (target required to be satisfied by 2022)	100%	**–**	**–**

* Comprised of 3,748,526 beneficially owned shares and 2,210,127 vested but unexercised options.

Non-Executive Directors	Holding at 31 March 2018
Mark Harper	**511,924**
John Allkins	**144,500**
Ian Griffiths	**10,000**
David Landless*	**–**

* David Landless joined the Board on 9 January 2017.

There have been no changes in the interests of any current Director in the share capital of the Company between 1 April 2018 and the date of this report.

The Chief Executive and Finance Director are required to build up a shareholding as shown below over a five-year period. This includes beneficially owned shares and vested but unexercised options. Unvested shares are not counted within the shareholding requirement. The table below sets out the extent to which this requirement was met as at 31 March 2018. Ian Scapens joined the Company on 3 January 2017 and does not currently hold shares. No such minimum shareholding requirement exists for Non-Executive Directors.

(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 2018 and the date of this report.

	Number of share options								
Robert Purcell	Options held at 1 April 2017	Granted in year	Lapsed in year	Exercised in year	**Options held at 31 March 2018**	**Options vested at 31 March 2018**	Option price (p)	Date from which exercisable	Expiry date
2004 Options Plan	1,145,038	–	–	–	**1,145,038**	**1,145,038**	26.20	21.01.2016	21.01.2023
Total 2004 Options Plan	**1,145,038**	**–**	**–**	**–**	**1,145,038**	**1,145,038**			
PSP	1,065,089	–	–	–	**1,065,089**	**1,065,089**	Nil	25.07.2016	25.07.2023
	460,358	–	(460,358)	–	**–**	**–**	Nil	05.06.2017	05.06.2024
	392,157	–	–	–	**392,157**	**–**	Nil	05.06.2018	05.06.2025
	1,643,836	–	–	–	**1,643,836**	**–**	Nil	21.07.2019	21.07.2026
	–	1,095,090	–	–	**1,095,090**	**–**	Nil	05.06.2020	05.06.2027
Total PSP	**3,561,440**	**1,095,090**	**(460,358)**	**–**	**4,196,172**	**1,065,089**			
Total	**4,706,478**	**1,095,090**	**(460,358)**	**–**	**5,341,210**	**2,210,127**			

	Number of share options								
Ian Scapens	Options held at 1 April 2017	Granted in year	Lapsed in year	Exercised in year	**Options held at 31 March 2018**	**Options vested at 31 March 2018**	Option price (p)	Date from which exercisable	Expiry date
PSP	368,465	–	–	–	**368,465**	**–**	Nil	16.01.2020	16.01.2027
	–	337,653	–	–	**337,653**		Nil	05.06.2020	05.06.2027
Total	**368,465**	**337,653**	**–**	**–**	**706,118**	**–**			

The performance conditions for the share options are disclosed on pages 81 and 82 and are included in this audited information section by reference. None of the terms and conditions of the share options were varied in the year.

Performance graph and table

The graph below shows the Company's total shareholder return (share price growth plus dividends reinvested where applicable) for each of the last nine 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.

Directors' Remuneration Report
Annual Report on Remuneration

Chief Executive's remuneration for the years ended 31 March 2010 to 2018

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 nine years.

	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Chief Executive's total remuneration[1] £'000	337	667	494	311	659	561	1015	363	**364**
Annual bonus as % of maximum awarded	–	81%	44%	16%	100%	67%	–	–	**–**
LTIP as % of maximum vesting	100%	–	–	–	N/A	N/A	100%	–	**–**

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 on page 80).

	Percentage change in salary	Percentage change in benefits	Percentage change in annual bonus
Chief Executive	–	6%	–
Workforce[2]	<3%[3]	–	0.2%

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 80) 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[4]	Adjusted operating profit[4]	EBITDA[5]	Executive Directors' total remuneration
2018	£70.2m	Nil	£65.4m	£191.6m	£14.2m	£21.5m	£0.6m
2017	£67.5m	Nil	£126.8m	£183.4m	£14.5m	£21.3m	£0.6m
Difference (%)	4.0%	Nil	(48.4%)	4.5%	(2.1%)	0.9%	–

Statement of implementation of remuneration policy in the next financial year

The Committee intends to operate the remuneration policy as set out in the Policy table and notes on pages 73 to 76 for three years from the date of the 2016 AGM.

Base salary

Consistent with the timing of annual employee pay reviews across the Group, which are implemented with effect from 1 August, the Committee reviews base salaries for the Executive Directors annually. The next review will take place in July 2018 and any change implemented from 1 August 2018. The current base salaries for the Executive Directors are set out on page 80 and below:

	£'000
Robert Purcell	300
Ian Scapens	200

1. The values use the same methodology as that shown in calculating the single figure basis of remuneration in the table on page 80.
2. 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.
3. 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.
4. Note 2 to the Company financial statements sets out the calculation of revenue and adjusted operating profit.
5. EBITDA is adjusted operating profit before depreciation and amortisation charges.

Annual bonus

The performance measures for the 2018/19 annual bonus are unchanged from 2017/18. As set out on page 81, the performance measures are based upon a matrix of EBITDA and net debt performance conditions.

The performance targets for the annual bonus are based on internal targets and considered commercially sensitive. Performance targets will continue to be disclosed retrospectively in the Remuneration Report for 2018/19 in the interests of transparency.

Long Term Incentive Plan – PSP

The performance conditions attaching to options that will be granted under the PSP in the year commencing 1 April 2018 are in line with those granted during 2017 and are as follows:

- → For the Group Finance Director, 100% of the award will be based on the Compound Annual Growth Rate (CAGR) in adjusted EPS over a three-year period (EPS CAGR).
- → For the Chief Executive, 50% of the award will be based on this EPS condition and 50% will be based on TSR.

The targets applying to the award will be as follows:

Threshold		Maximum		
EPS CAGR	% Vesting	EPS CAGR	% Vesting	Performance period
10%	25%	15%	100%	3 years to 31 March 2021

Threshold		Maximum		
TSR	% Vesting	TSR	% Vesting	Performance period
42.2p	25%	72.2p	100%	3 years to 31 March 2021

Performance under the EPS condition will be measured from an adjusted EPS figure of 4.5p for the year to 31 March 2018.

On achievement of threshold performance, 25% of the award vests. Straight line vesting occurs between threshold and maximum performance.

Statement of shareholder voting

The Directors' Remuneration Report received significant shareholder support at the AGM held on 19 July 2017. Votes cast in respect of this resolution at the 2017 AGM are detailed in the table below.

Remuneration Policy	2017 AGM	%
Votes cast for	170,578,499	99.31
Votes cast against	1,182,259	0.69
Total	171,760,758	
Votes withheld*	35,531	

The Directors' Remuneration Policy received significant shareholder support at the AGM held on 20 July 2016. Votes cast in respect of this resolution at the 2016 AGM are detailed in the table below.

Remuneration Policy	2016 AGM	%
Votes cast for	160,871,566	91.90
Votes cast against	14,174,772	8.10
Total	175,046,338	
Votes withheld*	954,988	

* A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast 'for' and 'against' a resolution.

Approved by the Board and signed on its behalf by:

Ian Griffiths
REMUNERATION COMMITTEE CHAIRMAN

29 May 2018

Directors' Report

The Directors submit their report and the financial statements as set out on pages 101 to 152.

The Directors' Report, which comprises pages 86 to 89, sets out certain information in relation to the Company in accordance with the requirements of the Companies Act 2006 and the FCA's Listing and Disclosure and Transparency Rules.

The Strategic Report provides an overview of the performance of the business in the year ended 31 March 2018 and covers likely future developments in the business of the Company and the Group.

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 disclosures have been made elsewhere in the Annual Report and Accounts, they are cross-referenced in the table on page 89 and therefore incorporated by reference.

Group

The Company is a public limited company incorporated in England, registered number 249688, with its registered office at Trident 2, Trident Business Park, Styal Road, Wythenshawe, Manchester, M22 5XB.

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

Results

Profit before tax for the year ended 31 March 2018 is £1.4m, compared with a profit of £6.7m for the year ended 31 March 2017.

Dividends

Details about dividend policy are set out in Note 6 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 2018, 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 2017 and 1 January 2018.

Directors' appointment and replacement

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 AGM following their appointment. In addition, any Director who was not elected or re-elected at either of the two preceding AGMs must retire and seek re-election. The Board has decided that all Non-Executive Directors are subject to annual election; please refer to the Corporate Governance Report on page 55 for further details. John Allkins is retiring from the Board at the 2018 AGM and not seeking re-election.

As a result, Mark Harper, Ian Griffiths, and David Landless will be standing for election/re-election at the 2018 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 on pages 66 and 67.

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 80 to 85. 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.

Conflicts of interest

The Company's Articles of Association were amended at the 2008 AGM, 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

As at 31 March 2018, the issued share capital of the Company was £11,851,369 divided into 225,417,740 ordinary shares of 5p each and 580,482 units of 6% cumulative preference stock of £1 each. The decrease in the issued share capital (2017: £27,264,310) follows the purchase by the Company of 77,064,703 deferred shares of 20p each and the cancellation of them, in accordance with the shareholder approval obtained at the 2017 AGM.

The ordinary shares represent 95.1% of the Company's total share capital and the preference stock represents 4.9%. The Company's ordinary shares and preference stock are listed on the London Stock Exchange.

Purchase of own shares

The Company obtained shareholder authority at the 2017 AGM to make market purchases of up to 22,541,774 ordinary shares in the Company, which remains outstanding until the conclusion of the 2018 AGM. 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 AGM for the Company to purchase, in the market, up to 22,541,774 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.

The rights and obligations attaching to the Company's shares are contained in the Company's Articles of Association, a copy of which is available at www.renold.com or can be obtained upon request to the Company Secretary. The Articles of Association were first adopted on 30 July 2008 and last amended on 19 July 2017.

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 AGM are set out in the Notice of AGM.

Major shareholdings

As at the date of this report, the Company had been notified or is aware 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[1]	% of total number of voting rights[1]
M&G Investment Funds	33,581,907	14.9%
Discretionary Unit Fund Managers Limited	27,000,000	12.0%
Janus Henderson Investors Limited	25,995,747	11.5%
Tellworth Investments, LLP	15,148,021	6.7%
Schroder Investment Management Limited	14,464,253	6.4%
JP Morgan Asset Management	11,226,179	5.0%
Hargreave Hale	10,757,319	4.8%
AXA Investment Managers UK	10,403,334	4.6%
Royal London Asset Management	7,867,947	3.5%

1. The number of voting rights and the percentage of voting rights are as at 22 May 2018.

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' Report

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 £563,544.35, 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 2017 AGM. The authority will expire at the forthcoming AGM. The Directors will seek authority from shareholders at the AGM 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 £563,544.35.

In addition, the Directors have authority to allot shares up to a maximum nominal amount of £7,506,410, representing approximately two-thirds of the issued ordinary share capital as at the date of the Notice of the Company's 2017 AGM. The authority will expire at the forthcoming AGM. The Directors will seek authority from shareholders at the AGM to allot shares up to a maximum nominal amount of £7,506,410, representing approximately 66.6% of the issued ordinary share capital as at the date of the Notice of the AGM.

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 (e.g. 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.

Donations

During the year, the Group made no political donations.

Contracts: Change of control provisions

The Company's main UK banking facilities agreement with Lloyds Bank plc, Svenska Handelsbanken AB and HSBC plc 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 128 to 133 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 77 within the Directors' Remuneration Report.

Annual General Meeting

The Annual General Meeting ('AGM') of the Company will be held at the Manchester International Office Centre, Styal Road, Wythenshawe, Manchester M22 5WB on 18 July 2018 at 11.00am.

The resolutions being proposed at the 2018 AGM will be general in nature, including the renewal for a further year of the limited authority of the Directors to allot the unissued share capital of the Company and to issue shares for cash other than to existing shareholders (in line with the Pre-Emption Group's Statement of Principles). A resolution will also be proposed to renew the Directors' authority to purchase a portion of the Company's own shares. The Company will again seek shareholder approval to hold general meetings (other than AGMs) at 14 days' notice. Resolutions will be proposed to renew these authorities, which would otherwise expire at the 2018 AGM.

One of the areas of special business to be addressed at this AGM is the proposal to extend the authority to disapply pre-emption rights by a further 5% of the issued ordinary share capital, such additional authority to be used only for limited purposes, which will be set out in the Notice of Meeting of the AGM.

Auditor

Deloitte LLP has confirmed its willingness to continue in office as Auditor of the Company. In accordance with section 489 of the Companies Act 2006, separate resolutions for the reappointment of Deloitte LLP as Auditor of the Company and for the Directors to determine the Auditor's remuneration will be proposed at the 2018 AGM.

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 106 which is incorporated by reference here.

Other disclosures

The Directors' Report was approved by the Board on 29 May 2018.

For and on behalf of the Board:

Ian Scapens
DIRECTOR

29 May 2018

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual 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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the accounts 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 the Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable, relevant 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.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Group and Company's ability to continue as a Going Concern disclosing, as applicable, matters related to Going Concern.

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 responsible for such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information, included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The management report required by DTR 4.1.8R (contained in the Strategic Report and the Directors' Report) includes a 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 that they face.

We consider the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 29 May 2018 and is signed on its behalf by:

Robert Purcell
CHIEF EXECUTIVE

Ian Scapens
FINANCE DIRECTOR

Shareholder Information

The Company's website, **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, Link Asset Services, whose contact details appear on page 151. Alternatively, you can view up-to-date information and manage your shareholding through Link'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.signalshares.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

- 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.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register (the Register) from **www.fca.org.uk** to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- 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.
- Search the list of unauthorised firms to avoid at **www.fca.org.uk/scams**.
- 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.
- Think about getting independent financial and professional advice before you hand over any money.
- **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, 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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Renold Plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- accounting policies;
- the related notes 1 to 26 to the group financial statements; and
- the related notes 1 to 13 to the parent company financial statements

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: → The carrying value of inventory → Impairment of goodwill and intangible assets → Defined benefit pension scheme accounting → Deferred tax asset recognition These key audit matters are consistent with prior year.
Materiality	We determined materiality for the Group to be £592,000 which is 6.5% of statutory pre-tax profit of £1.4m, adjusted for adding back restructuring costs, impairment of goodwill, and pension administration costs to give a revised pre-tax profit which reflects underlying performance of £9.1m.
Scoping	We focused our Group audit scope primarily on the audit work at 15 locations (2017: 14 locations). 5 (2017: 7) of these were subject to a full audit, 5 (2017: 5) were subject to an audit of specified account balances and the remaining 5 (2017: 2) were subject to review procedures. These locations covered 99% of the Group's revenue, 92% of the Group's pre-tax profit and 99% of the Group's net assets.
Significant changes to our approach	Our approach is consistent with the previous year, with no significant changes identified.

Conclusions relating to going concern, principal risks and viability statement

Going concern
We have reviewed the directors' statement within the Accounting Policies on page 106 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement
Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 32 to 36 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 37 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 37 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Independent Auditor's Report

to the Members of Renold plc

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The carrying value of inventory

Key audit matter description	As shown in note 11 the Group holds inventory of £41.0m (2017: £40.4m). As discussed on the Audit Committee report on page 63 and in the accounting policies on page 107 management judgement is applied to the cost of inventories in order to accurately reflect the manufacturing costs incurred in bringing them to their current condition and physical location. This primarily relates to the assessment of direct labour costs incurred, manufacturing overheads to be absorbed and other relevant production costs. A risk surrounding the carrying value of inventory when compared to the net realisable value as a result of inadequate provisioning has also been identified. Establishing a provision for slow-moving, obsolete and damaged inventory involves estimates and judgements, taking into account forecast sales and historical usage information.
How the scope of our audit responded to the key audit matter	We evaluated the design and implementation of key controls relating to the assessment of inventory valuation and inventory provisioning; On a sample basis, we have performed the following audit procedures: → Agreed the cost of raw materials to third-party supplier invoices; → For work in progress and finished goods, we obtained the bill of material and tested the underlying costs within each stock item. We challenged the key assumptions concerning overhead absorption by assessing the appropriateness of costs included in the calculation; → Assessed the net realisable value ('NRV') on a sample basis of stock items by agreeing their subsequent sales price to customer invoices to ensure that the items were being held at the lower of cost and NRV. → Gained an understanding of the movements in the inventory provision year on year and an assessment of the scale of the provision in comparison to the gross stock value, to determine whether there are any unusual transactions; → Recalculated the value of the provision based on a sample of items; and → Where manual adjustments have been made to the provision, we have understood these by gaining supporting documentation.
Key observations	We have concluded that the group inventory balance is materially correct as at 31 March 2018.

Impairment of goodwill and intangible assets

Key audit matter description	The goodwill £21.6m (2017: £26.4m) and intangible assets £8.3m (2017: £9.7m) balance shown in note 7 principally relates to Jeffrey Chain and are supported by an annual impairment review. Other intangibles as shown in note 8 amount to £8.3m comprising largely of computer software of £5.8m (2017: £6.5m). We have determined that as a result of the range of potential outcomes with regards to the carrying value of the CGUs (Jeffrey Chain in particular), we have identified this key audit matter as a potential fraud risk area. During the year, management have recorded an impairment charge of £2.1m in relation to goodwill held at Jeffrey Chain. As discussed on the Audit Committee report on page 63, and in the accounting policies on page 107, the key audit matter identified is in respect of Management's judgements in relation to the financial forecasts of the business units. These include discount rates and perpetuity growth rates used to determine the value in use of the cash generating units, which are subjective and could lead to an impairment charge if incorrect.
How the scope of our audit responded to the key audit matter	→ We assessed the design and implementation of key controls concerning management's impairment review process; → We have evaluated the future cash flows forecasts and the process by which they are drawn up, including confirming the accuracy of the underlying calculations and checking whether the forecasts are consistent with the latest Board approved forecasts; → We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and verifying the mathematical accuracy of the cash flow models; → We utilised our specialists to assess the appropriateness of the discount rate derived from a Weighted Average Cost of Capital (WACC) applied by management in their discounted cash flows; → We challenged the underlying assumptions and significant judgements used in management's impairment model by examining the results of management's sensitivity analysis around long-term growth rates and discount rates to ascertain the extent of change in those assumptions that would be required for an impairment to be recognised; and → We also assessed whether the disclosures in the accounting policies of the financial statements appropriately disclose the key judgements taken so that the reader of the financial statements is aware of the impact of the financial statement of changes to key assumptions that may lead to impairment.
Key observations	Whilst we note that further actions are required by the Group to achieve the forecasts within the Jeffrey Chain cash generating unit specifically over the medium term, we are satisfied that the assumptions in the impairment models were within an acceptable range and that the overall level of impairment recognised was reasonable. We note that reasonably possible changes in performance could result in further impairment as set out in note 7. We consider the Group's description of these sensitivities to be appropriate.

Defined benefit pension scheme accounting

Key audit matter description	The Group have a number of defined benefit pension schemes with a total defined benefit obligation of £251.2m and a net deficit position of £97.4m as shown in note 18 which is significant both in the context of the overall balance sheet and the results of the Group. As described on page 62, the valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions, a number of which can be volatile. Changes in the number of the key assumptions (including salary increases, inflation, discount rates and mortality) can have a material impact on the calculation of the liability.
How the scope of our audit responded to the key audit matter	→ We assessed the design and implementation of key controls concerning management's valuation process; → We challenged the discount rate and inflation rates used in the valuation of the pensions liabilities by comparison to our internally developed expectations using our actuarial expertise and compared the assumptions around salary increases and mortality to national and industry averages; and → We evaluated the sensitivity of the pension scheme deficits to differences between our independent judgements and those made by the Directors, both individually and in aggregate.
Key observations	We have concluded that the valuation of the defined benefit obligation is materially correct as at 31 March 2018.

Independent Auditor's Report

to the Members of Renold plc

Deferred tax asset recognition

Key audit matter description	The Group has a net deferred tax asset ("DTA") of £16.4m from unused tax losses (2017: £20.7m) and an unrecognised DTA of £24.3m (2017: £20.5m). IAS 12 states that a DTA shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. As described on page 63, the key judgement in this area is that there will be sufficient future taxable profits available against which the unused tax losses and future pension deductions can be utilised.
How the scope of our audit responded to the key audit matter	→ We evaluated the design and implementation of key controls relating to the assessment of the future profitability of the Group; → We challenged management's assumptions used in the forecast model by using our knowledge of the Group and the industry in which it operates; → In assessing Management's judgements we have considered, amongst other things, historical levels of taxable profits, the historical accuracy of forecasts, and the growth forecasts used by the Group. This included critically assessing the assumptions and judgements made by the Directors in those growth forecasts, by using our knowledge of the Group and the industry in which it operates; → We used the knowledge and experience of our own tax specialists to assist in assessing and challenging the assumptions and judgements made by the Directors; and → We also assessed the adequacy of the Group's disclosures setting out the basis of the deferred tax balance and the level of estimation involved.
Key observations	We have concluded that the recognised portion of deferred tax is materially correct as at 31 March 2018. Furthermore, we have concluded that the disclosures on the unrecognised portion of deferred tax is appropriate as at 31 March 2018.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£592,000	£473,200
Basis for determining materiality	We have determined materiality by considering a range of possible benchmarks and the figures derived from those, with a particular focus on selecting a materiality within the range that we considered appropriate. These included revenue, EBITDA, and profit before tax, as well as the scale of the balance sheet and overall size of the business. Our selected materiality represents approximately 6.5% of statutory pre-tax profit of £1.4m adjusted for adding back restructuring costs, impairment of goodwill and pension administration costs to give a revised pre-tax profit which reflects underlying performance of £9.1m. This equates to approximately 0.3% of revenue.	We have capped materiality at 80% of the materiality identified for the Group. This is a judgement and represents the significant value of investments held on the balance sheet at the year-end. Parent company materiality equates to approximately 0.7% of net assets.
Rationale for the benchmark applied	When determining materiality, we have considered the size and scale of the business and the nature of its operations. We considered the decline in statutory profits this year and at present do not consider that this decline is likely to reflect a long-term reduction in the size and scale of the business. We have also considered which benchmarks would be of relevance to the users of the financial statements.	When determining materiality, we considered the net assets of the company as its principal activity is as an investment holding company for the group.

We agreed with the directors that we would report to them all audit differences in excess of £30,000 (2017: £23,000) for the parent company and group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We have reported to management and those charged with governance on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's Report

to the Members of Renold plc

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at 15 locations (2017: 14 locations). 5 (2017: 7) of these were subject to a full audit, 5 (2017: 5) were subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations. The remaining 5 (2017: 2) were subject to review procedures. These locations covered 99% of Group's revenue, 92% of the Group's pre-tax profit and 99% of the Group's net assets. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the 15 locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality, being between £225,000 to £284,000 (excluding the parent company component materiality which is disclosed separately above). In the prior year component materiality ranged from £225,000 to £247,500.

At the Parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Our audit work has included the use of component auditors, which form part of the Deloitte member firm network. We planned and revised the component auditor's work, including issuing referral instructions to them and evaluating the results of the work performed. The Group audit team follow a programme of planned visits that has been designed so that a senior member of the Group audit team visits each of the locations where the Group audit scope was focused on a rotation basis and the most significant of them at least once a year. In years when we do not visit a significant component we will include the component audit team in our team briefing, discuss their risk assessment, attend key meetings via conference call, and review documentation of the findings from their work. During the current year audit, a senior member of the Group audit team visited three locations across the US and Germany.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Report on other legal and regulatory requirements

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- 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 financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Independent Auditor's Report

to the Members of Renold plc

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board on 21 July 2015 to audit the financial statements for the year ending 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ending 31 March 2016 to 31 March 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Simon Manning FCA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

29 May 2018

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2018

	Note	2018 Statutory £m	2018 Adjustments £m	2018 Adjusted[1] £m	2017 Statutory £m	2017 Adjustments £m	2017 Adjusted[1] £m
Revenue	1	191.6	–	191.6	183.4	–	183.4
Operating costs	2	(186.0)	8.6	(177.4)	(172.4)	3.5	(168.9)
Operating profit		5.6	8.6	14.2	11.0	3.5	14.5
Operating profit is analysed as:	2						
Before adjusting items		5.6	–	5.6	11.0	–	11.0
Restructuring costs		–	4.7	4.7	–	1.7	1.7
Amortisation of acquired intangible assets		–	0.9	0.9	–	1.1	1.1
Impairment of goodwill		–	2.1	2.1	–	–	–
Pension administration costs		–	0.9	0.9	–	0.7	0.7
Operating profit		5.6	8.6	14.2	11.0	3.5	14.5
Financial costs		(1.7)	–	(1.7)	(1.7)	–	(1.7)
Net IAS 19R financing costs		(2.4)	2.4	–	(2.5)	2.5	–
Discount on provisions		(0.1)	0.1	–	(0.1)	0.1	–
Net financing costs	3	(4.2)	2.5	(1.7)	(4.3)	2.6	(1.7)
Profit before tax		1.4	11.1	12.5	6.7	6.1	12.8
Taxation	4	(3.6)	1.3	(2.3)	(1.9)	(0.4)	(2.3)
(Loss)/Profit for the financial year		(2.2)	12.4	10.2	4.8	5.7	10.5
Other comprehensive income/(expense):							
Items that may be reclassified to the income statement in subsequent periods:							
Foreign exchange translation differences		(5.9)			9.8		
Foreign exchange differences on loans hedging the net investment in foreign operations		0.8			(0.9)		
Gains arising on cash flow hedges		0.4			–		
		(4.7)			8.9		
Items not to be reclassified to the income statement in subsequent periods:							
Remeasurement losses on retirement benefit obligations		2.8			(19.0)		
Tax on remeasurement losses on retirement benefit obligations		(1.6)			2.1		
		1.2			(16.9)		
Other comprehensive expense for the year, net of tax		(3.5)			(8.0)		
Total comprehensive expense for the year, net of tax		(5.7)			(3.2)		
Attributable to:							
Owners of the parent		(5.8)			(3.2)		
Non-controlling interest		0.1			–		
		(5.7)			(3.2)		
(Loss)/earnings per share	5						
Basic (loss)/earnings per share		(1.0p)		4.5p	2.1p		4.6p
Diluted (loss)/earnings per share		(1.0p)		4.5p	2.1p		4.6p

All results are from continuing operations.

1. Adjusted for the after tax effects of pension administration costs, restructuring costs, changes in the provision discounts, IAS 19R financing costs, impairment of goodwill and amortisation of acquired intangible assets.

Consolidated Balance Sheet

as at 31 March 2018

	Note	2018 £m	2017 £m
ASSETS			
Non-current assets			
Goodwill	7	**21.6**	26.4
Other intangible assets	8	**8.3**	9.7
Property, plant and equipment	9	**47.7**	47.2
Deferred tax assets	17	**20.6**	20.9
		98.2	104.2
Current assets			
Inventories	11	**41.0**	40.4
Trade and other receivables	12	**36.4**	36.8
Derivative financial instruments	25	**0.4**	–
Cash and cash equivalents	13	**13.9**	16.4
		91.7	93.6
Non-current asset classified as held for sale	10	**–**	0.3
		91.7	93.9
TOTAL ASSETS		**189.9**	198.1
LIABILITIES			
Current liabilities			
Borrowings	14	**(1.3)**	(0.8)
Trade and other payables	15	**(39.6)**	(41.9)
Current tax		**(1.2)**	(4.2)
Derivative financial instruments	25	**–**	(0.1)
Provisions	16	**(4.6)**	(3.6)
		(46.7)	(50.6)
NET CURRENT ASSETS		**45.0**	43.3
Non-current liabilities			
Borrowings	14	**(36.4)**	(32.5)
Preference stock	14	**(0.5)**	(0.5)
Trade and other payables	15	**(0.3)**	(0.3)
Deferred tax liabilities	17	**(4.2)**	(0.3)
Retirement benefit obligations	18	**(97.4)**	(102.0)
Provisions	16	**(3.3)**	(4.1)
		(142.1)	(139.7)
TOTAL LIABILITIES		**(188.8)**	(190.3)
NET ASSETS		**1.1**	7.8
EQUITY			
Issued share capital	19	**11.3**	26.7
Share premium account		**30.1**	30.1
Capital redemption reserve	21	**15.4**	–
Currency translation reserve	21	**7.1**	12.2
Other reserves	21	**1.4**	1.0
Retained earnings	21	**(66.2)**	(64.9)
Equity attributable to equity holders of the parent		**(0.9)**	5.1
Non-controlling interests		**2.0**	2.7
TOTAL SHAREHOLDERS' EQUITY		**1.1**	7.8

Approved by the Board on 29 May 2018 and signed on its behalf by:

Robert Purcell
CHIEF EXECUTIVE

Ian Scapens
FINANCE DIRECTOR

Consolidated Statement of Changes in Equity

for the year ended 31 March 2018

	Share capital £m Note 19	Share premium account £m	Retained earnings £m Note 21	Currency translation reserve £m Note 21	Capital redemption reserve £m Note 21	Other reserves £m Note 21	Attributable to owners of parent £m Note 21	Non-controlling interests £m	Total equity £m
At 31 March 2016	26.6	29.9	(53.0)	3.3	–	1.0	7.8	2.7	10.5
Profit for the year	–	–	4.8	–	–	–	4.8	–	4.8
Other comprehensive income/(expense)	–	–	(16.9)	8.9	–	–	(8.0)	–	(8.0)
Total comprehensive income/(expense) for the year	–	–	(12.1)	8.9	–	–	(3.2)	–	(3.2)
Proceeds from share issue	0.1	0.2	–	–	–	–	0.3	–	0.3
Employee share options:									
– value of employee services	–	–	0.2	–	–	–	0.2	–	0.2
At 31 March 2017	26.7	30.1	(64.9)	12.2	–	1.0	5.1	2.7	7.8
Profit for the year	–	–	(2.3)	–	–	–	(2.3)	0.1	(2.2)
Other comprehensive income/(expense)	–	–	1.2	(5.1)	–	0.4	(3.5)	(0.8)	(4.3)
Total comprehensive income/(expense) for the year	–	–	(1.1)	(5.1)	–	0.4	(5.8)	(0.7)	(6.5)
Reclassification for cancellation of deferred shares	(15.4)	–	–	–	15.4	–	–	–	–
Employee share options:									
– value of employee services	–	–	(0.2)	–	–	–	(0.2)	–	(0.2)
At 31 March 2018	**11.3**	**30.1**	**(66.2)**	**7.1**	**15.4**	**1.4**	**(0.9)**	**2.0**	**1.1**

Consolidated Statement of Cash Flows

for the year ended 31 March 2018

	2018 £m	2017 £m
Cash flows from operating activities (Note 24)		
Cash generated from operations	**9.9**	8.4
Income taxes paid	**(3.8)**	(1.0)
Net cash from operating activities	**6.1**	7.4
Cash flows from investing activities		
Proceeds from property disposals	**0.5**	10.2
Purchase of property, plant and equipment	**(8.7)**	(8.4)
Purchase of intangible assets	**(1.4)**	(1.2)
Consideration paid for acquisition	**(1.2)**	–
Net cash from investing activities	**(10.8)**	0.6
Cash flows from financing activities		
Financing costs paid	**(1.7)**	(1.5)
Proceeds from share issue	**–**	0.2
Proceeds from borrowings	**3.9**	–
Repayment of borrowings	**(0.1)**	(4.5)
Net cash from financing activities	**2.1**	(5.8)
Net (decrease)/increase in cash and cash equivalents	**(2.6)**	2.2
Net cash and cash equivalents at beginning of year	**15.4**	12.4
Effects of exchange rate changes	**(0.5)**	0.8
Net cash and cash equivalents at end of year (Note 13)	**12.3**	15.4

Accounting Policies

ACCOUNTING POLICIES

To aid the reader of the financial statements, certain accounting policies can be found in the relevant notes.

Basis of preparation

Statement of compliance

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's 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 Parent Company has elected to prepare its parent company financial statements in accordance with FRS 101; these are presented on pages 144 to 152. The financial statements were approved by the Board on 29 May 2018.

Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention, except where otherwise indicated. The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements.

Functional and presentation currency

These consolidated financial statements are presented in Pounds Sterling which is the Group's functional currency.

Foreign currency translation

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 Pounds Sterling at the exchange rates at the end of the financial year. Income statements and cash flows are translated at the appropriate average rates of exchange for the year. Differences on exchange arising on the retranslation of net assets in overseas subsidiaries, 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company made up to 31 March each year.

Business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and equity interests issued by the Group in exchange for control of the acquired entity. Consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed in operating costs as incurred. All identifiable assets and liabilities acquired and contingent liabilities assumed are initially measured at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest and the acquisition date fair value of any previously held equity interest in the acquired entity as compared with the Group's share of the identifiable net assets are recognised as goodwill. Where the Group's share of identifiable net assets acquired exceeds the total consideration transferred, a gain from a bargain purchase is recognised immediately in the income statement after the fair values initially determined have been reassessed.

(a) Subsidiaries

Subsidiaries are entities that are controlled by the Group. Control is exerted where the Group has the power to govern, directly or indirectly, the financial and operating policies of the entity so as to obtain economic benefits from its activities. Typically, a shareholding of more than 50% of the voting rights is indicative of control. However, the impact of potential voting rights currently exercisable is taken into consideration.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control is obtained to the date that control ceases. The accounting policies of new subsidiaries are changed where necessary to align them with those of the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. They are initially measured at the non-controlling interest's share of the net fair value of the assets and liabilities recognised or at fair value, as determined on an acquisition by acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of the changes in equity since the date of the combination.

Accounting Policies

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 (xiii) to the Company financial statements). To determine that Renold plc has control over the SLP, we considered the following activities, benefits and risks:

Activities – The SLP was established by Renold plc as a means of funding its pension obligation in an efficient manner.

Benefits – During the 25 year period, the Renold Pension Scheme will receive substantially all of the SLP's income. However, after this period, the Renold Group is entitled to any remaining income generated in the SLP, together with any other residual value in the SLP.

Risks – The Group bears the risks incidental to the activities of the SLP because it retains the obligation to ensure the pension scheme is appropriately funded.

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.

(b) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investments are eliminated to the extent of the Group's interest in that investment. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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 6 to 45.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report on pages 6 to 45. In addition, Note 25 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to foreign exchange, credit and interest rate risk. Further details of the Group's cash balances and borrowings are included in Notes 13, 14 and 25 of the financial statements. There were no significant post balance sheet events to report (see Note 26).

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 consolidated financial statements.

Revenue

Revenue comprises the invoiced value for the sale of goods net of sales rebates, discounts, VAT and other sales related taxes and after eliminating sales within the Group. Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits from the transaction will flow to the Group. Revenue is recognised on the following basis:

(a) Sale of goods

Revenue is recognised on the sale of goods when the risks and rewards of ownership have transferred from the Group to the customer. This is normally the point of despatch to the customer when title passes.

(b) Sales rebates and discounts

These comprise customer discounts and rebates which are sales incentives to customers to encourage them to purchase increased volumes and are related to total volumes purchased and sales growth or incentives for early payment. They are recognised in the same period as the sales to which they relate based upon management's best estimate of the amount necessary to meet claims made by the Group's customers in respect of these rebates and discounts.

Discounts received from suppliers

These comprise rebates and discounts received from suppliers as incentives to purchase increased volume or early settlement of amounts payable. They are recognised within operating costs over the period to which the contract or purchase relates.

Critical judgements in the application of the Group's Accounting Policies

In the course of the preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies other than those involving estimations (below), that have had a significant effect on the amounts recognised in the financial statements.

Key sources of estimation and uncertainty

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 in respect of pension liabilities are recognised in full (with the exception of Germany where the amount recognised is offset by a deferred tax liability in relation to the German tax base of the pension liability) given the business has a legal obligation to make the underlying pension contributions and it is probable that adequate taxable profit will be available to take advantage of the associated taxable deductions. 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 which 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 and concluded that an onerous lease provision is required following the cessation of significant manufacturing activity at the site. This involves making assumptions upon future sub-let income streams and the discount rate used. An additional onerous lease provision was created following the sale and leaseback of the Australian Mulgrave facility in March 2017. For further details refer to Notes 2(c) and 16.

(e) Inventory valuation

Manufactured inventory and work in progress include amounts of attributable indirect costs incurred in the production process. The Group employs a standard cost methodology which, while including judgements and assumptions, seeks to allocate the allowable indirect production costs in a logical and appropriate manner.

Adoption of new and revised standards

(i) New and revised accounting standards adopted by the Group

During the year, the International Accounting Standards Board and International Financial Reporting Interpretations Committee have issued the following standards, amendments and interpretations, which are considered relevant to the Group. Their adoption has not had any significant impact on the amounts or disclosures reported in these financial statements.

→ IAS 7 (amended) 'Statement of Cash Flows'. This amendment requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Accounting Policies

(ii) New and revised accounting standards and interpretations which were in issue but were not yet effective and have not been adopted early by the Group

At the date of publishing these financial statements the following new and revised standards and interpretations, which are considered relevant to the Group, were in issue but were not yet effective (and in some cases had not yet been adopted by the EU). None of these new and revised standards and interpretations have been adopted early by the Group:

- Annual improvements 2015–2017 cycle (not yet endorsed by the EU)
- Amendments to IAS 19R 'Employee Benefits' (not yet endorsed by the EU)
- Amendments to IFRS 2 'Share-based Payment'
- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 'Leases'
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
- IFRIC 23 'Uncertainty over Income Tax Treatments'.

The above standards and interpretations will be adopted in accordance with their effective dates and have not been adopted in these financial statements. An impact assessment has been performed for each of the standards, amendments and interpretations effective from 31 March 2018, with no significant financial impact being identified. Further details are provided below in relation to the two new standards effective from 2018:

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 Revenue from Contracts with Customers was issued in 2014 and replaces IAS 18 Revenue. It provides a single model of accounting for revenue arising from contracts with customers based on the identification and satisfaction of performance obligations, and revenue from contracts with customers will be distinguished from other sources. The Group will adopt IFRS 15 with effect from 1 April 2018, to be reported in the 2019 financial statements, and has elected to apply the modified retrospective transition approach.

IFRS 15 does not represent a material change from the Group's current practice as the point of revenue recognition on transfer of ownership of goods is unchanged. Accounting for revenue from long term contracts will not change materially. As these do not have a material effect on the Group's accounting or disclosures, no transition adjustments will be presented.

IFRS 16 'Leases'

Under the new standard all leases, except short term (under 12 months) and low value leases, are accounted for on balance sheet (similar to previous 'finance lease' accounting) with a 'right of use' asset and lease liabilities reflecting the discounted value of lease payments.

Information on the undiscounted amount of the Group's non-cancellable operating lease commitments as defined under IAS 17, the current leasing standard, as at 31 March 2018 is disclosed in Note 22.

The project to review the impact of IFRS 16 is ongoing. The Group has collated details of all relevant leases across the Group (taking advantage of the transition option to rely on classification as a lease under IAS 17). These leases have an annual cash cost of £3.6m before onerous lease provision accounting. The total future amount payable under these leases is £23.5m (undiscounted) although the population of leases will change before transition. The Group currently intends to apply the modified retrospective transition basis when adopting IFRS 16 from 1 April 2019 but has not completed the calculations of the exact impact as this will require the relevant discount rates at that date.

The impact of adoption will be to increase EBITDA and Operating Profit as operating lease costs currently charged under IAS 17 will be reclassified to depreciation and interest expenses which are excluded from EBITDA (although included in profit before tax). The interest cost will be front-end loaded which will result in higher costs earlier in the lease than under IAS 17 and lower costs towards the end of the lease. The expected amount to be reclassified is between £2m and £3m after adjusting for the impact of onerous lease provisions with a net impact on profit of less than £1m per annum (calculations based on using an illustrative discount rate of 5% for all leases).

Operating cash flow will increase under IFRS 16 as the payments are reclassified as financing cash flows for interest and principal. The net increase/decrease in cash and cash equivalents will remain the same.

IFRS 16 contains a number of practical expedients, one of which permits the retention of the classification of existing contracts as leases under current accounting standards instead of reassessing whether existing contracts are or contain a lease at the date of initial application of the new standard.

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 products 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. Disclosure has not been included in respect of the operating assets of each segment as they are not reported to the CODM on a regular basis. 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.

Year ended 31 March 2018	Chain[2] £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	153.1	38.5	–	191.6
Inter-segment[1]	1.4	3.9	(5.3)	–
Total revenue	154.5	42.4	(5.3)	191.6
Adjusted operating profit/(loss)	14.7	4.8	(5.3)	14.2
Pension administration costs	–	–	(0.9)	(0.9)
Restructuring costs	(3.9)	(0.2)	(0.6)	(4.7)
Impairment of goodwill	(2.1)	–	–	(2.1)
Amortisation of acquired intangible assets	(0.9)	–	–	(0.9)
Operating profit/(loss)	7.8	4.6	(6.8)	5.6
Net financing costs				(4.2)
Profit before tax				1.4
Other disclosures				
Working capital[3]	25.9	11.6	0.1	37.6
Capital expenditure[4]	7.2	0.9	1.3	9.4
Depreciation and amortisation included in adjusted operating profit/loss	4.8	1.6	0.9	7.3
Amortisation of acquired intangibles	0.9	–	–	0.9
Total depreciation and amortisation	5.7	1.6	0.9	8.2

Notes to the Consolidated Financial Statements

1. Segmental information continued

Year ended 31 March 2017	Chain[2] £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	146.1	37.3	–	183.4
Inter-segment[1]	0.3	4.1	(4.4)	–
Total revenue	146.4	41.4	(4.4)	183.4
Adjusted operating profit/(loss)	16.6	3.9	(6.0)	14.5
Pension administration costs	–	–	(0.7)	(0.7)
Restructuring costs	1.5	(3.1)	(0.1)	(1.7)
Amortisation of acquired intangible assets	(1.1)	–	–	(1.1)
Operating profit/(loss)	17.0	0.8	(6.8)	11.0
Net financing costs				(4.3)
Profit before tax				6.7
Other disclosures				
Working capital[3]	26.5	10.0	(1.5)	35.0
Capital expenditure[4]	5.8	4.0	1.1	10.9
Depreciation and amortisation included in adjusted operating profit/(loss)	4.7	1.5	0.6	6.8
Amortisation of acquired intangibles	1.1	–	–	1.1
Total depreciation and amortisation	5.8	1.5	0.6	7.9

The Group uses a variety of alternative performance measures, which are non-IFRS, to assess the performance of its operations. The Group considers these performance measures to provide useful historical financial information to help investors evaluate the underlying performance of the business by adjusting for volatility created by one-off items and non-trading performance related costs such as amortisation and legacy pensions costs.

The two consistently applied performance measures which are disclosed within this annual report and accounts include adjusted results and underlying results.

Adjusted results exclude the impact of restructuring costs, pension financing charges, pension administration costs, impairment of goodwill and the amortisation of acquired intangible assets and the tax thereon. A reconciliation of these results is shown on the face of the consolidated statement of comprehensive income and in the tables opposite. Adjusted profit of £14.2m is derived from the statutory profit of £5.6m.

1. Segmental information continued

Underlying results are retranslated to current year exchange rates and therefore only prior year comparatives would be deemed an alternative performance measure. A reconciliation is provided below.

Year ended 31 March 2017	Chain[2] £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	146.1	37.3	–	183.4
Foreign exchange retranslation	1.1	0.1	–	1.2
Underlying external sales	147.2	37.4	–	184.6
Adjusted operating profit/(loss)	16.6	3.9	(6.0)	14.5
Foreign exchange retranslation	0.5	(0.1)	–	0.4
Underlying adjusted operating profit/(loss)	17.1	3.8	(6.0)	14.9

1. Inter-segment revenues are eliminated on consolidation.
2. Included in Chain external sales is £4.9m (2017: £4.7m) of Torque Transmission product sold through the Chain NSCs, usually in countries where Torque Transmission does not have its own presence.
3. 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.
4. Capital expenditure consists of additions to property, plant and equipment and intangible assets.

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	
	2018 %	2017 %	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018**	2017
United Kingdom	**7.8**	7.5	**15.0**	13.8	**13.9**	14.8	**355**	364
Rest of Europe	**30.7**	31.0	**58.9**	56.9	**19.0**	18.8	**557**	576
Americas	**38.0**	37.0	**72.8**	67.9	**30.1**	37.2	**323**	327
Australasia	**10.3**	10.0	**19.7**	18.3	**2.8**	3.0	**128**	133
China	**4.1**	3.9	**7.9**	7.1	**5.7**	3.1	**258**	293
India	**4.2**	4.2	**8.0**	7.7	**5.0**	5.7	**379**	425
Other countries	**4.9**	6.4	**9.3**	11.7	**1.1**	0.7	**49**	65
	100.0	100.0	**191.6**	183.4	**77.6**	83.3	**2,049**	2,183

All revenue relates to the sale of goods and services. No individual customer, or group of customers, represents more than 10% of Group revenue (2017: 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

2. Operating costs and adjusting items

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

	2018 £m	2018 £m	2017 £m	2017 £m
Change in finished goods and work in progress		**(0.2)**		(0.9)
Raw materials and consumables		**72.9**		63.8
Other external charges		**24.0**		27.5
Employee costs				
Gross wages and salaries	**62.0**		59.8	
Social security costs	**6.9**		6.0	
Pension costs				
– defined benefit (Note 18)	**0.2**		0.3	
– defined contribution (Note 18)	**1.3**		1.3	
Share-based incentive plans	**(0.2)**		0.2	
		70.2		67.6
Depreciation of property, plant and equipment				
– owned assets		**5.2**		4.9
Amortisation of intangible assets		**2.1**		1.9
Operating leases				
– plant and machinery	**0.7**		0.5	
– property	**1.6**		1.3	
		2.3		1.8
Other operating income		**(0.1)**		–
Loss on disposal of property, plant and equipment		**–**		0.3
Research and development expenditure		**0.9**		1.0
Auditor's remuneration (Note 2(b))		**0.6**		0.5
Foreign exchange		**(0.5)**		0.5
Operating costs before adjusting items		**177.4**		168.9
Adjusting items and restructuring costs (Note 2(c))				
Pension administration costs		**0.9**		0.7
Amortisation of acquired intangible assets		**0.9**		1.1
Impairment of goodwill		**2.1**		–
Restructuring costs		**4.7**		1.7
Adjusting items		**8.6**		3.5
Total operating costs		**186.0**		172.4

2. Operating costs and adjusting items continued

(b) Auditor's remuneration

	2018 £000	2017 £000
Audit of the Group's annual financial statements	174	200
Audit of the Company's subsidiaries	300	283
Total audit fees	474	483
This is analysed in the following captions in the financial statements:		
Operating costs	474	483
	474	483

(c) Adjusting items

Accounting Policy

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 an 'adjusting item' on the face of the income statement.

	2018 £m	2017 £m
Included in operating costs		
Acquisition costs – Renold Tooth Chain	–	0.3
STEP 2020 restructuring costs – China factory relocation	3.9	–
STEP 2020 restructuring costs – other	0.8	4.3
Net gain on sale of Australian property	–	(2.9)
Restructuring costs	4.7	1.7
Pension administration costs	0.9	0.7
Impairment of goodwill (Note 7)	2.1	–
Amortisation of acquired intangible assets (Note 8)	0.9	1.1
Adjusting items	8.6	3.5

	2018 £m	2017 £m
Included in net financing costs		
Discount unwind on onerous lease provision	0.1	0.1
Net IAS 19R financing costs	2.4	2.5
	2.5	2.6

Various restructuring costs were incurred in the year as part of the STEP 2020 Strategic Plan. A restructuring cost of £3.9m was incurred in the year as we continued a multi-year project to transfer the China Chain manufacturing facility from leased premises in Hangzhou to a purpose-built facility near Changzhou in Jiangsu province. The cost includes £0.8m of costs incurred in the year in addition to £3.1m as a provision for future costs associated with the closure and relocation.

Also in the year, final redundancy and restructuring costs of £0.3m were incurred transferring the HiTec Couplings business, located in Halifax, to our existing Couplings facility in Cardiff. On May 2017, the Halifax property was sold resulting in a gain on disposal of £0.2m. The increased manufacturing capability at the Cardiff site permitted the closure of the China Couplings facility with manufacturing moving to Cardiff and South Africa. This incurred further redundancy and restructuring costs of £0.3m in the year. Both projects are now completed.

A further £0.4m was incurred in relation to other projects including restructuring the European distribution and sales operations, the cessation of manufacturing operations in New Zealand, and in relation for the closure of our Singapore site.

Prior year restructuring costs included £0.3m of final transitional services relating to the acquisition of the Renold Tooth Chain business, £0.6m of costs relating to relocation of the European distribution and sales operations and £2.5m of costs incurred on the transfer of the HiTec Couplings business. As noted above, this enabled the closure of the China Couplings facility and a provision of £0.6m was made against closure costs.

Notes to the Consolidated Financial Statements

2. Operating costs and adjusting items continued

Also in the prior year, other restructuring costs totalling £0.6m were incurred in preparation for the China Chain relocation, the relocation of the Malaysian manufacturing facility into larger premises and other STEP 2020 restructuring programmes.

In March 2017, the Mulgrave manufacturing facility in Australia was sold realising net proceeds of £9.3m resulting in a gain on disposal net of associated costs, of £2.9m.

(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:

	2018 £m	2017 £m
Statutory Directors' remuneration	**841**	892
Share-based payment charge/(credit)	**8**	(57)
Social security costs	**106**	114
Total	**955**	949

The Statutory Directors' remuneration listed in the table above differs from the single total figure table in the Directors' Remuneration Report on page 80 in the prior year as it includes £168,000 in respect of payments on to a former Director who has left the Company and is no longer included in the single total figure table.

Further details of the remuneration of Directors are provided in the Directors' Remuneration Report on pages 68 to 85.

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 2018 was 2,044 (2017: 2,139).

3. Net financing costs

Accounting Policy

Borrowing costs are expensed in the period they occur and consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

	2018 £m	2017 £m
Financing costs:		
Interest payable on bank loans and overdrafts	**(1.4)**	(1.5)
Amortised financing costs	**(0.3)**	(0.2)
Loan financing costs	**(1.7)**	(1.7)
Net IAS 19R financing costs	**(2.4)**	(2.5)
Discount unwind on provisions	**(0.1)**	(0.1)
Net financing costs	**(4.2)**	(4.3)

4. Taxation

Accounting Policy

The tax charge included in the income statement 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 using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The amount of deferred tax provided is calculated using tax rates enacted or substantively enacted at the balance sheet date.

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 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 tax balances are analysed in Note 17.

Analysis of tax charge in the year

	2018 £m	2017 £m
United Kingdom		
UK corporation tax at 19% (2017: 20%)	–	–
Overseas taxes		
Corporation taxes	1.0	2.8
Withholding taxes	0.1	0.1
Current income tax charge	1.1	2.9
Deferred tax		
UK – origination and reversal of temporary differences	0.2	(0.3)
Overseas – origination and reversal of temporary differences	–	(0.7)
Effect of changes in corporate tax rates	2.4	–
Adjustments in respect of prior periods	(0.1)	–
Total deferred tax charge/(credit)	2.5	(1.0)
Tax charge on profit on ordinary activities	3.6	1.9

	2018 £m	2017 £m
Tax on items taken to other comprehensive income		
Deferred tax on changes in net pension deficits	1.6	(2.1)
Tax charge/(credit) in the statement of other comprehensive income	1.6	(2.1)

Factors affecting the Group tax charge for the year

The US Government has enacted substantial tax reforms during the year. The impact on our US operations is to reduce the value of deferred tax assets and liabilities in relation to the reduced tax rate, and to increase the restrictions on interest deductibility which has led to the derecognition of the related deferred tax asset given the current capital structure of our US operations. Accordingly, the US deferred tax balances have been reduced by £2.4m.

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 in accordance with IAS 12.39.

Notes to the Consolidated Financial Statements

4. Taxation continued

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

	2018 £m	2017 £m
Profit on ordinary activities before tax	1.4	6.7
Theoretical tax charge at 19% (2017: 20%)	0.3	1.3
Effects of:		
Permanent differences	(0.3)	0.5
Overseas tax rate differences	0.3	–
Effect of changes in corporate tax rates	2.4	–
Adjustments in respect of prior periods	(0.1)	1.5
Movement in unrecognised deferred tax	1.0	(1.4)
Total tax charge	3.6	1.9

Effective tax rate

The effective tax rate of 225% (2017: 28%) is higher than the UK tax rate of 19% (2017: 20%) due to the following factors:

- US tax reform causing the de-recognition of deferred tax assets in respect of interest deduction restrictions and the devaluing of the net US deferred tax asset due to the change in tax rate;
- Losses in jurisdictions where, due to uncertain future profitability, deferred tax assets are not recognised;
- Permanent differences including items that are disallowed from a tax perspective such as entertaining and certain employee costs;
- Prior year adjustments arising as tax submissions are finalised and agreed in specific jurisdictions; and
- Differences in overseas tax rates, typically being higher than the rates in the UK.

Tax payments

Cash tax paid in the year of £3.8m (2017: £1.0m) is higher than the current tax charge as payments on account have commenced in Germany following the utilisation of tax losses there.

5. Earnings per share

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

	2018			2017		
	Earnings £m	Shares (thousands)	Per share amount (pence)	Earnings £m	Shares (thousands)	Per share amount (pence)
Basic EPS						
Profit attributed to ordinary shareholders	(2.2)	225,418	(1.0)	4.8	224,830	2.1
Basic EPS	(2.2)	225,418	(1.0)	4.8	224,830	2.1

5. Earnings per share continued

	2018			2017		
	Earnings £m	Shares (thousands)	Per share amount (pence)	Earnings £m	Shares (thousands)	Per share amount (pence)
Adjusted EPS						
Basic EPS	**(2.2)**	**225,418**	**(1.0)**	4.8	224,830	2.1
Effect of adjusting items, after tax:						
Restructuring costs in operating costs	**4.6**		**2.0**	2.3		1.0
Pension administration costs included in operating costs	**0.8**		**0.4**	0.6		0.3
Discount unwind on restructuring costs	**0.1**		**–**	0.1		–
Amortisation of acquired intangible assets	**0.6**		**0.3**	0.7		0.3
Impairment of goodwill	**1.7**		**0.8**	–		–
US tax reform	**2.4**		**1.0**	–		–
Net pension financing costs	**2.2**		**1.0**	2.0		0.9
Adjusted EPS	**10.2**	**225,418**	**4.5**	10.5	224,830	4.6

Inclusion of the dilutive securities, comprising 4,367,312 (2017: 3,293,000) additional shares due to share options in the calculation of basic and adjusted EPS does not change the amounts shown above (2017: 2.1p and 4.6p respectively).

The adjusted EPS numbers have been provided in order to give a useful indication of underlying performance by the exclusion of adjusting items. Due to the existence of unrecognised deferred tax assets, there was no associated tax credit on some of the adjusting items and in these instances adjusting items are added back in full.

6. Dividends

Accounting Policy

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.

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

7. Goodwill

Accounting Policy

(i) Initial recognition

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the Group's share of the identifiable net assets of the acquiree at the acquisition date. Where the cost is less than the Group's share of the identifiable net assets, the difference is immediately recognised in the income statement as a gain from a bargain purchase.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

(ii) Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investments, goodwill acquired directly is included in the carrying amount of the investment.

Notes to the Consolidated Financial Statements

7. Goodwill continued

(iii) Impairment

Goodwill is not amortised but is tested at least annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing. The cash generating units to which the goodwill has been allocated is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Any impairment charge is recognised immediately in the income statement.

	Goodwill £m
Cost	
At 1 April 2016	24.1
Exchange adjustment	3.4
Fair value adjustment arising on the acquisition of the Tooth Chain business	0.3
At 1 April 2017	27.8
Exchange adjustment	(2.8)
At 31 March 2018	**25.0**
Accumulated amortisation and impairment	
At 1 April 2016	1.4
At 1 April 2017	1.4
Impairment charge	2.1
Exchange adjustment	(0.1)
At 31 March 2018	**3.4**
Net book amount at 31 March 2018	**21.6**
Net book amount at 31 March 2017	26.4
Net book amount at 31 March 2016	22.7

The Group performed its annual impairment test of goodwill at 31 March 2018 which compares the current book value to the recoverable amount from the continued use or sale of the related business.

At 31 March 2018, before impairment testing, goodwill and associated assets of $30.2m was held in relation to Jeffrey Chain. Recent performance has been below historical levels and consequently a more detailed impairment review has been performed. Whilst there is no expectation that there should be a long-term deterioration in the future prospects of Jeffrey Chain, the Group has applied a sensitivity to the speed of recovery of Jeffrey Chain, decreasing the cash generation in the early years, but assuming greater growth in order to recover the business back to the same historic level by the end of the forecast period. Jeffrey Chain has therefore been reduced to its recoverable amount of $27.5m through recognition of an impairment loss against goodwill of $2.7m.

No impairment charge has been recognised in the period for any other CGUs.

7. Goodwill continued

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 two financial years as approved by the Board. Cash flows beyond this are extrapolated using the long-term country growth rates disclosed below:

	Growth rates		CGU discount rates		Carrying values	
	2018 %	2017 %	**2018 %**	2017 %	**2018 £m**	2017 £m
Jeffrey Chain, USA	**1.4**	1.6	**14.9**	16.2	**18.7**	23.2
Ace Chains, Australia	**2.8**	2.8	**11.6**	10.3	**0.5**	0.5
Renold Chain, India	**8.1**	8.1	**25.0**	30.1	**1.9**	2.2
Renold Tooth Chain, Germany	**1.2**	1.2	**15.5**	12.8	**0.5**	0.5
					21.6	26.4

Key assumptions used in the value in use calculations:

Sales volumes, selling prices and cost changes

The Group prepares cash flow forecasts based on the latest management estimates for the next two financial years. The expected sales prices and volumes reflect management's experience of how sales will develop at this point of the economic cycle. The expected profit margin reflects management's experience of each CGU's profitability at the forecast level of sales and incorporates the impact of any restructuring that took place during the year ended 31 March 2018.

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 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, other than for Jeffrey Chain, no reasonably possible change in any of the key assumptions would cause the recoverable amount of any CGU to fall below the relevant carrying values.

Sensitivity analysis for Jeffrey Chain impairment review

The carrying value of the goodwill in respect of Jeffrey Chain is most sensitive to the discount rate used in the calculation of the recoverable amount and the value of the free cash flow in the year used for calculation of the terminal value perpetuity. A 1% increase in the discount rate used would result in an additional impairment of $2.7m. A $0.5m reduction in the value of the free cash flow in the year used for the calculation of the terminal value perpetuity would result in an additional impairment of $3.2m.

8. Intangible assets

Accounting Policy

(i) 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 programs are recognised as an expense as incurred.

(ii) Other intangible assets

Other intangible assets, such as those identified on acquisition by the Group that have finite useful lives, are recognised at fair value and measured at cost less accumulated amortisation and impairment losses. The estimated useful lives for the Group's finite life intangible assets are between one and seven years.

Intangible assets 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.

Notes to the Consolidated Financial Statements

8. Intangible assets continued

	Customer orderbook £m	Customer lists £m	Technical know-how £m	Computer software £m	Total £m
Cost					
At 1 April 2016	0.3	3.9	0.2	13.9	18.3
Exchange adjustment	–	0.1	–	0.3	0.4
Additions	–	–	–	1.2	1.2
Disposals	–	–	–	(0.4)	(0.4)
At 1 April 2017	0.3	4.0	0.2	15.0	19.5
Exchange adjustment	–	0.2	–	(0.2)	–
Additions	–	–	–	1.4	1.4
Disposals	–	–	–	(0.3)	(0.3)
At 31 March 2018	**0.3**	**4.2**	**0.2**	**15.9**	**20.6**
Accumulated amortisation and impairment					
At 1 April 2016	–	0.2	–	7.8	8.0
Exchange adjustment	–	–	–	(0.8)	(0.8)
Amortisation charge	0.3	0.8	–	1.9	3.0
Disposals	–	–	–	(0.4)	(0.4)
At 1 April 2017	0.3	1.0	–	8.5	9.8
Exchange adjustment	–	–	–	(0.2)	(0.2)
Amortisation charge	–	0.8	0.1	2.1	3.0
Disposals	–	–	–	(0.3)	(0.3)
At 31 March 2018	**0.3**	**1.8**	**0.1**	**10.1**	**12.3**
Net book amount at 31 March 2018	**–**	**2.4**	**0.1**	**5.8**	**8.3**
Net book amount at 31 March 2017	–	3.0	0.2	6.5	9.7
Net book amount at 31 March 2016	0.3	3.7	0.2	6.1	10.3

The acquisition of the Tooth Chain business in January 2016 brought significant benefit to the Group in terms of new customers, relationships and technical 'know-how'. These benefits have been valued under IFRS 3 using estimates of useful lives and discounted cash flows of expected income. The values are being amortised as follows:

Customer orderbook

Customer orderbook is amortised when the orderbook at the date of acquisition has been fulfilled. This is now fully amortised.

Customer lists and technical know-how

Customer lists and technical know-how is being amortised over five years as the benefits are likely to crystallise over a longer period.

No brand names were acquired as part of the acquisition.

9. Property, plant and equipment

Accounting Policy

Tangible assets are stated at cost, being purchase cost plus any incidental costs of acquisition, less accumulated depreciation and impairment.

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. No depreciation has been charged on freehold land. 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.

Notes to the Consolidated Financial Statements

9. Property, plant and equipment continued

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 April 2016	21.1	110.6	131.7
Exchange adjustment	1.8	9.4	11.2
Additions	0.6	9.1	9.7
Transfer to assets held for sale (Note 10)	(0.4)	–	(0.4)
Disposals	(5.0)	(12.4)	(17.4)
At 1 April 2017	18.1	116.7	134.8
Exchange adjustment	(0.3)	(3.8)	(4.1)
Additions	2.8	5.3	8.1
Disposals	–	(4.6)	(4.6)
At 31 March 2018	**20.6**	**113.6**	**134.2**
Accumulated depreciation and impairment			
At 1 April 2016	3.7	83.6	87.3
Exchange adjustment	0.4	7.7	8.1
Transfer to assets held for sale (Note 10)	(0.1)	–	(0.1)
Charge for the year	0.3	4.6	4.9
Disposals	(0.8)	(11.8)	(12.6)
At 1 April 2017	3.5	84.1	87.6
Exchange adjustment	0.3	(2.2)	(1.9)
Charge for the year	0.3	4.9	5.2
Disposals	–	(4.4)	(4.4)
At 31 March 2018	**4.1**	**82.4**	**86.5**
Net book amount at 31 March 2018	**16.5**	**31.2**	**47.7**
Net book amount at 31 March 2017	14.6	32.6	47.2
Net book amount at 31 March 2016	17.4	27.0	44.4

Property, plant and equipment pledged as security for liabilities amounted to £34.8m (2017: £36.5m).

Future capital expenditure

At 31 March 2018 capital expenditure contracted for but not provided for in these accounts amounted to £2.7m (2017: £2.6m).

Asset held for sale

In the prior year the former HiTec Couplings manufacturing site located in Halifax, UK was classified as an asset held for sale (see Note 10).

10. Asset Held for Sale

Accounting Policy

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 and are measured at the lower of their carrying amount or fair value less costs to sell.

	2018 £m	2017 £m
At 1 April	0.3	1.0
Exchange adjustment	–	–
Disposal	(0.3)	(1.0)
Transferred from tangible fixed assets (see Note 9)	–	0.3
At 31 March	–	0.3

During the year, the HiTec Couplings' Halifax site was sold for net proceeds of £0.5m realising a gain of £0.2m.

11. Inventories

Accounting Policy

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.

	2018 £m	2017 £m
Raw materials	8.1	5.9
Work in progress	4.8	4.6
Finished products and production tooling	28.1	29.9
	41.0	40.4

Inventories pledged as security for liabilities amounted to £33.0m (2017: £32.8m).

12. Trade and other receivables

Accounting Policy

Trade and other 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.

	2018 Current £m	2017 Current £m
Trade receivables[1]	31.0	31.2
Less: impairment provision	(0.5)	(0.3)
Trade receivables: net	30.5	30.9
Other receivables[1]	3.4	2.6
Prepayments	2.5	3.3
	36.4	36.8

1. Financial assets carried at amortised 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.

Notes to the Consolidated Financial Statements

12. Trade and other receivables continued

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 (not impaired) £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
2018	**30.5**	**24.9**	**3.5**	**0.8**	**0.3**	**1.0**
2017	30.9	26.7	3.1	0.4	0.3	0.4

	2018 £m	2017 £m
Movement on impairment provision		
Opening provision	**0.3**	0.4
Net charge to income statement	**0.2**	–
Utilised in year through assets written off	**–**	(0.1)
Closing provision	**0.5**	0.3

13. Cash and cash equivalents

Accounting Policy

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.

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

	2018 £m	2017 £m
Cash and cash equivalents	**13.9**	16.4
Less: Overdrafts (Note 14)	**(1.6)**	(1.0)
Net cash and cash equivalents	**12.3**	15.4

14. Borrowings

	2018 £m	2017 £m
Amounts falling due within one year:		
Overdrafts	**1.6**	1.0
Capitalised costs	**(0.3)**	(0.2)
	1.3	0.8
Amounts falling due after more than one year:		
Bank loans	**36.7**	32.9
Capitalised costs	**(0.3)**	(0.4)
Preference stock	**0.5**	0.5
	36.9	33.0
Total borrowings (Note 25(d))	**38.2**	33.8

All financial liabilities above are carried at amortised cost.

14. Borrowings continued

Core banking facilities

On 13 May 2015 the Group renewed its banking facilities with its existing banking partners, Svenska Handelsbanken AB and Lloyds Bank plc. This facility replicated the previous £41m Multi-Currency Revolving Facility and introduced a £20m accordion feature. During the year, the accordion was exercised with HSBC joining the facility, increasing the facility size to £61.5m. The facility matures in May 2020 and is fully committed and available until maturity.

At the year end the undrawn core banking facility was £23.0m (2017: £5.3m). 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 1.94% for the Sterling denominated facility and LIBOR plus 1.84% for the Euro and US Dollar denominated facility (2017: LIBOR plus 1.91% for the Sterling denominated facility and LIBOR plus 1.82% for the Euro and US Dollar denominated facility). 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 totalling £2.0m (2017: £2.2m) with availability at year end of £1.8m.

Secured borrowings

Included in Group borrowings are secured borrowings of £36.1m (2017: £32.3m). Security is provided by fixed and floating charges over assets (including certain property, plant and equipment and inventory) primarily in the UK, USA, France, Germany and Australia. Certain Group companies have provided cross-guarantees in respect of these borrowings.

Finance leases

The Group has no obligations under finance leases.

Preference Stock

At 31 March 2018, there were 580,482 units of Preference Stock in issue (2017: 580,482).

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

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

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

15. Trade and other payables

	2018 Current £m	**2018 Non-current £m**	2017 Current £m	2017 Non-current £m
Trade payables[1]	**20.7**	**–**	23.6	–
Other tax and social security	**1.9**	**–**	2.1	–
Other payables[1]	**0.9**	**–**	1.9	–
Accruals[1]	**16.1**	**0.3**	14.3	0.3
	39.6	**0.3**	41.9	0.3

1. Financial assets 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.

Notes to the Consolidated Financial Statements

16. Provisions

Accounting Policy

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, e.g. 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.

	Business restructuring £m	Onerous lease £m	Contingent consideration £m	Total provisions £m
At 1 April 2017	1.4	4.8	1.5	7.7
Exchange	–	(0.1)	–	(0.1)
Arising during the year	3.0	–	(0.1)	2.9
Utilised in the year	(1.2)	(0.8)	(0.7)	(2.7)
Discount unwind on provision	–	0.1	–	0.1
At 31 March 2018	**3.2**	**4.0**	**0.7**	**7.9**

Allocated as:	**2018 £m**	2017 £m
Current provisions	**4.6**	3.6
Non-current provisions	**3.3**	4.1
	7.9	7.7

Business restructuring

At 31 March 2017, a provision was held against costs associated with the planned closure of the Chinese Torque Transmission facility and costs associated with the final stages of the relocation of the UK HiTec Couplings operations to our existing Cardiff site.

At 31 March 2018, a provision of £3.1m has been made against costs to be incurred as part of the closure and relocation of our Chinese Chain manufacturing facility. See Note 2(c) on adjusting items and restructuring costs for more details.

Restructuring provisions are expected to be utilised within 12 months.

Onerous lease

This provision relates to onerous lease costs in respect of the lease of the Bredbury plant in the UK and the Mulgrave facility in Australia. The Bredbury lease expires in May 2030. In August 2016, it was agreed to sublet a significant part of the property for a five year term for an annual rent of £0.6m. £0.2m of the provision was utilised in the year (2017: £0.9m) leaving a provision of £3.0m in respect of this lease (2017: £3.2m).

In addition, as part of the sale agreement of the Mulgrave facility in Australia completed in March 2017, it was agreed that the business could remain in the property for a maximum of three additional years for an annual rent of £0.5m. This lease was deemed to be onerous and as a result a provision was established in relation to the total lease cost of £1.6m. Costs of £0.5m were incurred in the year along with exchange £0.1m, resulting in a provision at 31 March 2018 of £1.0m.

Contingent consideration

Renold (Hangzhou) Co Limited, China

A provision of £0.7m (2017: £0.8m) 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. This payment is expected to be settled as part of the programme to relocate the Chinese Chain manufacturing facility within 12 months.

Renold Tooth Chain, Germany

A provision of £1.1m was established on the acquisition of the Tooth Chain business in January 2016 against the expected future value of contingent consideration. The contingent consideration was paid in the year ended 31 March 2018 following achievement of the sales targets.

17. Deferred tax

Accounting Policy

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 within the foreseeable future (assessed to be 3 years). 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 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.

	Assets		Liabilities		Net	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Accelerated capital allowances	**–**	–	**(1.5)**	(0.3)	**(1.5)**	(0.3)
Pension plans	**15.7**	17.2	**–**	–	**15.7**	17.2
Tax losses	**2.9**	5.3	**–**	–	**2.9**	5.3
Other temporary differences	**2.0**	(1.6)	**(2.7)**	–	**(0.7)**	(1.6)
Tax assets/(liabilities)	**20.6**	20.9	**(4.2)**	(0.3)	**16.4**	20.6
Net off (liabilities)/assets	**–**	(0.3)	**–**	0.3	**–**	–
Net deferred tax assets	**20.6**	20.6	**(4.2)**	–	**16.4**	20.6

The net deferred tax asset recoverable within one year is £1.0m (2017: £1.3m) and recoverable after more than one year is £15.4m (2017: £19.3m).

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

2018	**Opening balance £m**	**Exchange adjustments £m**	**Recognised in income statement £m**	**Recognised directly in other comprehensive income £m**	**Closing balance £m**
Accelerated capital allowances	**(2.7)**	**0.2**	**1.0**	**–**	**(1.5)**
Pension plans	**17.2**	**–**	**–**	**(1.5)**	**15.7**
Tax losses	**5.3**	**(0.4)**	**(2.0)**	**–**	**2.9**
Other temporary differences	**0.8**	**0.1**	**(1.5)**	**(0.1)**	**(0.7)**
	20.6	**(0.1)**	**(2.5)**	**(1.6)**	**16.4**

2017	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
Accelerated capital allowances	(2.1)	(0.3)	(0.3)	–	(2.7)
Pension plans	14.8	0.5	(0.2)	2.1	17.2
Tax losses	6.0	0.8	(1.5)	–	5.3
Other temporary differences	(2.0)	(0.2)	3.0	–	0.8
	16.7	0.8	1.0	2.1	20.6

During the year the Group has reported an adjusted operating profit of £14.2m (2017: £14.5m). 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 £24.3m (2017: £20.5m) arising from unrecognised losses of £15.4m (2017: £15.0m) (representing gross losses of £52.3m (2017: £49.6m)) and other temporary differences of £8.9m (2017: £5.5m). 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

18. Pensions

Accounting Policy

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 the income statement as a normal operating cost. Administration costs, including the Pensions Protection Levy, are charged to operating costs. However, plan asset management costs are included in the actual return on plan assets.

Remeasurement gains and losses, comprising 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. Actuarial gains and losses arise when actual results differ from the assessment outcomes which are used to calculate defined benefit assets and liabilities at a particular point in time.

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 is in surplus, the asset recognised is limited to the value of any amount expected to be recoverable by the Group by way of refunds or reduction in future contributions.

Under the Group's UK pension scheme rules, any 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.

Background information

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 usually required to agree a deficit recovery plan which can vary from country to country. This is usually a combination 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 and can also include an allowance for future asset returns. In the case of a surplus, mechanisms are available in all of the Renold schemes to return that surplus to, or utilise it for the benefit of, the Group. Mechanisms are available in all of the Renold schemes to return that surplus to, or utilise it for the benefit of, the Group.

18. Pensions continued

UK Pension Plans

The principal UK fund is the Renold Pension Scheme (RPS). The RPS was formed in June 2013 by the merger of three predecessor plans, all of which were already closed to future accrual and to new members. The RPS is a funded defined benefit plan with assets held in separate administered funds.

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 conflicts of interests, no Directors of Renold plc are Trustees of the RPS.

The RPS is underpinned by a 25 year asset backed partnership structure (the Scottish Limited Partnership '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 plc except in the event of a corporate insolvency of the pension scheme sponsor (Renold plc). The income rights in the SLP belong to the RPS. The loan generates interest income that provided an annual cash contribution of £2.9m to the pension fund in the current year, 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 the excess, if any arises). In the event that the RPS becomes fully funded on a buyout basis, the income stream will instead accrue to Renold plc. The SLP was put in place with the expectation that the period to recover the funding shortfall was 25 years from the time of merger in June 2013. 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 RPS is not reported as a plan asset in the Group's consolidated financial statements as it is a non-transferable interest issued by the Group.

This arrangement replaced all other existing funding arrangements for the RPS. The SLP therefore represents the entirety of the committed cash element of the funding plan for the RPS. 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). Separately to the SLP but put in place at the same time, the Group has also agreed that if adjusted operating profits reach £16.0m in any year following the year ended 31 March 2018, additional annual contributions of £1.0m will become payable (monthly in arrears) while profits remain above this level. Prior to the SLP, the contributions had been at a higher level. However, the Trustees agreed to lower contributions for longer under the SLP. The £1.0m increase matches the approximate £1.0m reduction agreed when the SLP was established. Finally, as part of the overall agreement, Renold plc is not constrained from paying a dividend, other than by normal legal considerations. Renold has agreed to make additional contributions equal to 25% of the value of any dividend paid in order to accelerate the deficit recovery plan. The deficit will be reduced as the cash contributions under the scheme are made, enhanced or offset by actual performance compared to asset returns and actuarial assumptions.

Following the implementation of the two medically underwritten insured buy-ins that fully de-risked approximately 25% of current pensioner liabilities implemented in the year ended 31 March 2017 the growth assets of the RPS represented over 90% of the remaining invested assets of the scheme. Following a review in the prior year, a revised investment strategy has been adopted by the Trustees (with the agreement of the Company) which will redress the balance to circa 67% growth assets and 33% protection assets whilst further diversifying the risk with the introduction of multi-asset credit (MAC) and liability driven investments (LDI) to the portfolio.

Total cash costs for UK deficit repair payments and UK administrative expenses in the period were £3.3m (2017: £3.7m). The current year figure includes the £2.9m noted above in connection with the SLP, and a further £0.4m in respect of the costs of other pension projects that were carried out or initiated during the year.

The latest triennial actuarial valuation of the RPS, with an effective date of 5 April 2016, was recently agreed. This process concluded that contributions to the scheme should continue unchanged and no additional contributions in excess of the previously agreed asset backed funding structure were deemed necessary. The next triennial valuation date will be 5 April 2019.

Overseas Pension Plans

Germany

In Germany, in addition to participating in the state backed pension scheme, the Group operates an unfunded defined benefit scheme (no other Group company operates such a scheme). 'Unfunded' means that the scheme has no asset backing to pay benefits and instead the Group pays member benefits as they fall due. The scheme closed to new members on 1 April 1992. A German court confirmed that the pension scheme was properly closed to future accrual with effect from 31 March 2014. Following the acquisition of the Tooth Chain business in the year, the unfunded defined benefit scheme operated by that business transferred to our German subsidiary. The IAS 19R liability at the acquisition date was £0.4m.

In aggregate, the two (2017: two) German pension schemes have a net liability of £24.9m (2017: £25.5m). The change in the net deficit is due to contributions made by the employer to the scheme, off-set by the adverse impact of the change in the Euro foreign exchange rate.

Notes to the Consolidated Financial Statements

18. Pensions continued

United States of America

In the US the Group operates three defined benefit pension schemes in the US Torque Transmission business. In 2015, one of the three schemes was formally terminated and members benefits secured in full. The remaining two schemes are closed to new members and one is also closed to future accrual. Only the hourly paid scheme remains open to future accrual. Funds that had been earmarked for the terminated scheme are now being used to accelerate making good the deficit in the second fully closed US scheme with a similar intention to terminate and secure member benefits in the next two years. The US Chain business operates a defined contribution scheme.

In aggregate, the two (2017: two) defined benefit schemes in the US have combined assets of £10.4m (2017: £11.2m) and liabilities of £12.9m (2017: £15.0m), giving a net deficit of £2.5m (2017: £3.8m). The change in the net deficit was due to contributions to the scheme combined with the beneficial impact of the change in the US Dollar foreign exchange rate.

Other overseas schemes

In aggregate the other overseas defined benefit schemes have combined assets of £2.7m (2017: £2.4m) and liabilities of £3.1m (2017: £3.0m) giving a net deficit of £0.4m (2017: net deficit of £0.6m).

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.

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 durations for the UK pension scheme is 15 years (2017: 15 years) and 14 years (2017: 14 years) for the German schemes. They can therefore be regarded as mature schemes.

Significant assumptions

The principal financial assumptions used to calculate plan liabilities as at 31 March 2018 are presented below. The assumptions adopted 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. The present values of the plans' liabilities are derived from cash flow projections over long periods and are thus inherently uncertain.

	UK		Germany		Other Overseas	
	2018	2017	**2018**	2017	**2018**	2017
Rate of increase in pensionable salaries[1]	**–**	–	**–**	–	**2.0%**	2.2%
Rate of increase in pensions in payment and deferred pensions	**1.9%**	1.9%	**1.5%**	1.5%	**–**	–
Discount rate	**2.6%**	2.5%	**2.0%**	1.9%	**3.8%**	3.7%
Inflation assumption[2]	**2.2%**	2.2%	**1.5%**	1.5%	**2.0%**	2.2%

1. No increase applies following the closure of the UK defined benefit pension schemes to future accrual and in Germany from 2016 onwards.

2. The inflation assumption used for UK schemes is a blend of RPI and CPI.

The predominant defined benefit obligation for funded plans within the Group resides in the UK (£210.3m of the £226.1m 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 RPS members on retirement at age 65 is as follows:

	2018	2017
Males		
Currently aged 45	**21.5**	21.2
Currently aged 65	**20.4**	20.3
Females		
Currently aged 45	**23.6**	23.4
Currently aged 65	**22.3**	22.3

18. Pensions continued

The post-retirement mortality tables used for the UK plan are the S2PA series tables published by the UK actuarial profession with a 20% uplift in mortality reflecting scheme specific experience. Historically, the RPS experiences mortality in excess of the national average. The mortality rates for the RPS are based on average year of birth for both non-pensioners and pensioners with an allowance for future annual improvements in life expectancy.

In Germany, the mortality expectations for the scheme are in line with the local national averages as is the case in the United States.

Sensitivity analysis on UK scheme:

Assumption	Change in assumption	Impact on plan liabilities
Discount rate	Increase/decrease by 0.5%	Decrease by £14.7m/increase by £16.5m
Rate of inflation	Increase/decrease by 0.5%	Increase by £9.3m/decrease by £10.3m
Rate of mortality	Increase/decrease by 1 year[1]	Increase by £10.1m/decrease by £10.4m

1. This is broadly equivalent to an increase in life expectancy of one year at age 65.

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 fair values of plan assets were:

	2018			2017		
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Medically underwritten insurance policies	**44.2**	**–**	**44.2**	47.5	–	47.5
Quoted equities	**45.1**	**6.6**	**51.7**	52.3	6.9	59.2
Hedge funds and diversified growth funds	**15.4**	**–**	**15.4**	29.1	–	29.1
Corporate bonds	**9.4**	**0.1**	**9.5**	2.1	3.1	5.2
Gilts and liability driven investments	**24.7**	**4.3**	**29.0**	4.8	2.1	6.9
Other	**1.9**	**2.1**	**4.0**	10.6	2.1	12.7
Total market value of assets	**140.7**	**13.1**	**153.8**	146.4	14.2	160.6

The medically underwritten insurance policies are shown at a value that exactly matches the estimated associated insured liabilities. Equities are investments in quoted equities only. Hedge funds and diversified growth funds hold a range of assets which aim to deliver returns above those of bonds but at lower volatility than equities. The assets held materially reflect 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.

Liability Driven Investments (LDI) are a portfolio of assets that are linked to the drivers of movements in pension liabilities such as inflation and interest rates. These are assets designed to deliver geared movements in the underlying liabilities as they reflect changes to inflation and interest rates.

Notes to the Consolidated Financial Statements

18. Pensions continued

Pension obligations

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

	2018 UK £m	2018 Overseas £m	2018 Total £m	2017 UK £m	2017 Overseas £m	2017 Total £m
Opening obligation	(218.4)	(44.2)	(262.6)	(191.3)	(40.7)	(232.0)
Current service cost	–	(0.2)	(0.2)	–	(0.3)	(0.3)
Interest expense	(5.2)	(1.1)	(6.3)	(6.5)	(1.1)	(7.6)
Remeasurement gains/(losses) by changes in:						
– Experience	–	0.9	0.9	2.7	0.3	3.0
– Demographic assumptions	(2.2)	0.1	(2.1)	2.7	–	2.7
– Financial assumptions and expenses	3.0	0.1	3.1	(35.8)	(0.2)	(36.0)
Benefits paid	12.5	2.3	14.8	9.8	2.1	11.9
Exchange adjustment	–	1.2	1.2	–	(4.3)	(4.3)
Closing obligation	(210.3)	(40.9)	(251.2)	(218.4)	(44.2)	(262.6)
The total defined benefit obligation can be analysed as follows:						
Funded pension plans	(210.3)	(15.8)	(226.1)	(218.4)	(18.0)	(236.4)
Unfunded pension plans	–	(25.1)	(25.1)	–	(26.2)	(26.2)
	(210.3)	(40.9)	(251.2)	(218.4)	(44.2)	(262.6)

The UK liabilities above include £44.2m that are fully insured (2017: £47.5m).

Pension assets

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

	2018 UK £m	2018 Overseas £m	2018 Total £m	2017 UK £m	2017 Overseas £m	2017 Total £m
Opening assets	146.4	14.2	160.6	137.7	11.4	149.1
Interest income	3.5	0.5	4.0	4.7	0.4	5.1
Remeasurement gains/(losses)	0.4	0.5	0.9	10.6	0.7	11.3
Employer contributions	2.9	0.4	3.3	3.2	0.9	4.1
Benefits paid	(12.5)	(1.0)	(13.5)	(9.8)	(0.9)	(10.7)
Exchange adjustment	–	(1.5)	(1.5)	–	1.7	1.7
Closing assets	140.7	13.1	153.8	146.4	14.2	160.6
Balance sheet reconciliation:						
Plan obligations	(210.3)	(40.9)	(251.2)	(218.4)	(44.2)	(262.6)
Plan assets	140.7	13.1	153.8	146.4	14.2	160.6
Net plan deficit	(69.6)	(27.8)	(97.4)	(72.0)	(30.0)	(102.0)

18. Pensions continued

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

	2018			2017		
Remeasurement gains/(losses)	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
On plan obligations	**0.8**	**1.1**	**1.9**	(30.4)	0.1	(30.3)
On plan assets	**0.4**	**0.5**	**0.9**	10.6	0.7	11.3
Net gains/(losses)	**1.2**	**1.6**	**2.8**	(19.8)	0.8	(19.0)

The actual return on plan assets was a gain of £4.9m (2017: gain £16.4m) which equates to 3.2% (2017: 10.2%) of plan assets.

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

	2018 £m	2017 £m
Operating costs		
Pension administration costs	**(0.9)**	(0.7)
Current service cost	**(0.2)**	(0.3)
	(1.1)	(1.0)

19. Called up share capital

	Issued	
	2018 £m	2017 £m
Ordinary shares of 5p each	**11.3**	11.3
Deferred shares of 20p each	**–**	15.4
	11.3	26.7

At 31 March 2018, the issued ordinary share capital comprised 225,417,740 ordinary shares of 5p each (2017: 225,417,740). During the year, the 77,064,703 deferred shares of 20p each were cancelled, in accordance with the terms of those shares and as approved at the 2017 AGM. The balance has been transferred to a non-distributable Capital Reserve.

	Issued	
	2018 £m	2017 £m
Preference stock of £1 each	**0.5**	0.5
	0.5	0.5

Notes to the Consolidated Financial Statements

20. Share-based payments

Accounting Policy

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.

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

	2018 Executive share option scheme		2017 Executive share option scheme			
Grant date	**05.06.17***	**05.06.17***	16.01.17	21.07.16*	21.07.16*	05.06.16
Share price at date of grant	**54.79p**	**54.79p**	50.21p	36.50p	36.50p	40.12p
Exercise price	**0.0p**	**0.0p**	0.0p	0.0p	0.0p	0.0p
Number of employees	**26**	**1**	1	1	1	24
Shares under option	**2,279,491**	**547,545**	368,465	821,918	821,918	2,395,947
Vesting period (years)	**3**	**3**	3	3	3	3
Expected volatility	**66%**	**66%**	39%	43%	43%	43%
Option life (years)	**10**	**10**	10	10	10	10
Expected life (years)	**6**	**6**	6	6	6	6
Risk free interest rate	**1.0%**	**1.0%**	1.0%	1.0%	1.0%	1.0%
Assumed dividends expressed as a dividend yield	**Zero**	**Zero**	Zero	Zero	Zero	Zero
Fair value per option	**54.79p**	**19.81p**	50.21p	36.50p	11.24p	40.12p

* Single grants to the Chief Executive Officer were made on 21 July 2016 and 05 June 2017. Half of the options are subject to market conditions and half to non-market conditions so the two parts of the award have been shown separately due to differing fair values.

20. Share-based payments continued

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 2018 is shown below:

Executive share option schemes

	2018		2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	**10,273,923**	**3.4p**	8,638,911	8.6p
Granted	**2,827,036**	**0.0p**	4,408,248	0.0p
Exercised	**–**	**–**	(1,992,926)	13.5p
Expired	**(1,279,762)**	**0.0p**	–	–
Lapsed	**–**	**–**	(111,534)	71.3p
Forfeited	**(687,447)**	**0.0p**	(668,776)	6.4p
Outstanding at 31 March	**11,133,750**	**3.1p**	10,273,923	3.4p
Exercisable at 31 March	**3,247,096**	**10.7p**	3,247,096	10.7p

	2018				2017			
			Weighted average remaining life				Weighted average remaining life	
Range of exercise prices	Weighted average exercise price	Number of shares	Expected	Contractual	Weighted average exercise price	Number of shares	Expected	Contractual
Nil	**–**	**9,864,048**	**6.8**	**2.8**	–	9,004,221	8.2	4.2
20p to 30p	**26.2p**	**1,145,038**	**4.8**	**0.8**	26.2p	1,145,038	5.8	1.8
30p to 40p	**37.3p**	**124,664**	**3.2**	**–**	37.3p	124,664	4.2	0.2
40p to 100p	**–**	**–**	**–**	**–**	–	–	–	–

No options have been exercised in the period (2017: 1,992,926). The total credit/(charge) for the year relating to employee share-based payment plans was £0.2m credit (2017: £0.2m charge), all of which related to equity settled share-based transactions.

The middle market price of ordinary shares at 31 March 2018 was 29.00p and the range of prices during the year was 27.70p to 64.00p.

Details of the share-based payment arrangements for Executive Directors are provided in the Directors' Remuneration Report on pages 68 to 85. At 31 March 2018, unexercised options for ordinary shares amounted to 11,133,750 (2017: 10,273,923).

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.

The capital redemption reserve represents the nominal value of the deferred shares repurchased and cancelled during the year ended 31 March 2018. The reserve is not distributable.

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 2018 amounted to £3.5m (2017: £3.5m).

Included in retained earnings is an amount of £3.6m (net of tax) (2017: £3.5m) 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.

Notes to the Consolidated Financial Statements

22. Operating lease obligations

Accounting Policy

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.

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:

	2018		2017	
	Properties £m	Equipment £m	Properties £m	Equipment £m
Within one year	2.6	1.1	2.8	1.0
Between two and five years	5.7	2.7	8.3	2.5
Over five years	8.2	–	10.2	–
	16.5	3.8	21.3	3.5

Certain of the leased properties have been sublet and the future minimum sublease payments expected to be received under non-cancellable sublease agreements is £1.7m (2017: £5.0m).

An onerous lease provision of £3.0m (2017: £3.2m) (see Note 16) was established in 2014 following the closure of the Bredbury manufacturing facility. The lease expires in May 2030 at a rental cost of £0.8m per annum and is included in the analysis above. A significant proportion of this site is now sublet for a term of five years for a rent of £0.5m per annum.

An additional onerous lease provision of £1.6m was established in the prior year following the sale of the Mulgrave manufacturing facility. The lease expires in March 2020 at a cost of £0.6m per annum.

23. Contingent liabilities and commitments

Performance guarantees given to third parties in respect of Group companies were £nil (2017: £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 employer's defaulted on the agreed deficit repair plan. As one of the sponsoring employer's 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:

	2018 £m	2017 £m
Cash generated from operations:		
Operating profit	5.6	11.0
Depreciation and amortisation	8.2	7.9
Impairment of goodwill	2.1	–
Loss on disposals of plant and equipment	–	0.3
Restructuring gain on sale of Australian property	–	(2.9)
Equity share plans	–	0.2
Increase in inventories	(2.6)	(0.4)
Increase in receivables	(1.1)	(3.4)
Increase in payables	1.1	1.3
Decrease in provisions	1.0	(0.5)
Movement on pension plans	(4.4)	(5.1)
Cash generated from operations	9.9	8.4

24. Additional cash flow information continued

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

	2018 £m	2017 £m
(Decrease)/increase in cash and cash equivalents	(2.6)	2.2
Change in net debt resulting from cash flows	(3.8)	4.5
Foreign currency translation differences	(0.5)	(0.4)
Non-cash movement – refinancing cost capitalised	0.3	–
Non-cash movement – amortisation of refinancing costs	(0.3)	(0.2)
Change in net debt during the period	(6.9)	6.1
Net debt at start of year	(17.4)	(23.5)
Net debt at end of year	**(24.3)**	(17.4)
Net debt comprises:		
Cash and cash equivalents (Note 13)	13.9	16.4
Total borrowings (Note 14)	(38.2)	(33.8)
	(24.3)	(17.4)

25. Financial instruments

Accounting Policy

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are 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.

25. Financial instruments continued

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

(b) Hedges of a net investment

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

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

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.

These notes should be read in conjunction with the narrative disclosures in the Finance Director's Review on pages 24 to 29.

Foreign currency risk and sensitivity

As a result of the significant operations in the US, Europe and China, the Group's balance sheet can be affected significantly by movements in the US Dollar/Sterling, Euro/Sterling, US Dollar/Euro and Chinese Renminbi/Sterling exchange rates.

The following table demonstrates the impact of reasonably possible changes in the US Dollar against Sterling (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 increase in the value of Sterling compared to US Dollar):

	Increase/ (decrease) in US$ rate	Effect on profit before tax £m	Effect on shareholders' equity £m
2018	**25%**	**–**	**1.2**
	(10%)	**–**	**(0.7)**
2017	25%	–	2.0
	(10%)	–	(1.1)

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	**2018 Effect on profit before tax £m**	2017 Effect on profit before tax £m
Sterling	+150	**(0.4)**	(0.3)
US Dollar	+150	**(0.1)**	(0.1)
Euro	+150	**(0.1)**	(0.1)
		(0.6)	(0.5)

25. Financial instruments continued

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

	2018 £m	2017 £m
Current assets:		
Forward foreign currency contracts: cash flow hedge	0.4	–
Current liabilities:		
Forward foreign currency contracts: cash flow hedge	–	(0.1)

The cash flow hedges of the expected future transactions in US Dollars and Euros in the prior year were assessed to be highly effective. In the period £nil (2017: £nil) was transferred to operating costs in the income statement.

(b) Short-term receivables and payables

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

(c) Hedge of net investment in foreign entity

The Group has US Dollar denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in the US. The carrying value of the US Dollar borrowings at 31 March 2018 was £6.2m (2017: £6.9m). £0.7m of exchange gain (2017: £0.9m 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

	2018			2017		
Currency	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Sterling						
– Financial liabilities	–	25.6	25.6	–	21.2	21.2
– Preference Stock	0.5	–	0.5	0.5	–	0.5
US Dollar	–	7.2	7.2	–	6.9	6.9
Euro	–	4.3	4.3	–	4.2	4.2
Other	–	0.6	0.6	–	1.0	1.0
	0.5	37.7	38.2	0.5	33.3	33.8

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.

Notes to the Consolidated Financial Statements

25. Financial instruments continued

(e) Currency and interest rate profile of financial assets at 31 March 2018

Cash at bank and in hand by currency	2018 £m	2017 £m
Sterling	0.9	4.6
Euro	6.4	8.4
US Dollar	1.3	(0.8)
Other	5.3	4.2
	13.9	16.4

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

(f) Maturity of financial liabilities

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

2018	One year or less on demand £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Interest bearing loans and borrowings	–	–	37.7	–	37.7
Interest paid on borrowings	1.8	–	–	–	1.8
Trade payables, other payables and accruals	39.6	–	–	0.3	39.9
Provisions – contingent consideration	0.7	–	–	–	0.7
Forward foreign exchange contracts – outflow	11.8	–	–	–	11.8
Preference Stock[1]	–	–	–	0.5	0.5
	53.9	–	37.7	0.8	92.4

1. No fixed repayment date.

2017	One year or less on demand £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Interest bearing loans and borrowings	–	–	33.3	–	33.3
Interest paid on borrowings	1.7	–	–	–	1.7
Trade payables, other payables and accruals	39.8	–	–	0.3	40.1
Provisions – contingent consideration	1.5	–	–	–	1.5
Forward foreign exchange contracts – outflow	2.9	–	–	–	2.9
Preference Stock[1]	–	–	–	0.5	0.5
	45.9	–	33.3	0.8	80.0

1. No fixed repayment date.

The Group has contracted forward contracts consisting of Euro forward contracts of £nil (2017: £nil), Chinese Renminbi of £4.0m (2017: £nil), US Dollar forward contracts of £nil (2017: £2.9m) and US Dollar/Euro forward contracts of £7.8m (2017: £nil). The US Dollar contracts are sell contracts, given that the UK Group tends to have a surplus in US Dollars and a deficit in Euros. The Chinese Renminbi contracts are to meet the short-term cash requirements for the construction of the new Chinese chain manufacturing facility. The US Dollar/Euro contracts cover the intra-group purchases in Euros by our US operations.

25. Financial instruments continued

(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:

	2018 £m	2017 £m
Expiring within one year or less, or on demand	1.8	1.9
Expiring between one and two years	–	–
Expiring between two and five years	23.0	5.3
	24.8	7.2

The facilities expiring in one year or less, or on demand, are primarily annual facilities subject to review at various dates during the year ended 31 March 2018.

(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	
	2018 £m	2017 £m	2018 £m	2017 £m
Financial assets – cash	13.9	16.4	13.9	16.4
Financial liabilities – floating rate bank overdraft	(1.3)	(1.0)	(1.3)	(1.0)
Interest bearing loans and borrowings				
Floating rate borrowing	(37.7)	(32.3)	(37.7)	(32.3)
Preference Stock	(0.5)	(0.5)	(0.5)	(0.5)

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

With reference to the fair value hierarchy opposite, 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.

25. Financial instruments continued

As at 31 March 2018, the Group held the following financial instruments measured at fair value:

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Assets measured at fair value				
Forward foreign currency contracts: cash flow hedge	**0.4**	**–**	**0.4**	**–**

As at 31 March 2017:

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

The fair value of derivatives has been calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

(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 2018 and 31 March 2017.

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.

	2018 £m	2017 £m
Net debt (Note 24)	**24.3**	17.4
Total capital	**(0.9)**	5.1
Capital and net debt	**23.4**	22.5
Gearing ratio	**104%**	77%
Adjusted EBITDA[1] (£m)	**21.5**	21.3
Net debt to adjusted EBITDA	**1.1 times**	0.82 times

1. Adjusted EBITDA is calculated as adjusted operating profit adding back depreciation and amortisation charges in the period.

26. Post balance sheet events

There were no significant post balance sheet events to report.

Group Five Year Financial Review

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Group revenue	**191.6**	183.4	165.2	181.4	184.0
Adjusted operating profit	**14.2**	14.5	14.2	15.5	11.1
Operating profit/(loss)	**5.6**	11.0	11.1	12.1	(1.3)
Profit/(loss) before tax	**1.4**	6.7	7.4	7.7	(5.9)
Taxation	**(3.6)**	(1.9)	(2.0)	(2.1)	(4.8)
Profit/(loss) for the year	**(2.2)**	4.8	5.4	5.6	(10.7)
Net assets employed					
Tangible and intangible fixed assets	**56.0**	56.9	54.7	45.8	46.7
Working capital and other net assets	**37.9**	35.2	31.2	30.0	32.0
Operating assets	**93.9**	92.1	85.9	75.8	78.7
Goodwill	**21.6**	26.4	22.7	21.9	19.8
Net debt	**(24.3)**	(17.4)	(23.5)	(19.5)	(24.8)
Deferred and current taxation	**15.2**	16.4	14.5	15.5	12.8
Provisions	**(7.9)**	(7.7)	(6.2)	(6.4)	(7.7)
Net assets excluding pension obligations	**98.5**	109.8	93.4	87.3	78.8
Pension obligations	**(97.4)**	(102.0)	(82.9)	(75.7)	(64.9)
Total net assets	**1.1**	7.8	10.5	11.6	13.9
Other data and ratios					
Return on capital employed (%)[1]	**12.4**	12.6	13.7	15.6	11.1
Return on sales (%)[2]	**7.4**	7.9	8.6	8.5	6.0
Capital expenditure (£m)	**9.5**	10.9	8.8	6.6	7.1
Basic earnings/(loss) per share (p)	**(1.0)**	2.1	2.4	2.5	(4.9)
Employees at year end	**2,044**	2,139	2,187	2,243	2,208

1. Being adjusted operating profit divided by average operating assets and goodwill.
2. Based on adjusted operating profit divided by revenue.

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.

Basis of accounting

The Parent Company financial statements of Renold plc meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100). The financial statements have therefore been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework (FRS 101)'.

In these financial statements, the Company has applied the exemptions available under FRS 101 in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted and significant accounting judgement, estimates and assumptions are the same as those set out in the notes to the consolidated financial statements.

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own statement of comprehensive income (including the profit and loss account).

Company Balance Sheet

as at 31 March 2018

	Note	2018 £m	2017 £m
ASSETS			
Non-current assets			
Intangible assets	i	**5.4**	6.0
Property, plant and equipment	ii	**0.3**	0.3
Investments in subsidiary undertakings	iii	**157.6**	144.4
Trade and other receivables	v	**9.4**	9.9
Deferred tax assets	iv	**3.0**	3.1
		175.7	163.7
Current assets			
Trade and other receivables	v	**4.5**	4.4
Cash and cash equivalents		**0.1**	8.2
		4.6	12.6
TOTAL ASSETS		**180.3**	176.3
LIABILITIES			
Creditors: amounts falling due within one year			
Trade and other payables	vi	**(4.9)**	(4.2)
Borrowings	viii	**(2.3)**	–
Derivative financial instruments	vii	**–**	(0.1)
		(7.2)	(4.3)
NET CURRENT (LIABILITIES)/ASSETS		**(2.6)**	8.3
Creditors: amounts falling due after more than one year			
Trade and other payables	vi	**(62.5)**	(62.5)
Borrowings	viii	**(20.9)**	(17.1)
Preference stock	viii	**(0.5)**	(0.5)
Retirement benefit obligations	ix	**(17.4)**	(18.0)
		(101.3)	(98.1)
TOTAL LIABILITIES		**(108.5)**	(102.4)
NET ASSETS		**71.8**	73.9
Capital and reserves			
Issued share capital	x	**11.3**	26.7
Share premium account		**30.1**	30.1
Capital redemption reserve		**15.4**	–
Currency translation reserve		**5.2**	8.6
Retained earnings		**9.8**	8.5
SHAREHOLDERS' FUNDS		**71.8**	73.9

The Company's profit for the year ended 31 March 2018 was £1.3m (2017: £2.1m).

Approved by the Board on 29 May 2018 and signed on its behalf by:

Robert Purcell
CHIEF EXECUTIVE

Ian Scapens
FINANCE DIRECTOR

Company Statement of Changes in Equity

for the year ended 31 March 2018

	Share capital £m Note x	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Currency translation reserve £m	Total equity £m
At 31 March 2016	26.6	29.9	–	10.6	2.3	69.4
Profit for the year	–	–	–	2.1	–	2.1
Other comprehensive income/(expense)	–	–	–	(4.4)	6.3	1.9
Total comprehensive income/(expense) for the year	–	–	–	(2.3)	6.3	4.0
Proceeds from share issue	0.1	0.2	–	–	–	0.3
Employee share options:						
– value of employee services	–	–	–	0.2	–	0.2
At 31 March 2017	26.7	30.1	–	8.5	8.6	73.9
Profit for the year	–	–	–	1.3	–	1.3
Other comprehensive income/(expense)	–	–	–	0.2	(3.4)	(3.2)
Total comprehensive income/(expense) for the year	–	–	–	1.5	(3.4)	(1.9)
Capital redemption	(15.4)	–	15.4	–	–	–
Employee share options:						
– value of employee services	–	–	–	(0.2)	–	(0.2)
At 31 March 2018	**11.3**	**30.1**	**15.4**	**9.8**	**5.2**	**71.8**

All attributable to the equity shareholders of the Company.

Notes to the Company Financial Statements

(i) Intangible assets – software

	Total £m
Cost	
At beginning of year	12.1
Additions at cost	1.2
Disposals	(0.1)
At end of year	**13.2**
Depreciation	
At beginning of year	6.1
Depreciation for the year	1.8
Disposals	(0.1)
At end of year	**7.8**
Net book value at end of year	**5.4**
Net book value at beginning of year	6.0

(ii) Property, plant and equipment

	Property £m	Equipment £m	Total £m
Cost			
At beginning of year	0.2	0.1	0.3
Additions	–	0.1	0.1
At end of year	**0.2**	**0.2**	**0.4**
Depreciation			
At beginning of year	–	–	–
Depreciation for the year	–	0.1	0.1
At end of year	–	0.1	0.1
Net book value at end of year	**0.2**	**0.1**	**0.3**
Net book value at beginning of year	0.2	0.1	0.3

Future capital expenditure

At 31 March 2018, contracted capital expenditure not provided for in these financial statements for which contracts have been placed amounted to £0.1m (2017: £0.1m).

(iii) Investments in subsidiary undertakings

Accounting Policy

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 (xiii) 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.

Notes to the Company Financial Statements

(iii) Investments in subsidiary undertakings continued

	Shares £m	Loans £m	Total £m
Subsidiary undertakings			
Cost or valuation			
At beginning of year	62.0	82.4	144.4
Impairment			
– Renold Transmission Limited	–	(0.2)	(0.2)
– Renold Crofts (Pty) Limited	–	(1.0)	(1.0)
Net additions/(repayments)	–	14.4	14.4
At end of year	**62.0**	**95.6**	**157.6**

During the year to 31 March 2018, the decision was made to close the Singapore branch of Renold Transmission Limited resulting in an impairment of the investment held by Renold plc. The annual impairment test of investments indicated that the investment in Renold Crofts (Pty) Limited exceeded the recoverable amount derived from the net present value of forecast cashflows resulting in the recognition of an impairment.

The subsidiary undertakings of the Company at 31 March 2018 are set out in Note (xiii).

(iv) Deferred tax assets

	Opening balance £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
Pension plans	**3.1**	**–**	**(0.1)**	**3.0**

Unrecognised deferred tax assets amount to £0.5m (2017: £0.3m) arising from accelerated capital allowances.

(v) Trade and other receivables

	2018 Current £m	2018 Non-current £m	2017 Current £m	2017 Non-current £m
Amounts owed by subsidiary undertakings	**3.4**	**–**	3.4	–
Other debtors	**0.2**	**–**	0.1	–
Prepayments	**0.9**	**9.4**	0.9	9.9
	4.5	**9.4**	4.4	9.9

(vi) Trade and other payables

	2018 £m	2017 £m
Amounts falling due within one year:		
Trade creditors	**1.4**	1.7
Other taxation and social security	**0.3**	0.2
Accruals	**1.5**	2.3
Amounts owed to subsidiary undertakings	**1.7**	–
	4.9	4.2

(vi) Trade and other payables continued

	2018 £m	2017 £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 2014. 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.

(vii) Derivative financial instrument

	2018 £m	2017 £m
Forward foreign currency contracts – cash flow hedge	–	(0.1)

The Company has contracted forward contracts consisting of US Dollar forward contracts nil (2017: £2.9m). The US Dollar contracts are sell contracts, given that the UK Group companies have a surplus in US Dollars and a deficit in Euros.

(viii) Borrowings

	2018 £m	2017 £m
Amounts falling due after one year:		
Bank loans repayable in two to five years	20.9	17.1
Summary of total borrowings:		
Bank loans	20.9	17.1
Overdraft	2.3	–
Preference stock	0.5	0.5
Total borrowings	23.7	17.6

(ix) Pensions

Employees of the Company include members of the principal UK defined benefit schemes. 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.

(x) Called up share capital

	Issued 2018 £m	2017 £m
Ordinary shares of 5p each	11.3	11.3
Deferred shares of 20p each	–	15.4
	11.3	26.7

At 31 March 2018, the issued ordinary share capital comprised 225,417,740 ordinary shares of 5p each (2017: 225,417,740). During the year, the 77,064,703 deferred shares of 20p each were cancelled, in accordance with the terms of those shares and as approved at the 2017 AGM.

	Issued 2018 £m	2017 £m
Preference stock of £1 each[1]	0.5	0.5

1. Included in borrowings – see Note (viii).

Notes to the Company Financial Statements

(x) Called up share capital continued

At 31 March 2018, the issued ordinary share capital comprised 225,417,740 ordinary shares of 5p each (2017: 225,417,740). During the year, the 77,064,703 deferred shares of 20p each were cancelled, in accordance with the terms of those shares and as approved at the 2017 AGM. The balance has been transferred to a non-distributable Capital Reserve.

The Employee Benefit Trust holds 364,879 fully paid ordinary shares of 5p each (2017: 2,353,037) to its to facilitate the exercise of share options by employees across the Company.

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

(xi) Related party transactions

The following transactions were carried out with related parties:

(a) Transactions with key management personnel

Key management personnel are represented by the Board. Their aggregate emoluments are set out in Note 2(d) of the consolidated financial statements.

(b) Transactions with subsidiaries

The Company has taken advantage of the disclosure exemptions in FRS 101 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 2018 (and 2017) 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:

	2018 £m	2017 £m
Amounts receivable as at 31 March		
– Renold (Hangzhou) Company Limited	4.3	4.9
– Renold Chain India Private Limited	–	–
	4.3	4.9

(c) Transactions with other related parties

The Company makes no transactions with other related parties.

(xii) Post balance sheet events

There were no significant post balance sheet events to report.

(xiii) Subsidiary undertakings as at 31 March 2018

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiary undertakings, the country of incorporation and the effective percentage of equity owned, as at 31 March 2018 is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of the Renold Group. The UK subsidiaries are incorporated in England and Wales and the registered address of all offices is Trident 2, Trident Business Park, Styal Road, Wythenshawe, Manchester, M22 5XB unless stated.

United Kingdom

Renold Power Transmission Limited*
Renold International Holdings Limited*
Renold Europe Limited*
Renold Holdings Limited*

United Kingdom (dormant companies)

Anchor Chain and Power Transmission Co Limited
Hans Renold Limited*
John Holroyd & Company Limited*
Jones & Shipman Limited*

United Kingdom (pension companies)

Renold Pensions Limited* (dormant)	
Renold Group General Partner Limited*	Address: 3-5 Melville Street, Edinburgh, Scotland, EH3 7PE
Renold Scottish Limited Partnership	Address: 3-5 Melville Street, Edinburgh, Scotland, EH3 7PE

Europe (other than the United Kingdom)

Austria	Renold GmbH	Kärntner Ring 12, A-1010 Wien
Belgium	Renold Continental Limited (incorporated in the United Kingdom)	
Denmark	Renold A/S	Kaerup Alle 2, 1. Benlose, 4100, Ringstad
France	Brampton Renold SAS*	100 rue du Courbillon, 59175, Vendeville
Germany	Renold GmbH*	Juliusmühle, 37574, Einbeck
	Renold Holding GmbH*	Juliusmühle, 37574, Einbeck
	Renold Automotive Systems Germany	Juliusmühle, 37574, Einbeck
Poland	Renold Polska sp. z o.o.	ul. Mlyńska 11, 40-098 Katowice, Poland
	Renold Poland sp. z o.o.	ul. Mlyńska 11, 40-098 Katowice, Poland
Spain	Renold Hi-Tec Couplings SA	C/ Antoni Gaudi 21, Bajos 2o, Gavá, Barcelona
Sweden	Renold Transmission AB (Sweden)	
Switzerland	Renold (Switzerland) GmbH	Ringstrasse 16, CH-8600, Dübendorf 1

North America

Canada	Renold Canada Limited*	622 rue De Hull, Montreal, Quebec, H8R 1VG
USA	Renold Inc	100 Bourne Street, Suite 2, Westfield, NY 14787
	Jeffrey Chain LP	2307 Maden Drive, Morristown, TN 37813
	Renold Holdings Inc	2307 Maden Drive, Morristown, TN 37813
	Jeffrey Chain Acquisition Co Inc	2307 Maden Drive, Morristown, TN 37813
	Jeffrey Chain Corp	2307 Maden Drive, Morristown, TN 37813

Notes to the Company Financial Statements

(xiii) Subsidiary undertakings as at 31 March 2018 continued

Other countries

Australia	Renold Australia Proprietary Limited*	508-520 Wellington Road, Mulgrave, Victoria 3170
China	Renold Transmission (Shanghai) Company Limited	Section A, Floor 3 of Composite Building, No. 18 North Fute Road, China (Shanghai) Pilot Free-Trade Zone, Shanghai
	Renold Technologies (Shanghai) Company Limited	Building 3, No. 385 Zheng Zhong Xin Road, Beicai Town, Pudong, Shanghai
	Renold (Hangzhou) Co Limited	No.82 Dongfang Road, Yiqiao Town, Xiaoshan District, Hangzhou Municipality, Zhejiang Province
	Renold (China) Transmission Products Co Ltd	No. 168 Huacheng Road, Jintan District, Changzhou
India	Renold Chain India Private Limited	S.F No: 568/1A, 569/1&2, D. Gudalur (P.O), Vedasanthur (T.K), Dindigul (D.T), Tamil Nadu – 624 620
Malaysia	Renold (Malaysia) Sdn Bhd	No. 2, Jalan Anggerik Mokara 31/44, Kota Kemuning, Seksyen 31, 40460 Shah Alam, Selangor, Malaysia
New Zealand	Renold New Zealand Limited*	594 Rosebank Road, Avondale, Auckland
	Renold Retirement Trustee Limited	Melville Jessup Weaver, Level 5, 40 Mercer St, Wellington, 6142
Singapore	Renold Transmission Limited (incorporated in the United Kingdom)	
South Africa	Renold Crofts (Pty) Limited*	Cnr Liverpool Road and Bolton Street, Nestadt Industrial Sites, Benoni, 2007, Gauteng
Thailand	Renold (Thailand) Limited	399 Interchange Building, Unit 10, 24th Floor, Sukhumvit 21 Road, Klongtoey Nua Sub-District, Wattana District, Bangkok

* Directly held by Renold plc.

All of our companies with the exception of Renold (Hangzhou) Company Limited and Renold Chain India Private Limited 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
Subsidiary undertaking		
Renold (Hangzhou) Company Limited	90%	90%
Renold Chain India Private Limited	75%	75%

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

Corporate Information

Company details

Registered office

Trident 2, Trident Business Park
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Manchester
M22 5XB

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

Auditor

Deloitte LLP

Broker and financial adviser

Arden Partners

Financial PR consultants

Instinctif Partners Limited

Registrars

Link Asset Services
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: If calling from the UK: 0371 664 0300 (lines are open 9.00 am to 5.30 pm, Monday to Friday)

If calling from overseas: +44 371 664 0300

Email: www.signalshares.com/help-centre/

Website: www.signalshares.com

If you receive two or more copies of this report please write to Link Asset Services, 34 Beckenham Road, Beckenham, Kent, BR3 4TU and ask for your accounts to be amalgamated.

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