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Renold PLC
31 May 2011

RENOLD PLC ("Renold" or "the Company") Preliminary results for the year ended 31 March 2011

Renold, a leading international supplier of industrial chains and torque transmission products, today announces its preliminary results for the year ended 31 March 2011.

Financial Summary

	2011 £m	2010 £m
Revenue	191.0	156.1
Operating profit/(loss) before exceptional items	7.0	(2.1)
Operating profit/(loss)	4.3	(4.8)
Basic loss per share (after exceptional items)	(0.4)p	(8.0)p
Adjusted earnings/(loss) per share	2.0p	(1.4)p

Highlights

- 19% growth in underlying revenues
- £35m sales growth with no increase in working capital
- Operating profit increased by £9.1m
- 23% growth in underlying order intake
- £21.5m reduction in pension deficit, £16.4m enduring reduction
- Almost £10.0m cash generated in H2 (pre pensions and capex)
- Order book 13% stronger at end of year than at start
- Continued restructuring and new IT systems improving operations and working capital management
- Particularly strong performance in Renold Chain with underlying sales increased by 26%
- Renold Torque Transmission entering the rapidly expanding Chinese mass transit market

Matthew Peacock, Chairman of Renold, said:

"This is a robust set of full year results with excellent growth in order intake and sales being converted strongly into operating profit and a firm move into cash generation. We have now created a solid platform from which Renold can take advantage of opportunities for growth in both existing and new markets across the world. We therefore look forward to the future with confidence."

31 May 2011

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The financial information set out below does not constitute the Company's statutory accounts for years ended 31 March 2011 or 2010, but is derived from those accounts. The auditor has reported on those accounts; the report was unqualified and did not draw attention to any matters by way of emphasis.

NOTES TO EDITORS

Renold is a global leader in the manufacture of industrial chains and also manufactures a range of torque transmission products which are sold throughout the world to a broad range of original equipment manufacturers and distributors. The Company has a well deserved reputation for quality that is recognised worldwide. Its products are used in a wide variety of industries including manufacturing, transportation, energy, steel and mining.

Further information about Renold can be found on their website at: www.renold.com

Chairman's Statement

Overview

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

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

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

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

Strategy

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

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

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

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

Your Board

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

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

Outlook

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

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

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

Matthew Peacock
Chairman

Chief Executive's Review

Overview

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

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

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

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

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

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

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

Renold Chain

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

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

Renold Torque Transmission

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

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

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

Customer service

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

Technical innovation

Despite the relative maturity of the industry, our work with key customers has resulted in a number of new solutions to old

problems. We have developed Smart Chain technology to measure system dynamics, enabling improvements to drive efficiency which enables real cost reduction for our customers.

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

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

Summary and Outlook

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

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

Finance Director's Review**Our performance****Overview**

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

Revenue

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

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

Operating result

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

During the year, the Group continued to streamline its operations for greater efficiency. We closed our manufacturing facility in France, a warehouse in the US was consolidated into another facility, and we commenced the reorganisation of our different European businesses in preparation for the implementation of our ERP system. These changes resulted in exceptional charges of £2.7m for the year (2010: £2.7m charge).

Financing costs

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

Result before tax

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

Taxation

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

Group results for the financial period

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

Balance sheet

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

Cash flow and borrowings

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

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

Share issue

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

Bank facility

On 13 July 2009, the Group reached agreement to enter into a three year bank facility with the existing syndicate members led by The Royal Bank of Scotland plc, with Fortis Bank S.A./N.V. as a participant. The key terms of this new facility were effective from 13 August 2009. The key terms were a Multi Revolving Credit Facility (**MRCF**) of £20.0m and a Multi Currency Term-Loan Facility (**MTLF**) of £11.0m, with both facilities expiring on 30 June 2012.

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

At 31 March 2011 the Group had unused credit facilities totalling £23.3m (including £8.6m of committed facilities) and cash

balances of £7.4m. The Group is in discussions with a number of interested banks to refinance the facilities noted above and expects to announce the results of the refinancing by the time of our interim results.

Treasury and financial instruments

The Group treasury policy, approved by the Directors, is to manage its funding requirements and treasury risks without undertaking any speculative risks. To manage foreign currency exchange risk on the translation of net investments, certain Dollar denominated borrowings taken out in the UK to finance US acquisitions had been designated as a hedge of the net investment in US subsidiaries. At 31 March 2011, this hedge was fully effective. At 31 March 2010, a previous hedge had been determined to be ineffective and revised arrangements were put in place. The carrying value of these borrowings at 31 March 2011 was £8.1m (2010: £8.5m). At 31 March 2011, the Group had 4% (2010: 4%) of its gross debt at fixed interest rates. Cash deposits are placed short term with banks where security and liquidity are the primary objectives. The Group has no significant concentrations of credit risk with sales made to a wide spread of customers, industries and geographies. Policies are in place to ensure that credit risk on individual customers is kept to a minimum.

Pensions

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

It should be noted that one of the schemes, the J&S, which represents 18% of UK gross obligations is fully funded as at 5 April 2011. The actuarial basis of measurement is used in calculating the need for cash contributions to the J&S from the Group and hence if this position is maintained at the time of the next triennial review for the J&S, the Group may be able to discontinue contributions of £0.3m per annum.

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

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

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

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

Scheme liabilities decreased during the year as a result of UK legislative changes to move statutory pension increases to the CPI measure which is assumed to be 0.75% lower than the previous measure of RPI (net reduction in liabilities of approximately £7.0m, primarily in respect of deferred pensions). In addition, actual mortality experience in the last three years was heavier than forecast and that experience is also now factored into future longevity assumptions (total mortality reduction of £10.4m). CPI and mortality are both seen as causing enduring reductions in liabilities. The UK and overseas schemes discount rates were unchanged at 5.6%. The overseas deficit is made up of £1.2m (2010: £2.1m) of funded defined benefit schemes with £14.2m of assets (2010: £17.5m) and £15.4m of liabilities (2010: £19.6m) and £20.5m of unfunded schemes (2010: £21.2m). The unfunded portion relates principally to the German scheme which, as is common in Germany, is a 'pay as you go' scheme. The status of three UK defined benefit pension schemes, (i) the main scheme, which is the RGPS; (ii) the RSPS; and (iii) the J&S, at 31 March 2011 is summarised below:

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

Principal risks and uncertainties

Risk is inherent in our business activities. We take steps at both a Group and subsidiary level to understand and evaluate potential risks and uncertainties which could have a material impact on our performance in order to mitigate them. Accordingly, a risk aware environment is promoted and encouraged throughout the Group. Details of the principal risks and uncertainties are set out below.

**External market
Economic and political risks**

We operate in 20 countries and sell to customers in over 100. While benefiting from the opportunities and growth in these diverse territories, we are necessarily exposed to the economic, political and business risks associated with international operations such as a global recession, sudden changes in regulation, imposition of trade barriers and wage controls, security risk, limits on the export of currency and volatility of prices, taxes and currencies. Our diversified geographic footprint mitigates against exposure within any one country in which we operate, although we are still exposed to global events.

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

Raw material prices

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

**Internal operations
Operational problems**

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

ERP system implementation

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

The environment

Revision of environmental legislation in various countries takes time and we monitor this at a local level in order to anticipate the effect on our businesses and customers. Unforeseen legislative changes may increase manufacturing costs but we believe that they can also drive change to make operations more efficient.

Product liability and warranty claims

As a result of the nature of the products manufactured, we face the inherent business risk of exposure to product liability and warranty claims in the event that a product fails. In order to mitigate these risks, where possible, we maintain product liability insurance. In order to mitigate the risk of warranty claims for property damage or consequential losses, we have adopted a policy of contractually limiting liability, where possible.

Treasury and financial**Liquidity**

In the present economic climate, all companies face risk in relation to the availability of debt to fund their ongoing operations. In order to manage this risk, the Group maintains a mix of short and medium term facilities to ensure that it has sufficient funds available. During the previous year the Group raised new equity of £26.9m (net of expenses) and also refinanced the major European facilities which have an expiry date of June 2012. The Group is now in the early stages of agreeing new banking facilities to replace the existing agreements. Cash deposits are placed short term with banks where security and liquidity are the primary objectives.

Foreign exchange risk

The Group has operations in 20 countries and sells into many more with the result that two forms of currency risk, transactional and translational exposure, arise.

- Transactional exposure: a major exposure of the Group earnings and cash flows relates to currency risk on its sales and purchases made in foreign (non-functional) currencies. To reduce such risks, these transactions are covered primarily by forward foreign exchange contracts or cash flow hedges. Such commitments generally do not extend more than 12 months beyond the balance sheet date, although exceptions can occur where longer term projects are entered into.
- Translational exposure: arises due to exchange rate fluctuations in the translation of the results of overseas subsidiaries into Sterling. To manage foreign exchange currency risk on the translation of net investments, certain Dollar denominated borrowings taken out in the UK to finance US acquisitions have been designated as a hedge of the net investment in US subsidiaries.

Interest rates

Borrowings at variable rates expose the Group to cash flow interest rate risk and borrowings at fixed rates expose the Group to fair value interest rate risk. The Group reviews the mix of fixed and floating debt and intends to use interest rate swaps to manage part of this exposure.

Pensions

Estimates of the amount and timing of future funding obligations for the Group's pension plans are based upon a number of assumptions including future long term corporate bond yields, the actual and projected performance of the pension plan assets, legislative requirements and increased longevity of members.

The Group continually reviews risks in relation to the Group's pension schemes and takes action to mitigate them where possible. While the Group is consulted by the trustees on the investment strategies of its pension plans, it does not have direct control over these matters, as trustees are responsible for the pension strategy.

Consolidated income statement for the year ended 31 March 2011

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

Non-controlling interests	-	(0.1)
	(0.9)	(9.7)
(Loss)/earnings per share	6	
Basic (loss) per share	(0.4)p	(8.0)p
Diluted (loss) per share	(0.4)p	(8.0)p
Adjusted earnings/(loss) per share	2.0p	(1.4)p
Diluted adjusted earnings/(loss) per share ³	2.0p	(1.4)p

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

	2011	2010
	£m	£m
Loss for the year	(0.9)	(9.7)
Other comprehensive income/(expense):		
Reclassification of losses on cash flow hedges to the income statement	0.1	0.1
Net gains on cash flow hedges	-	2.7
Foreign exchange translation differences	(0.1)	1.2
Foreign exchange differences on loans forming part of the net investment in foreign operations	(1)	(1.8)
Actuarial gains/(losses) on retirement benefit obligations	20.3	(21.5)
Actuarial gain on retirement benefit obligations - restriction removed	0.1	1.5
Tax on components of other comprehensive income	(7)	4.9
Other comprehensive income/(expense) for the year, net of tax	12.4	(12.9)
Total comprehensive income/(expense) for the year, net of tax	11.5	(22.6)
Attributable to:		
Owners of the parent	11.5	(22.5)
Non-controlling interests	-	(0.1)
	11.5	(22.6)

Consolidated balance sheet as at 31 March 2011

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

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

Matthew Peacock
Chairman

Robert Davies
Director

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

	Share capital £m	Share premium account £m	Retained earnings £m	Currency translation reserve £m	Other reserves £m	Attributable to owners of parent £m	Non-controlling interests £m	Total equity £m
At 1 April 2009	19.3	9.6	3.9	7.6	(1.9)	38.5	1.6	40.1
Loss for the year	-	-	(9.6)	-	-	(9.6)	(0.1)	(9.7)
Other comprehensive income	-	-	(15.1)	(0.6)	2.8	(12.9)	-	(12.9)
Total comprehensive income for the year	-	-	(24.7)	(0.6)	2.8	(22.5)	(0.1)	(22.6)
Share issue proceeds	7.1	21.4	-	-	-	28.5	-	28.5
Share issue costs	-	(1.6)	-	-	-	(1.6)	-	(1.6)
Employee share options:								
- value of employee services	-	-	0.1	-	-	0.1	-	0.1
Proceeds from non-controlling interests	-	-	-	-	-	-	0.3	0.3
At 31 March 2010	26.4	29.4	(20.7)	7	0.9	43	1.8	44.8
Loss for the year	-	-	-0.9	-	-	(0.9)	-	(0.9)

Other comprehensive income	-	-	13.4	(1.1)	0.1	12.4	-	12.4
Total comprehensive income for the year	-	-	12.5	(1.1)	0.1	11.5	-	11.5
Share warrants	-	-	-	-	0.4	0.4	-	0.4
Employee share options:								
- value of employee services	-	-	(0.1)	-	-	(0.1)	-	(0.1)
Proceeds from non-controlling interests	-	-	-	-	-	-	0.3	0.3
At 31 March 2011	26.4	29.4	-8.3	5.9	1.4	54.8	2.1	56.9

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

	2011	2010
	£m	£m
Cash flows from operating activities (Note 8)		
Cash generated from operations	6.6	0.9
Income taxes (paid)/refunded	(0.1)	1
Net cash from operating activities	6.5	1.9
Cash flows from investing activities		
Acquisition of subsidiary undertaking	(0.7)	(0.5)
Purchase of property, plant and equipment	(3.6)	(3.3)
Purchase of intangible assets	(3)	(0.9)
Proceeds from non-controlling interests capital injection	0.3	0.3
Net cash from investing activities	(7)	(4.4)
Cash flows from financing activities		
Financing costs paid	(2)	(5.6)
Proceeds from borrowings	9.5	3
Repayment of borrowings	(7.9)	(24)
Issue of ordinary shares	-	26.9
Payment of finance lease liabilities	(0.1)	(0.1)
Net cash from financing activities	(0.5)	0.2
Net decrease in cash and cash equivalents	(1)	(2.3)
Net cash and cash equivalents at beginning of year	5.9	8.6
Effects of exchange rate changes	-	(0.4)
Net cash and cash equivalents at end of year	4.9	5.9

Notes to the consolidated financial statements**1(a) Basis of preparation**

The preliminary statements were approved by the Board on 27 May 2011. The preliminary statement does not represent the full consolidated financial statements of Renold plc (the **Company**) and its subsidiaries which will be delivered to the Registrar of Companies following the annual general meeting of the Company. The audited consolidated financial statements of Company for the year ended 31 March 2011 have been prepared in accordance with International Financial Reporting Standards (**IFRSs**) as adopted by the European Union.

The preliminary financial statements have been prepared on a consistent basis using the accounting policies set out in the Renold plc annual report for the year ended 31 March 2010. The financial information for the year ended 31 March 2010 has been extracted from the Renold plc Annual Report for that year as filed with the Registrar of Companies.

The 2010 and 2011 financial statements both carry unqualified audit reports which do not contain an emphasis of matter reference and do not contain a statement under section 498(2) or 498(3) of the Companies Act 2006.

1(b) Basis of preparation - 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.

The Directors have assessed the future funding requirements of the Group and the Company and compared them to the level of available borrowing facilities. The assessment included a detailed review of financial and cash flow forecasts, financial instruments and hedging arrangements for at least the 12 month period from the date of signing the Annual Report. The Directors considered a range of potential scenarios within the key markets the Group serves and how these might impact on the Group's cash flow, facility headroom and banking covenants. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences. The Group's forecasts and projections, taking account of reasonably possible scenarios 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 the Annual Report and accounts.

2. Segmental information

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

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

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

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

	Chain £m	Torque Transmission £m	Head Office costs and eliminations £m	Consolidated £m
Year ended 31 March 2011				
Revenue				
External customer	145.3	45.7	-	191
Inter-segment	0.5	6.9	(7.4)	-
Total revenue	145.8	52.6	(7.4)	191
Operating profit/(loss) before exceptional items	4.6	6	-3.6	7
Exceptional items	(2.7)	-	-	(2.7)
Operating profit/(loss)	1.9	6	(3.6)	4.3
Net financing costs				(5.6)
Loss before tax				(1.3)
Other disclosures				
Inventories	34.3	9.8	-	44.1
Capital expenditure	2.8	1.1	3.2	7.1
Depreciation and amortisation	3.6	0.9	0.4	4.9

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

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

The results were as follows:

	Chain £m	Torque Transmission £m	Head Office costs and eliminations £m	Consolidated £m
Year ended 31 March 2010 (restated)				
Revenue				
External customers	111.2	44.9	-	156.1
Inter-segment	0.4	5.3	(5.7)	-
Total revenue	111.6	50.2	(5.7)	156.1
Operating (loss)/profit before exceptional items	(4.6)	4.1	(1.6)	(2.1)
Exceptional items	(2.2)	(0.3)	(0.2)	(2.7)
Operating (loss)/profit	(6.8)	3.8	(1.8)	(4.8)
Net financing costs				(8.8)
Loss before tax				(13.6)
Other disclosures				
Inventories	33.8	9.1	-	42.9
Capital expenditure	3.3	0.9	-	4.2
Depreciation and amortisation	4.1	0.9	-	5

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

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

	Chain £m	Torque Transmission £m	Head Office costs and eliminations £m	Consolidated £m
Year ended 31 March 2010 (restated)				
Revenue				
External customers	111.2	44.9	-	156.1
Foreign exchange	3.7	1.3	-	5
Underlying external sales	114.9	46.2	-	161.1
Operating (loss)/profit before exceptional items	(4.6)	4.1	(1.6)	(2.1)
Foreign exchange	0.1	-	-	0.1
Underlying (loss)/operating profit before exceptional items	(4.5)	4.1	(1.6)	(2)

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

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

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

External revenues

Non-current assets

	2011	2010	2011	2010
	£m	£m	£m	£m
United Kingdom	16.5	14.7	15	12.5
Rest of Europe	56	44.3	15.3	15.8
North America	65.3	47.7	24.8	26.3
Other countries	53.2	49.4	22.4	22.5
	191	156.1	77.5	77.1

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

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

3. Exceptional items

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

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

Included in financing costs

Costs associated with refinancing	-	2.8
	-	2.8

4. Net financing costs

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

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

5. **Taxation**

Analysis of tax (credit)/charge in the year

	2011	2010
	£m	£m
United Kingdom		
UK corporation tax at 28% (2010: 28%)	-	0.2
Less: double taxation relief	-	(0.2)
	-	-
Overseas taxes		
Corporation taxes	0.7	(0.2)
Withholding taxes	0.1	-
Current income tax charge/(credit)	0.8	(0.2)
Deferred tax		
UK - origination and reversal of temporary differences	(0.1)	(0.5)
Overseas - origination and reversal of temporary differences	(1.1)	(3.2)
Total deferred tax credit	(1.2)	(3.7)
Tax credit on loss on ordinary activities	(0.4)	(3.9)
	2011	2010
	£m	£m
Tax on items taken to other comprehensive income		
Deferred tax on changes in net pension deficits	(7)	4.9
Tax charge in the statement of other comprehensive income	(7)	4.9

Factors affecting the Group tax charge for the year

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

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

This has resulted in a £0.3m deferred tax charge to the income statement and a £1.0m deferred tax charge to other comprehensive income, due to the reduction in the value of the deferred tax assets recognised in the UK. Based on the closing deferred tax assets at the Balance Sheet date, the aggregate impact of the proposed reductions from 26% to 23% would reduce the deferred tax asset by approximately £1.3m (approximately £0.4m per year).

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

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

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

6. **(Loss)/earnings per share**

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

	2011			2010		
	Loss	Shares	Per share	Loss	Shares	Per share
	£m	(thousands)	amount	£m	(thousands)	amount
			(pence)			(pence)
Basic EPS						
(Loss) attributed to ordinary shareholders	(0.9)	219,565	(0.4)	(9.7)	120,520	(8)
Diluted EPS	(0.9)	219,565	(0.4)	(9.7)	120,520	(8)

	2011			2010		
	(Loss)/ earnings £m	Shares (thousands)	Per share amount (pence)	(Loss) /earnings £m	Shares (thousands)	Per share amount (pence)
Adjusted EPS						
Basic EPS	(0.9)	219,565	(0.4)	(9.7)	120,520	(8)
Effect of exceptional items, after tax:						
Redundancy and restructuring	2.8		1.2	2.5		2.1
Exceptional financing costs	-		-	2.8		2.3
Net finance costs arising on pension plan assets	2.6		1.2	2.7		2.2
Adjusted EPS	4.5	219,565	2	(1.7)	120,520	(1.4)

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

The adjusted earnings per share numbers have been provided in order to give a useful indication of underlying performance by the exclusion of exceptional items. Due to the existence of unrecognised deferred tax assets, there was no associated tax credit on the exceptional charges and so exceptional costs are added back in full.

7. Called up share capital

	Issued	
	2011	2010
	£m	£m
Ordinary shares of 5p each	11	11
Deferred shares of 20p each	15.4	15.4
	26.4	26.4

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

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

At 31 March 2011, the issued ordinary share capital comprised 219,564,703 ordinary shares of 5p each (2010: 219,564,703) and 77,064,703 deferred shares of 20p each (2010: 77,064,703). During the year the Company issued no ordinary shares (2010: 142.5m).

8. Additional cash flow information

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

	2011	2010
	£m	£m
Cash generated from operations:		
Operating profit/(loss)	4.3	(4.8)
Depreciation and amortisation	4.9	5
Impairment charge included in exceptional items	0.2	-
Loss on plant and equipment disposals	0.1	0.5
Equity share plans	(0.1)	0.1
(Increase)/decrease in inventories	(1.6)	4
(Increase)/decrease in receivables	(4.6)	8.6
Increase/(decrease) in payables	7.7	(5.3)
Increase/(decrease) in provisions	-	(2.2)
Movement on pension plans	(4.4)	(5.1)
Movement in derivative financial instruments	0.1	0.1
Cash generated from operations	6.6	0.9

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

	2011	2010
	£m	£m
Decrease in cash and cash equivalents	(1)	(2.3)

Change in net debt resulting from cash flows	(1.6)	21
Foreign currency translation differences	0.5	0.6
Change in net debt during the period	(2.1)	19.3
Net debt at start of year	(17.9)	(37.2)
Net debt at end of year	(20)	(17.9)

Net debt comprises:

Cash and cash equivalents	7.4	7.3
Total borrowings	(27.4)	(25.2)
	(20)	(17.9)

----- End -----

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