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**RENOLD**

Annual Report and Accounts 2013

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COMPANIES HOUSE

***Re-engineering our future***

[www.renold.com](http://www.renold.com)

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# Introduction

Renold is a world-class engineering business, renowned for delivering high precision engineered chain and power transmission products internationally.

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.

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## Highlights

<sup>1</sup> Underlying results exclude the impact of disposals, exceptional items and are retranslated to current year exchange rates

- New Chief Executive and Chairman in place
- Adjusted earnings per share of 1.4p delivered against challenging economic background
- Net debt position improved despite lower operating profit
- Strategic review of the Group business model starting to deliver results
- Refinanced main Group banking facilities for a four year term
- Agreed merger of UK defined benefit pension schemes to save £1m per annum and completed legal process to wind up South African pension surplus of £1.4m

# Understanding Renold

## Who we are

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

### Renold Chain

External revenue

**£141.9m**

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

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

Operating profit before exceptional items

**£6.9m**

Employees at 31 March 2013

**1,716**

Our vast range of roller chains means that for most requirements there is a Renold solution. Our premier brand, Renold Synergy, offers unbeatable wear and fatigue performance, whilst our all-purpose range of standard chain provides affordable reliability. Continuous research, development, innovation and ingenuity has led to the production of more specialised solutions, such as Hydro-Service with its superior corrosion-resistant coating and the Syno range

which sets a new benchmark for chains requiring little or no lubrication

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

### Renold Torque Transmission

External revenue

**£48.4m**

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

Operating profit before exceptional items

**£5.3m**

Employees at 31 March 2013

**516**

We have manufacturing sites across the world including the UK, US, South Africa and China. Our speciality is working alongside our customers, to design and manufacture a solution to specific application needs. Our design capability and innovation is recognised by customers around the world and is utilised in customising our gearboxes and couplings to meet customers' specific requirements. 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 roller coasters.

## Where we are

Our international network includes 14 manufacturing sites and 20 sales companies strategically located to support our customers within our two operating divisions.

### Key

Manufacturing location  
and sales company

Sales location

### North America

### Europe

### Asia Pacific

### Emerging Economies

## 38%

### Global sales

North America saw growth with underlying revenue 2.1% ahead of the prior year. Renold Jeffrey and Renold Ajax have been well known participants in the North American markets for many years with a focus on engineering class chain and mass transit gears and couplings.

## 36%

### Global sales

Our European businesses saw a 14.0% decrease in underlying revenue in the year, reflecting the tough trading climate in the region. Renold Chain operates from two principal manufacturing locations in Europe (the UK and Germany). Renold Torque Transmission operates three plants in the UK exporting to various destinations worldwide.

## 20%

### Global sales

Asia Pacific saw a 4.3% decline in underlying revenue compared to the prior year. This was as a result of subdued commodity prices impacting demand for our products.

## 6%

### Global sales

Our Chinese and Indian businesses have experienced a slowdown in activity levels over the last year, reflecting the global economic uncertainty. Underlying revenue was down by 24.7% on the prior year.

# Chairman's statement

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Mark Harper  
Chairman

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## Overview

In my first statement to shareholders, it is clearly disappointing to be reporting such poor results. They reflect ongoing macro-economic challenges in many of our end markets combined with a number of long-standing internal issues within Renold itself. The fact that a 7% reduction in underlying revenue led to a near halving of our adjusted<sup>1</sup> operating profit partly reflects an unacceptably high level of operational gearing within the business. In addition, we understand from research that many of our customers respect our reputation for engineering excellence but that we let ourselves down on customer service and delivery which in turn leads to lower value being generated from our high quality products.

## Re-engineering our future

In response to our poor financial performance, we started a fundamental review of the Chain business model at the time of our Interim Results in November 2012. One of the key areas of focus was an assessment of our global manufacturing capability. The preliminary assessment concluded that in a number of key manufacturing processes and locations we have significant excess capacity. The Group has therefore recognised in the financial statements an impairment of £9.4m in respect of assets in the Chain division. Total exceptional charges in the year, including the asset impairments amounted to a net £11.8m, as detailed in Note 2(c). Further details of the strategic review are set out in the Chief Executive's report.

## Re-financing

During the year the Group successfully re-financed its core banking facilities for a four year term expiring in October 2016. The new facilities, which are provided by a banking group comprised of Lloyds TSB Bank plc and Svenska Handelsbanken AB, comprise a £41m Multi-Currency Revolving Credit Facility and an additional £8m of ancillary facilities. The new facilities brought a reduction in borrowing margins which will reduce our financing costs.

<sup>1</sup> 'Adjusted' excludes exceptional items

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## Board priorities

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- |                                                                                                  |                                                                                                                       |
|--------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| → Supporting the Chief Executive in developing a new strategic direction and focus for the Group | → Reviewing the composition of proposed new operating structures as they are developed                                |
| → Monitoring and oversight of the major change initiatives being executed by the Executive team  | → Raising the profile and significantly enhancing health and safety behaviours and performance across the whole Group |

The re-engineering of the Group's future requires a fundamental re-evaluation and improvement of basic processes, systems and working practices within the Group to ensure we are operating on solid foundations. Once this is achieved, the Group will be positioned to leverage its reputation for product quality and to achieve sustainable performance improvement.

#### Pensions

We made further progress with our strategy of managing down our defined benefit pension obligations with the completion of a number of key initiatives during the year. In the UK, our agreement announced in March 2013, to merge the three defined benefit schemes during the first half of the new financial year will lead to a significant reduction in administrative expenses and a real reduction in annual cash funding totalling £1.0m. In South Africa, we completed the process of winding up the closed pension scheme and the surplus pre-tax funds of £1.4m were returned to the Group in April 2013. In Canada, the small defined benefit pension scheme was closed to new members. The Group continues to focus on measures to reduce exposure to defined benefit pension obligations, while acknowledging that in the current low yield environment accounting pension deficits will remain high.

#### The Board

There were a number of changes to the Board during the year. I joined the Board as a Non-Executive Director on 1 May 2012 and subsequently assumed the role of Chairman at the Annual General Meeting on 12 July 2012 when Matthew Peacock stood down. John Allkins succeeded David Shearer as our Senior Independent Director, following David's decision not to seek re-election to the Board. Robert Purcell joined the Group as Chief Executive in January 2013 following the early retirement of Robert Davies in December 2012. I would like to take this opportunity to thank the former Board members for their service to the Group and wish them well in their future activities. I also look forward to supporting and working with Robert Purcell in executing the turnaround in the performance of the Group.

#### Dividend

In light of the need to invest in the business, and the Group's disappointing financial performance, the Board has decided not to recommend the payment of a dividend.

#### Outlook

The markets in which we operate are expected to remain volatile and challenging in the coming year, and we do not expect significant support for the business from increases in sales volumes. As a result, our plans are focused on lowering the break even point of the business through the reduction of overhead costs and ensuring that our reputation for product quality, combined with improvements in customer service and lead times delivers value for our shareholders. The delivery of these objectives will require some investment but will largely come from improvements in basic processes, systems and skills.

In summary, we believe that there is significant scope to improve the performance and profitability of the business without placing reliance on the external market for additional profitability through revenue growth. This improvement will be the principal focus of the Board in the year ahead.

**Mark Harper**  
Chairman

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# Chief Executive's review

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Robert Purcell  
Chief Executive

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## Overview

The past year has been a challenging one. Revenue declines resulting from ongoing macro-economic uncertainty continued to impact performance. Our high cost base and management structures meant that the 7% underlying revenue decline reduced adjusted operating profits by almost 50%. In response, we have commenced a full strategic review of the business in a project called 'Re-Engineering Our Future'. We will build upon our reputation for engineering excellence to examine how we can generate sustainable long-term shareholder value in these challenging times. More on our initial strategic thinking is outlined in my 'Strategic Review' on pages 10 to 13.

The year got off to a weak start for orders and revenue, down 14% and 3% respectively in the first half compared to the same period in the prior year. Order intake was slightly better than revenue performance in the year, with an improving trend in the third and fourth quarters which were down versus the prior year on an underlying basis by 8% and 3% respectively. The book to bill ratio of order intake to revenue for the year as a whole was 97% although in the last six months of the year the ratio was, on average, 6% better than the same six months in the prior year. This improving trend suggests that the rate of revenue decline in Chain is slowing with the potential to level off in the first half of the new financial year.

The fall in revenue was the result of the weakness in many of the Group's geographical end markets and sectors. In Chain, underlying revenue was down by £6.5m (11%) on the prior year in Europe, down £0.8m (2%) in North America and down £1.5m (6%) in Australia. Whilst trading was difficult in many regions, Switzerland continued to be the weakest performer (down 29%), driven by the continuing strength of the Swiss Franc which created export challenges for many of our Swiss OEM customers. In Australasia, the impact of subdued commodity prices had a negative impact on revenue throughout the year with a weak finish in the fourth quarter although the rate of order intake decline showed signs of levelling off.

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## Executive priorities

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- Significantly improving our customer service offering and performance
- Developing and implementing efficient and streamlined forward-thinking operations across the Group
- Achieving a major change in culture and performance on health and safety matters
- Reducing our break even point through reducing our cost base and right-sizing our manufacturing capacity
- Driving additional value generation from attractive geographies and market sectors

Our challenge is to match the undoubted strength of the Renold brand and superior product offering with significant improvement in service delivery by re-engineering a number of key business processes whilst reducing our break even point.

In Torque Transmission, the rate of revenue decline increased from 3% in the first half to 10% in the second with particular softness in attractive commodity markets and capital projects

We took decisive steps in the second half to reduce our overhead costs in both divisions to offset the impact of falling revenue. As a result, whilst revenue in the second half was £3.1m below the first half, profitability was maintained through a net reduction in overheads of approximately £2.0m. A number of actions were taken in the third and fourth quarter which will have a beneficial impact in the new financial year. In addition, the consolidation of back office functions in Europe was completed during the year with smaller scale consolidation activity occurring in North America at the end of the fourth quarter. One of the two offices in Switzerland was closed in December 2012.

Whilst the operating result was disappointing with adjusted operating profit falling to £7.2m (2012: £14.1m), it is encouraging that the Group managed to maintain a similar level of net debt to the prior year end. This was despite an adverse foreign exchange movement on our net debt of £0.6m. Key to the delivery of the strong net debt result was our continuing focus on month on month improvement in working capital management. Our average ratio of working capital to rolling annual sales improved to 21.2% compared to 22.4% in 2011/2012 and 24.7% in 2010/2011. Each one percent improvement represents a reduction in average net debt throughout the year of around £2.0m.

#### Summary

The thorough review of the Group which I have been conducting since joining as Chief Executive has been both revealing and instructive. Encouragingly, we know that we have a market leading brand reputation and product offering which provide us with an excellent platform from which to drive growth. However, we also have outmoded and sub-optimal working practices across the Group which have contributed to this year's poor performance. The good news is that self-help measures will enable us to address these issues and to substantially improve performance over the medium term even without significant improvements in end market sales. In addition, the more positive order intake trends which emerged in the fourth quarter are continuing. My focus now is on driving forward these measures to improve performance and generate shareholder value.

**Robert Purcell**  
Chief Executive

*Read more about our  
strategic review on  
pages 10 to 13*

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## Chief Executive's review of performance

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

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### Chain

Sales £m

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Operating profit before exceptional items £m

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Underlying external revenue of £141.9m in the Chain division was 8% behind the prior year primarily as a result of the weakness in European markets where revenues as a whole finished the year down 11%. The weak Swiss performance was partially offset by improvements in Germany where domestic demand remained relatively strong compared to the rest of Europe. The North American market was broadly flat with a slight 2% fall in sales following a weak third quarter, whereas Australasia was weaker with underlying sales down 6% on the back of a weak fourth quarter.

Operating profit fell 23% to £6.9m before exceptional charges. This was largely the result of the revenue decline but was in part mitigated by a reduction in overheads in the second half. Overhead reductions included the closure of one of two offices in Switzerland at the end of the third quarter and the completion

of the European back office restructuring project. Further cost saving opportunities continue to be identified as we review the Chain business model and at the end of the year in North America we were able to merge our US and Canadian Chain finance functions following the implementation of our ERP system in Canada.

Order intake in Chain was weaker in the second and third quarters but started to improve in the fourth quarter which was slightly ahead of the same period in the prior year. This suggests that revenue decline within Chain may soon come to an end though ongoing market challenges mean revenue growth may be some way off. Hence we are focused on self-help initiatives to lower the break even point and add value through an enhanced service offering.

Renold Torque Transmission manufactures a number of high performance, mission critical gears and couplings which are often a highly bespoke component in significant capital projects. Consequently, the performance characteristics of many of our products, some of which are exclusive to Renold, are a highly valuable core competence.

## Torque Transmission

Sales £m

Operating profit before exceptional items £m

Underlying revenue for the year as a whole fell 7% to £48.4m from £51.8m in the prior year. The fall in revenue was the result of softness in a mixture of commodities sectors and capital projects.

The year in Torque Transmission was in many ways the reverse of that seen in Chain. A better first half when underlying revenues were down 3% compared to the prior year was followed by a weaker second half with underlying revenue down 10%.

Order intake followed a similar trend with first half orders down 7% on the prior year whereas the second half was down 12%. More encouraging was the fourth quarter book to bill ratio which was 104% (4% ahead of the prior year). The longer average lead times in Torque Transmission do however mean that sales are likely to continue to decline in the first half of the new financial year.

Operating margins remained above 10% but have fallen from 16% in the prior year to 11% with underlying operating profit before exceptional charges falling 35% to £5.3m from £8.2m. The impact on margins was exacerbated by revenue declines in South Africa that centred on the normally attractive commodity and resource industries and a general fall in demand for some high value add products.

In Torque Transmission we also took steps in the second half to reduce our overhead costs by £0.5m to partially offset the impact of falling revenue. A number of actions were taken in the third and fourth quarters that will have a full impact in the new financial year.

The implementation of our ERP system in the first Torque Transmission plant, Milnrow in the UK, created the opportunity to reduce our cost base in the fourth quarter though this was offset by some initial production and shipping performance issues as the business mastered the new operating environment and business processes.

While the initial stages of our strategic review have focused on the Chain division, Torque Transmission has also been tasked with identifying further ways in which it can operate more efficiently and effectively to assist in delivering the overall Group goal of lowering our break even point.

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## Chief Executive's strategic review

Early findings from the strategic review point to a clear need to reduce our break even sales point and significantly improve our commercial positioning.

### Lowering the break even point

The first of these strategic objectives currently focuses on our Chain operating structure

Renold is uniquely positioned in the global chain market through our ownership of manufacturing sites across a number of developed and emerging economies. We have substantial capacity in the low-cost economies of China, India and Malaysia, which complement our long established factories in North America, Europe and Australia.

Whilst our more recent acquisitions have been adequately integrated into the Group, it is apparent that we have opportunities to achieve substantial operating performance improvements, and achieve a lower break even cost structure.

We have therefore undertaken an assessment of our global manufacturing capacity in all of our Chain production processes. The preliminary assessment concluded that we had significant levels of excess capacity in a number of key

manufacturing locations and processes. The resulting exceptional impairment charges of £6.5m against the relevant production assets have been recorded in the financial statements. We have now begun the next stage in the business model review, to identify and deliver changes in our operating structure and reductions in cost base.

## Lowering the break even point

### Chain capacity review

The six chain manufacturing plants each have their own core capabilities and defined product focus. However, within this structure there are overlaps and duplications.

We assessed 18 different production processes in the main manufacturing locations. The review identified that adequate capacity for current production and medium term growth existed in all processes but that in

a number of processes, significant excess capacity existed. Significant excess being defined as unlikely to be utilised in the medium term with reasonable compound annual growth rates.

The capacity review retains its focus on the twin objectives of lowering the break even point for the Chain business and improving the commercial service offering. As a result, any changes to processes will be closely monitored to ensure that they are aligned to our evolving brand strategy and

to improve customer service and reduce lead times. Where it is felt local capability is required to service a market, it will be retained.

Having identified surplus capacity the relevant assets were impaired at the year end. The next step is to assess the associated overheads and supporting infrastructure for those assets and processes and how best to utilise these resources.

### Lowering the break even point

The three strands of activity set out to the left have all started to contribute to the overall objective of lowering the break even revenue point for the Group, with particular emphasis on the larger Chain division. In addition they are also allowing us to invest in a more focused way and hence achieve better returns on new capital investment.

### Overhead improvements

The creation of the European Hub, which consolidated a number of back office functions was completed in the year.

The closure of one of our two offices in Switzerland in December 2012 and our office in Christchurch, New Zealand has added a further £0.6m of annualised savings while customer service has been maintained from other locations in each territory.

Following implementation of SAP in both North American Chain locations we were able to consolidate back office functions in March 2013 to deliver annualised savings of £0.3m.

Finally, in the fourth quarter we made changes to our executive management structure that will generate savings to be allocated to a number of key new posts to support continuous improvement in our manufacturing operations. In Torque Transmission the new

ERP system provided a basis for a reduction in overheads.

These initiatives will also lead to commercial benefits. Customers routinely expect shorter lead times than manufacturers can obtain from material suppliers, requiring close management of working capital and simpler, more responsive procedures. We expect to be able to improve our lead times and enhance customer service at the same time.

### Operational efficiency and automation

Our production sites are currently structured to provide a broad range of product types and sizes. We are reviewing options to create centres of excellence or specialisation that will allow us to optimise our capital budget spend.

This will be further enhanced by the results of the capacity review which will allow capital spend to be further concentrated in fewer processes.

We have also commenced a number of automation projects that are allowing us to improve efficiency, lead time and cost of production in one of our key facilities.

Delivery of improvements in our manufacturing process, footprint and cost base will be a key foundation to enable progress on the second outcome from the strategic review – to improve our commercial offering and value proposition.

### Product management and customer service

The second strategic objective relates to product management and customer service. In customer surveys, the Renold name consistently achieves strong responses for awareness and credibility, and is associated with premium products, high levels of engineering expertise, and high levels of trust. The same surveys reveal that we let ourselves down with the quality of our customer service.

The company has developed a broad range of sub-brands related to specific customer requirements, including specialist solutions and premium performance products, some of which have been tailored to suit local market requirements. This is a key foundation on which we can build to 'Re-engineer our future'.

There have been substantial changes in both our end markets and the economic environment over the last decade, and we recognise that there are

opportunities to review our brand strategy and service propositions to align them with the changing requirements of our core markets.

An initial framework has been developed, in which products and brands will be aligned to ensure consistency on a global basis, whilst retaining local control of product availability and service offering tailored to the requirements of customers in each location. Improvements to critical business processes will lead to improved customer service.

## Product management and customer service

### Brand positioning

Over the years the Group has developed a broad range of sub-brands related to specific customer requirements. These include specialist solutions delivering excellent product performance in some of the most arduous applications.

In addition, some of our solution products have been tailored to suit the local requirements of some geographic markets.

An initial review of our entire brand portfolio has identified opportunities to rationalise the range of specifications offering productivity and logistics benefits with no loss of application performance in any sector.

Whilst the review is at an early stage, it is anticipated that implementation of a product range rationalisation programme will commence during the current financial year. This may also extend beyond products into brands themselves.

### Product management and customer service

Renold has a strong track record of developing advanced chain products. However, much of this work has been internally driven by commercialising engineering innovations.

Our focus will shift towards closer working partnerships with customers in a broad range of industry sectors, targeting development of new products in highly demanding applications.

### Customer Service

We service an extremely wide range of customers in differing industries with our portfolio of standard, adapted and special chain products. No single customer represents more than 5% of sales and this diversity is both an opportunity and a challenge.

The opportunity is to generate value for Renold from such a broad and diverse customer base with relatively low concentration risk.

The challenge is to ensure consistency of service delivery and quality in effectively managing the diversity of customers and the solutions we provide.

We have initiated a program to define clear service propositions based on classifications of product and customer needs. This will be implemented on a regional basis to allow local management to more closely target the requirements of their local customer base.

This is expected to deliver high value-added solutions for key accounts, with the potential for technological development to be incorporated into standard product ranges where application benefits or manufacturing improvements can be identified.

### Value proposition

The disruptive impact of fundamental changes in the economic climate, coupled with the emergence of low cost product in some sectors of the market, has led to inconsistency in our margin structures.

Our internal reviews of manufacturing, service and brand strategies will create an opportunity for us to review margin across products and service categories to ensure that products with significant added value deliver accordingly.

The net impact of this is expected to be a more competitive product and service package for our target customer base, whilst delivering enhanced operating margins for the business.

A parallel review of our sales network has identified opportunities to consolidate locations into regional hubs retaining customer-facing employees and using technology and more sophisticated logistics to ensure customer service levels are maintained or enhanced.

More efficient service delivery will enhance performance measures such as on-time delivery and lead times. These direct benefits to our customers will enhance customer retention rates and deliver long term margin improvement for Renold.

## Chief Executive's strategic review continued

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### Engineering excellence

Renold strives to deliver engineering excellence for its customers, who continue to demand reduced costs, shorter lead times and innovation in increasingly challenging working environments.

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#### Chain

Renold is renowned for designing and manufacturing high quality, innovative power transmission products for a wide range of customers in a vast number of industries. Renold has taken a leading role in the industry for more than a century and chairs the ISO Standards Committee for Chain. Renold invented the bush roller chain, inverted tooth chain and the modern sprocket tooth form, which was freely given to the chain industry in order to ensure standardisation.

Customers rely on the latest Renold technologies to keep machines running reliably in extreme environments and to maximise performance. We often work on a collaborative basis with customers to design bespoke solutions to specific business challenges. The design teams use cutting edge global engineering systems, enabling our international teams to work round the clock on time critical projects.

Renold has pioneered Smart Chain technology to measure system dynamics, enabling improvements to drive efficiency which ensures real cost savings for

customers. Through this range of Smart Products, Renold provides visibility of the actual loads and wear in a chain drive system via an on-line portal and works in partnership with the customer to deliver maximum working life.

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

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#### Going for gold

After a period of testing and evaluation, British Cycling placed an order for Renold chain in December 2012 in preparation for the February 2013 World Championships held in Minsk. The chain was subsequently fitted to the bikes ridden in the Championships, when Team GB topped the medal table with five gold, two silver and two bronze medals.

A Renold research project has been initiated to examine frictional resistance in a conventional chain design to explore the opportunities for further performance improvements.

## Torque Transmission

Our Torque Transmission products are largely bespoke and often form mission critical components in large, long term projects. Consequently, the extremely high performance characteristics of many of our products, some of which are manufactured exclusively by Renold, are a highly valuable core competence which we seek to leverage.

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

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

## Renold reaches new energy markets

Renold Gears have long been a major supplier to the energy industry through the supply of its custom air preheater drives.

New contracts in India for recently introduced smaller design units mark an expansion in our global reach for this popular product.

Renold was chosen for the superior design against strong local competition. The gearboxes, which were designed and manufactured to customer specific dimensions, are fitted with Renold Sprag clutch technology and were project managed from concept to supply. Custom designs providing a fully integrated solution, ensure the gearing is designed in conjunction with the latest coupling and lubrication systems.

## Key performance indicators

Renold focuses on key performance indicators to measure the Group's progress in achieving its strategic priority to build shareholder value.

| Return on Sales (RoS) <sup>1</sup><br>%                                                                                                                                                                                                                                                                                                                    | Revenue growth<br>£m                                                                                                                                                                                                                                          | Cash generation<br>£m                                                                                                                                                                                                                                                                                                                                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Method of calculation</b><br/>Operating profit before exceptional items as a percentage of sales</p>                                                                                                                                                                                                                                                 | <p><b>Method of calculation</b><br/>Revenue measured on an underlying basis relative to the prior year</p>                                                                                                                                                    | <p><b>Method of calculation</b><br/>Cash flows from operating activities (excluding special pension contributions) after capital expenditure and including fixed asset disposals</p>                                                                                                                                                                        |
| <p><b>Target</b><br/>Achieve double-digit % RoS</p>                                                                                                                                                                                                                                                                                                        | <p><b>Target</b><br/>To ensure any sales growth will be margin enhancing</p>                                                                                                                                                                                  | <p><b>Target</b><br/>To generate positive free cash flow sufficient to service debt and pension obligations</p>                                                                                                                                                                                                                                             |
| <p><b>2013 Performance</b></p> <ul style="list-style-type: none"> <li>Return on Sales<sup>1</sup> decreased to 3.8% (2012: 6.7%) mainly as a result of the weakened demand in the European market</li> <li>Chain benefited from £25m of cost reduction initiatives completed in the first half year</li> <li>TT margin declined with RoS at 11%</li> </ul> | <p><b>2013 Performance</b></p> <ul style="list-style-type: none"> <li>Group suffered fall in revenue mainly due to the weak European market</li> <li>Chain division underlying sales fell 8%</li> <li>Torque Transmission underlying sales fell 7%</li> </ul> | <p><b>2013 Performance</b></p> <ul style="list-style-type: none"> <li>Reduced average working capital ratio<sup>2</sup> from 22.4% to 21.2% compared to 2012</li> <li>Working capital management enhancement initiatives rolled out in the year</li> <li>Business cash flows sustained £4.9m of capital investment and £5.8m of pension payments</li> </ul> |
| <p><b>2014 Targets</b></p> <ul style="list-style-type: none"> <li>Achieve a lower break even point               <ul style="list-style-type: none"> <li>lowering overheads</li> <li>margin enhancement</li> </ul> </li> <li>Goal is steady sustainable annual gains in RoS</li> </ul>                                                                      | <p><b>2014 Targets</b></p> <ul style="list-style-type: none"> <li>Revenue growth will not be a Key Performance Indicator in 2013/14</li> <li>Alternative KPIs focusing on margin enhancement are being developed</li> </ul>                                   | <p><b>2014 Targets</b></p> <ul style="list-style-type: none"> <li>Reduce the Group's overall cost of debt</li> <li>Generate sufficient cash to self-finance additional investment and restructuring activities</li> </ul>                                                                                                                                   |

<sup>1</sup> Based on operating profit before exceptional items divided by revenue

<sup>2</sup> Being rolling 12-month average of inventory, trade and other receivables and trade and other payables divided by revenue

|                                                                                                                                                                                                                                                                                                          |                                              |                                                                                                                                                                                   |                      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
|                                                                                                                                                                                                                                                                                                          |                                              |                                                                                                                                                                                   | Overview             |
| <i>Average lost time accident frequency rates</i><br><i>Average number</i>                                                                                                                                                                                                                               | <i>Working days lost</i><br><i>Days lost</i> | <i>Reportable injury rates (average trend)</i><br><i>Average reportable injury rate</i>                                                                                           | Business review      |
|                                                                                                                                                                                                                                                                                                          |                                              |                                                                                                                                                                                   | Governance           |
| <b>Method of calculation</b><br>The lost time accident frequency rate is calculated using the rolling lost time accident figure for the year to date divided by the number of hours worked in the year and multiplied by 1,000,000 thus providing the lost time accident rate per 1,000,000 hours worked | <b>Target</b><br>Zero preventable accidents  | <b>2013 Performance</b><br><ul style="list-style-type: none"> <li>During the year there has been a continuing improvement in the health and safety record in the Group</li> </ul> | Financial statements |

## Finance Director's review

Brian Tenner  
Finance Director

### Our performance

#### Overview

The results for the year were disappointing with revenue and profitability falling during the year ended 31 March 2013, reflecting ongoing macro-economic challenges in many of the Group's end markets. The business continues to make progress on improving working capital management and on cash generation generally. Working capital reductions in the year generated £4.2m of cash. This was combined with restraint on capital investment to maintain net debt at a similar level to the opening position, despite the reduction in operating profit noted above.

The re-financing of the Group's main bank facilities for a four year term at improved interest margins, combined with the merger of the UK pension schemes which was announced at the end of the financial year, help to improve the Group's balance sheet and reduce the expected annual cash costs of funding both external debt and pension obligations.

#### Orders and revenue

Order intake during the year was slightly lower than revenue with the ratio of orders to revenue (book to bill) being 97.3%. Chain and Torque Transmission had mixed performance in the two halves of the year. Order intake which was down 13.1% in Chain in the first half, recovered in the second half to show a 0.9% decline with key regions of Europe down 1.2% and the Americas 4.7% ahead in the second half. In contrast, Torque Transmission orders saw a 7.2% reduction in the first half growing to a 12.5% reduction in the second.

Group revenue for the year decreased by 9.2% to £190.3m. On an underlying basis, excluding the impact of foreign exchange, the decrease was 7.4%. Chain saw underlying revenue declines of 5.7% and 9.3% in the first and second halves respectively. In Chain Europe, revenue was down by 15.9% in the first half, improving to show a reduced decline of 5.9% in the second half. This improvement was offset by underlying revenue reductions in the second half in Chain North America and Chain Australasia of 8.8% and 8.3% respectively. The overall trend was more positive in the closing quarter in Chain with only Australasia seeing a larger revenue decline than in the third quarter. Torque Transmission saw an increase in the underlying revenue decline from 2.9% in the first half to 10.4% in the second half with lower end user demand for Hi-tec coupling products and SAP related production issues in the Milnrow facility.

#### Operating result

The Group generated £3.6m of operating profit before exceptional items in the first half (2012: £6.4m) and the same result in the second half (2012: £7.7m) with a full year result of £7.2m (2012: £14.1m). The second half result was achieved on 3.2% (£3.1m) lower revenue than the first half. This reflects management action to reduce overheads by approximately £2.0m in the second half. These reductions were primarily achieved through headcount reductions in a number of locations as well as the closure of one of our two offices in Switzerland.

During the year, the Group continued to streamline its operations to achieve greater efficiency. These included finalising the reorganisation of our Chain Europe back office and in the fourth quarter a number of changes to the Executive management team were also made. The cost reductions in the second half will help to offset the expected impact of a full year depreciation charge of £1.0m for the ERP system in the new financial year (2013: £0.2m).

#### Exceptional items

A number of exceptional items have been recognised during the year. The principal driver was the completion of the first phase of our global capacity review for Chain which has led to exceptional impairments of fixed assets, stock and associated tooling in a number of locations with a total value of £6.5m. In addition, the change in strategic focus to deliver improved margins as opposed to prioritising revenue growth has impacted our facility in Hangzhou and, as a result, £1.5m of goodwill and £1.1m of ERP system costs have been written off. Other reorganisation and redundancy charges relate to a number of cost reduction initiatives including the European back office restructuring and Swiss office closures detailed further in Note 2(c). Total exceptional cash expenditure over the next two years is estimated at £6.0m as the emerging findings of the strategic review are implemented.

## The re-financing of the Group's principal bank facilities, and the agreement to merge the UK pension schemes combine to reduce annual cash costs to service both debt and pension obligations in the future

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### Financing costs

External net interest costs in the year were £2.9m (2012: £2.5m) with the increase on the prior year being the result of higher margins being charged by the previous banking club for six months of the year, until the re-financing at the end of September 2012, and exceptional refinancing costs of £0.2m in relation to the write-off of capitalised costs associated with the previous facility. Net IAS 19 finance charges (which are a non-cash item) were £0.3m (2012: £1.8m), the movement being due to lower interest charges on pension plan liabilities in the UK and overseas. The change in the accounting standard covering pensions finance charges means that we expect next year's net IAS 19 financing charge to rise significantly by around £2.5m.

### Result before tax

Profit before tax and exceptional items was £4.1m (2012: £9.7m). The loss before tax after exceptional items was £7.7m (2012: profit of £7.6m).

### Taxation

The current year tax charge of £0.9m (2012: £1.2m) is made up of a current tax charge of £0.7m (2012: £1.0m) and a deferred tax charge of £0.2m (2012: £0.2m). The charge represents an effective adjusted<sup>1</sup> rate of approximately 20% (2012: 17%). Cash tax paid of £0.7m (2012: £0.5m) was lower than the charge to the income statement due to the utilisation of tax losses and other tax assets in various parts of the Group.

<sup>1</sup> Effective adjusted rate is calculated by dividing the tax charge for the year (excluding tax on exceptional items) by adjusted profit before tax.

### Group results for the financial period

Loss for the financial year ended 31 March 2013 was £8.6m (2012: profit of £6.4m), the basic loss per share and the diluted loss per share were 3.9p (2012: earnings 2.8p). The basic adjusted earnings per share and diluted adjusted earnings per share were 1.4p (2012: 4.2p).

### Balance sheet

Net assets at 31 March 2013 were £28.6m (2012: £53.2m). The net liability for retirement benefit obligations was £58.7m (2012: £45.2m) after allowing for a net deferred tax asset of £17.7m (2012: £10.5m). The deficit increased as a result of significantly lower UK discount rates (4.3% compared to 4.9%) and higher inflation assumptions in the UK (3.2% compared to 3.0%). Overseas schemes account for £23.2m or 40% of the post tax pension deficits and £21.4m of this is in respect of the German scheme which is not required to be prefunded (see Pensions section on pages 18 and 19).

### Cash flow and borrowings

Cash generated from operations was £8.9m (2012: £5.9m) which was in part delivered by £4.2m of working capital reductions. Capital expenditure was reduced to £4.9m (2012: £5.6m). Group net borrowings at 31 March 2013 of £22.8m were £0.1m lower than the opening position of £22.9m comprising cash and cash equivalents of £9.8m (2012: £4.8m) and borrowings, including preference stock, of £32.6m (2012: £27.7m).

### Bank facility

During the period, the Group completed a new banking facility agreement for a four year term, maturing in October 2016. The new facilities comprise a committed £41m Multi-Currency Revolving Credit Facility (MRCF), and an additional £8m of ancillary facilities. These facilities have been provided by a new banking group comprised of Lloyds TSB Bank plc and Svenska Handelsbanken AB. This is the Group's principal credit facility although the Group also benefits from numerous overseas facilities totalling £9.6m.

The principal covenants are the Net Debt/Adjusted EBITDA ratio (calculated on a rolling 12 months basis), which has been set at a maximum of 2.5 times until maturity, and Adjusted EBITDA/Interest cover which is required to be greater than 4.0 times until maturity.

The new facilities bring an immediate reduction in borrowing margins of 125-150 basis points with scope for further savings as leverage reduces. This reduction in the margin on the new facility, combined with the benefits of rationalising our global banking arrangements, is expected to give rise to annual interest savings of approximately £0.5m.

Costs of £1.1m associated with this refinancing were offset against borrowings and are being amortised as financing costs over the period of the loan.

At 31 March 2013 the Group had unused credit facilities totalling £16.1m and cash balances of £9.8m. Total Group credit facilities amounted to £48.3m with £44.7m being committed and £3.6m repayable on demand.

## Finance Director's review continued

### Treasury and financial instruments

The Group's treasury policy, approved by the Board of Directors, is to manage its funding requirements and treasury risks without undertaking any speculative risks. Treasury and financing matters are assessed further in the section on Principal risks and uncertainties on page 21. Note 25 to the Group financial statements provides further details of financial instruments.

To manage foreign currency exchange risk on the translation of net investments, certain Dollar denominated borrowings taken out in the UK to finance US acquisitions had been designated as a hedge of the net investment in US subsidiaries. At 31 March 2013 this hedge was fully effective. The carrying value of these borrowings at 31 March 2013 was £6.4m (2012: £8.1m).

At 31 March 2013, the Group had 2% (2012: 4%) of its gross debt at fixed interest rates. Cash deposits are placed short term with banks where security and liquidity are the primary objectives. The Group has no significant concentrations of credit risk with sales made to a wide spread of customers, industries and geographies. Policies are in place to ensure that credit risk on individual customers is kept to a minimum.

### Contracts essential to the business of the Company

The section on Contractual or other arrangements essential to the business on page 48 of the Directors' Report is incorporated by reference here.

### Pensions

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

Agreement was reached at the end of the financial year to merge the three closed UK defined benefit pension schemes into one and to wind up the other two schemes. The merger will lead to a significant reduction in administration costs of approximately £0.5m per annum. The merger and wind up process itself is expected to be substantially completed during the first half of the current financial year.

In order to support further investment in the business, the Trustees have also agreed to pay the first £0.5m of the remaining expenses (the Company will fund the excess each year). The expected net impact of the agreed changes is therefore a reduction in the Company's annual cash costs of £1.0m. In the first year this saving will be partially offset by the partnership set up costs and the costs of executing the merger itself.

Members and their benefits will either be transferred into the RSPS or, for those members with smaller pension entitlements who have the option, to be paid out in wind up lump sums. If all the members entitled to leave the schemes chose that option, the total gross assets and liabilities that would be extinguished would be approximately £20m.

The merged UK pension funds will be underpinned by a 25 year asset backed partnership structure which will provide annual cash contributions of £2.5m to the pension fund, with annual increases linked to RPI and capped at 5%. The present value of this funding stream will be fully recognised as a pension fund asset in the accounts of the merged scheme and will remove £40.0m of the funding basis deficit (estimated at £63m in January 2013). The new arrangement replaces all other existing funding arrangements for the UK defined benefit schemes.

This 25 year deficit funding plan would when paid give rise to a surplus as measured under IFRS of approximately £19.7m. This surplus is deemed to be recoverable by the Group, but would currently be subject to a 35% tax charge deducted at source. Consequently, a liability for £6.9m is recognised at the balance sheet date, which along with a £4.5m deferred tax asset results in a net £2.4m decrease in the Group statement of other comprehensive income.

In South Africa the Financial Services Board gave approval to complete the wind up and liquidation of the pension fund surplus having already made final benefit distributions and enhancements to members. The pre-tax cash surplus of £1.4m was returned to the Group in April 2013.

As at 31 March 2013, total UK assets were £156.0m (2012: £149.1m). UK asset performance reflects actual asset returns of £14.3m (circa 9.6%) and employer contributions of £3.8m less the funding of £11.2m of pension benefits.

Overseas asset values rose by £1.6m and included the residual scheme surplus of £1.4m in South Africa noted above. The overseas asset portfolio earned an average annual return of 7.7%.

The completion of the UK scheme merger will be followed by an opening Triennial Valuation of the merged scheme the results of which will be available during the current financial year.

A summary of the pension movements can be found overleaf.

Brian Tenner  
Finance Director

## Pensions

The Group has a mix of UK (83% of gross liabilities) and overseas (17%) defined benefit pension obligations as shown below

|                                                         | Assets<br>£m | 2013<br>Liabilities<br>£m | Deficit<br>£m | Assets<br>£m | 2012<br>Liabilities<br>£m | Deficit<br>£m |
|---------------------------------------------------------|--------------|---------------------------|---------------|--------------|---------------------------|---------------|
| <b>Defined benefit schemes</b>                          |              |                           |               |              |                           |               |
| UK funded                                               | 156.0        | (199.1)                   | (43.1)        | 149.1        | (180.6)                   | (31.5)        |
| IFRIC 14 adjustment on pension<br>funding contributions | –            | (6.9)                     | (6.9)         | –            | –                         | –             |
| Overseas funded                                         | 15.9         | (18.6)                    | (2.7)         | 14.3         | (17.3)                    | (3.0)         |
| Overseas unfunded                                       | –            | (23.7)                    | (23.7)        | –            | (21.2)                    | (21.2)        |
|                                                         | 171.9        | (248.3)                   | (76.4)        | 163.4        | (219.1)                   | (55.7)        |
| Deferred tax asset                                      |              |                           | 17.7          |              |                           | 10.5          |
| Net deficit                                             |              |                           | (58.7)        |              |                           | (45.2)        |

- The pie charts show the current make up of UK pension scheme membership and asset allocation as at 31 March 2013
- Given the relative maturity of the scheme 48% of assets are now invested in gilts and corporate bonds. It is expected that these will be held to maturity and they are held primarily to generate an income stream that supports the ongoing annual pension payments made (currently circa £11.2m per annum including cash lump sums on retirement)
- The overall target for UK portfolio returns is 6.6% less an allowance of 0.5% for expenses
- The membership profile has changed over the last decade with 53% of members being either pensioners or dependents today compared to 48% in 2003
- The total number of scheme members has fallen by 43% since 2002 to 5,118 today. Of this reduction, net mortality explains 51% with a further 8% due to net leavers from the schemes (whether through the recent Trivial Commutation exercises or members opting to transfer their entitlements elsewhere)
- The merger will reduce the total UK liabilities and assets by a similar amount depending on the take up by members of the option to leave the scheme. There is also expected to be a small net impact on the scheme deficit. We will report on all of these matters when the merger completes during the first half of the new financial year.

- The chart shows the key drivers of change for the Group's UK defined benefit pension schemes over the last year
- The impact of the fall in the discount rate from 4.9% to 4.3% added £15.7m to the deficit
- This far outweighs the benefit of asset gains in period of £6.9m
- The impact of IFRIC 14 to recognise an additional liability of £6.9m representing a 35% tax charge that would apply on the repayment of any surplus recognised by the Group, is partially offset by a £4.5m deferred tax asset

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## Principal risks and uncertainties

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

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

| <i>Risk</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <i>Potential impact</i>                                                                                                                                                                                                                                                                                                                                                  | <i>Mitigation</i>                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Market risks</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <p>↑ <b>Economic and political</b><br/>We operate in 20 countries and sell to customers in over 100 and therefore we are necessarily exposed to significant economic and political risks</p>                                                                                                                                                                                                                                                                                                                                    | <p>Significant economic and political risks such as:<br/>A global recession<br/>Changes in regulations,<br/>Imposition of trade barriers<br/>Wage and currency controls<br/>Security risks,<br/>Volatility of taxes<br/>may all negatively affect the Group's revenues, profit and financial condition</p>                                                               | <p>Diversified geographic footprint mitigates against over-exposure in any one country<br/>Continual monitoring of macro-economic trends, industry specific and internal leading indicators<br/>Contingency planning and scenario modelling</p>                                                                                                                                                                                                       |
| <p>↑ <b>Macro-economic climate in the Eurozone</b><br/>Perceived increase in risk due to the current macro-economic climate particularly in the Eurozone. Potential collapse of the Euro or withdrawal of a Eurozone member from the Euro</p>                                                                                                                                                                                                                                                                                   | <p>Economic downturn in Eurozone affecting revenues and profits<br/>Potential devaluation of currency if a member withdraws from the Euro<br/>Threat to solvency of Eurozone banks impacting access to funds or ability to draw funds</p>                                                                                                                                | <p>Close monitoring of all European operations with significant cost reduction exercises to reduce European cost base<br/>Strong and broad core banking group with debt facility mainly denominated in Sterling</p>                                                                                                                                                                                                                                   |
| <p>↔ <b>Raw material price volatility</b><br/>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 if customers delay orders in anticipation of price reductions</p>                                    | <p>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. All of these factors could have a material adverse effect on the Group's business financial condition, prospects, customer retention and results of operations</p> | <p>Continual monitoring of different international steel price indices for alternate types and grades of steel. Where contractually possible, we pass price increases on to our customers but this ability is, to some extent, dependent upon market conditions. Stock holdings are managed to maintain a forward hedge on input costs and time buffer to allow negotiations with customers and suppliers</p>                                         |
| <p>↔ <b>Competitive markets and technology advancements</b><br/>Renold operates in highly competitive markets with customer decisions based typically on price, quality, technology and service. New entrants or consolidation of existing competitors could restrict our ability to deliver strategic objectives</p>                                                                                                                                                                                                           | <p>Renold may lose customers to competitors if we are unable to adapt to market developments due to changes in consumer preferences, regulatory or industry requirements or competitive technologies</p>                                                                                                                                                                 | <p>Continual review of market trends and competition in monthly executive sessions<br/>Investment in new technology and engineering capabilities<br/>Maintain strong customer relationships and high service levels</p>                                                                                                                                                                                                                               |
| <b>Operational risks</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <p>↔ <b>Manufacturing disruption</b><br/>A catastrophic loss of the use of all or a portion of any of Renold's manufacturing or distribution facilities due to accident, labour issues, fire, weather, terrorism, natural disaster or otherwise, which in the short or long term could adversely affect the Group's ability to meet the demands of its customers.<br/><br/>Some of the assets maintained by the Group such as IT systems and machinery are critical to the manufacture and delivery of a particular product</p> | <p>A material disruption to operational facilities or the loss of critical assets may negatively affect the Group's:<br/>Production capability and asset base<br/>Supply chain management,<br/>Customer relationships and reputation<br/>Financial performance</p>                                                                                                       | <p>Dedicated production and supply chain teams focused on demand fulfilment.<br/>Preventative maintenance programme<br/>Alternate manufacturing capacity exists even after identifying surplus assets for a substantial portion of the Group's product range<br/>Inventory maintained to absorb and flatten out raw material supply and production volatility<br/>The Group has insurance cover to mitigate the impact of a number of these risks</p> |

| <i>Risk</i>                                                                                                                                                                                                                                                                                                                                                                                                                               | <i>Potential impact</i>                                                                                                                                                                                                                                                                                                                              | <i>Mitigation</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| <b>Operational risks continued</b>                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>Overview</b>             |
| <p>↓ <b>ERP system implementation</b><br/>The Group is presently implementing a global ERP system to replace numerous legacy systems</p>                                                                                                                                                                                                                                                                                                  | <p>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</p> <p>Risks have reduced by virtue of the experience gained and lessons learned from previous implementations</p>                          | <p>Use of specialist external consultants to advise on the project</p> <p>Recruitment of experienced personnel</p> <p>Phased implementation</p> <p>Project plan is in place with agreed milestones reviewed by the Board</p>                                                                                                                                                                                                                                                                                                                  |                             |
| <p>↔ <b>Compliance risks – laws and regulations</b><br/>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</p>                                                                                                             | <p>Failure by the Group or its employees or others acting on its behalf to abide by the laws and regulations could result in:</p> <ul style="list-style-type: none"> <li>Administrative, civil or criminal liability</li> <li>Significant fines and penalties,</li> <li>Suspension of the Group from trading</li> <li>Reputational damage</li> </ul> | <p>In order to manage compliance risk the Group:</p> <ul style="list-style-type: none"> <li>Communicates clear compliance culture,</li> <li>Conducts risk assessments and ongoing compliance reviews,</li> <li>Implements policies and procedures</li> <li>Monitors compliance,</li> <li>Provides guidance and training to all employees</li> </ul>                                                                                                                                                                                           |                             |
| <p>↓ <b>Health and safety in the workplace</b><br/>A lack of robust safety processes and procedures could result in accidents involving Renold employees and others on Renold premises</p>                                                                                                                                                                                                                                                | <p>Accidents caused by a lack of robust safety procedures could result not only in civil or criminal liability for both the Group and the Directors but also:</p> <ul style="list-style-type: none"> <li>Significant fines and penalties,</li> <li>Reputational damage</li> </ul>                                                                    | <p>Groupwide health and safety policies and a documented Corporate management system – the Framework</p> <p>Health and safety audits and reporting at sites</p> <p>Continual risk assessments to ensure education of risks</p> <p>Regular tracking of accident rates and root cause analysis via the Risk System</p>                                                                                                                                                                                                                          |                             |
| <p>↔ <b>A lack of technical expertise or management skills</b><br/>The Group's international operations are dependent upon existing key executives and certain other employees in order to sustain and grow its business and there can be no assurances that these employees will remain with the Group. The success of the Group will depend upon its ability to attract, retain and motivate highly qualified and trained employees</p> | <p>If the Group fails to retain, attract or motivate the required calibre of employees then its operational and financial performance may be negatively impacted</p>                                                                                                                                                                                 | <p>Competitive reward programmes, focused training and development</p> <p>Ongoing reviews of succession plans based on business needs</p> <p>Personal development reviews and training programmes</p>                                                                                                                                                                                                                                                                                                                                         | <b>Business review</b>      |
| <p>↑ <b>Operating gearing</b><br/>Relatively small changes in volume have a disproportionate impact on profitability</p>                                                                                                                                                                                                                                                                                                                  | <p>Under utilised fixed assets and supporting cost structures can cause significant losses</p>                                                                                                                                                                                                                                                       | <p>The Group is reviewing its business model to identify excess capacity and under productive overhead costs with a view to lowering the break even point</p>                                                                                                                                                                                                                                                                                                                                                                                 |                             |
| <b>Financial risks</b>                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>Governance</b>           |
| <p>↓ <b>Liquidity</b><br/>In the present economic climate all companies face risk in relation to the availability of debt to fund their ongoing operations</p>                                                                                                                                                                                                                                                                            | <p>If the Group fails to obtain the required funding then this could negatively impact:</p> <ul style="list-style-type: none"> <li>Ongoing operations of the business,</li> <li>Going concern</li> </ul>                                                                                                                                             | <p>The Group engages in active dialogue with various banks to match funding needs with appropriate facilities</p> <p>Cash deposits are placed short term with banks where security and liquidity are the primary objectives</p> <p>Constant management focus to enhance working capital management processes and system</p> <p>New four year term Group borrowing facility agreed in year</p>                                                                                                                                                 |                             |
| <p>↑ <b>Foreign exchange rate volatility</b><br/>Transactional exchange risk exposure<br/>Translational exchange risk exposure</p>                                                                                                                                                                                                                                                                                                        | <p>If the Group does not manage these risks appropriately, then this could result in the Group's earnings and cash flows being exposed to currency risk on its sales and purchases and balances of foreign (non-functional) currencies</p>                                                                                                           | <p>The Board has approved a net cash flow hedging strategy for major currencies that extends for four quarters on a rolling diminishing coverage basis</p> <p>Transactions are covered primarily by forward foreign exchange contracts or cash flow hedges</p> <p>Borrowings denominated in foreign currency are supported and serviced by cash flows in the same currencies</p> <p>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</p> | <b>Financial statements</b> |
| <p>↔ <b>Interest rate volatility</b><br/>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</p>                                                                                                                                                                                                                                | <p>Exposure to variable exchange rates could negatively impact financial performance of the Group</p>                                                                                                                                                                                                                                                | <p>Facility in place for interest rate swaps to manage part of this exposure if volatility arises</p>                                                                                                                                                                                                                                                                                                                                                                                                                                         |                             |
| <p>↓ <b>Pensions deficit volatility</b><br/>Estimates of the amount and timing of future funding obligations for the Group's pension plans are based upon a number of assumptions<br/>Pension deficits are dependent on market based assumptions for discount rates and inflation</p>                                                                                                                                                     | <p>Changes in these assumptions can materially impact the performance and financial condition of the Group</p>                                                                                                                                                                                                                                       | <p>Continual review of the risks in relation to the Group's pension schemes tracked in the risk management system. See Financial Director's review on pages 16 to 19 for details of actions taken in the year. Group is represented by a Company nominated trustee on the investment committee which sets the asset strategies of its pension plans</p>                                                                                                                                                                                       |                             |

## Responsibilities

We believe that consideration of corporate social responsibility is integral to ensuring the protection of the long term interests of our shareholders.

The Board has overall responsibility for corporate social responsibility, including environmental policy and health and safety matters, with the Chief Executive taking direct leadership responsibility supported by the regional and business unit Executive teams

### Ethics

Within the dynamic global business environment, we expect our employees and business operations to conduct themselves ethically, and to be honest, fair and courteous in their dealings. We expect staff to be treated equally regardless of age, race, religion, disability, gender or sexuality.

Renold respects the culture of the countries within which it operates and operates in accordance with the best practice of those countries while adhering to our own policy not to engage in unethical conduct, bribery or corrupt practices. In conducting its business, Renold strives to ensure that integrity underlies all Renold relationships, including those with customers, suppliers and communities and among employees.

The highest standards of ethical business conduct are required of our employees in the performance of their duties. Employees may not engage in conduct or activity that may raise questions as to Renold's honesty, impartiality, or reputation or otherwise cause embarrassment to the Group. Our employees are required to neither offer nor accept improper and/or illegal gifts, hospitality or payments. A new Group Gifts and Hospitality policy will be implemented in the half year commencing 1 April 2013.

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

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

Following implementation of the UK Bribery Act in 2011, the Group put in place training for all members of staff whose roles involve working in environments or activities where there was a perceived risk. A further training programme will commence in the half year commencing 1 April 2013, together with the implementation of an updated Group Anti-Corruption policy. The training programme will thereafter be updated and refreshed and provided to relevant employees on annual basis. Other control processes and updates to formal contractual arrangements with agents and distributors are being put in place to ensure continuous improvement in compliance with the requirements of the Act.

### Employees

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

During the year ended 31 March 2013 the following activities were carried out across the Group.

### Developing our people

We have a formal appraisal and feedback system which operates across the Group and is delivered via the intranet. Individuals are assessed against objectives set at the start of the year with opportunities identified for skills development and beneficial experience.

### Engaging our people

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

We also use bulletin boards for the sharing of knowledge and information across the world. This helps to achieve a common awareness amongst employees of the financial and economic factors affecting the performance of the Group.

### Environment

Renold is committed to managing its activities to provide appropriate levels of care for the environment, for customers and for employees. In particular, Renold seeks to develop and manufacture products that minimise their environmental impact as far as practicable, to co-operate with industry, government bodies, suppliers and customers, to develop and achieve improved standards of environmental care and to conduct operations in compliance with relevant statutory provisions concerning environmental matters.

| Overview                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
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| Business review                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
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| Financial statements                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <p>Five sites within the group are now accredited with the ISO 14001 Environmental Management standard and four sites are actively targeting accreditation. The systems introduced will further assist in ensuring that Renold meets all legal requirements, continues its efforts in preventing pollution and improves its environmental performance across all its activities.</p> <p>Renold remains compliant with the Government's Carbon Reduction Commitment scheme, submitting both a carbon footprint report and annual return to the environmental agency on behalf of the impacted UK sites.</p> <p>The Group continues to strive to reduce its energy costs and the impact of its activities on the environment. With this aim in mind, there have been a number of environment related improvement initiatives during the year ended 31 March 2013, including the following:</p> <ul style="list-style-type: none"> <li>• Our main US Chain facility water discharge arrangements were audited by the local regulator. Whilst compliant with discharge requirements, further improvements were made to exceed the minimum standards.</li> <li>• Energy efficient lighting, with capital costs supported by local government grants, was installed in Morristown.</li> <li>• The two main UK Torque Transmission manufacturing facilities have introduced energy monitoring equipment to help manage energy consumption.</li> <li>• The main UK Chain facility improved its storage of chemicals to reduce the risk of ground contamination.</li> </ul> | <p>We have also engaged third party consultants to help us identify further energy saving and environmental projects in the future.</p> <p>Advance preparation work is due to start to ensure that Renold is able to comply with the new Greenhouse Gas reporting requirements, which are anticipated during the current year. A global survey is due to be undertaken to identify emission sources, based upon the anticipated emission sources expected to be covered within the scope of the new reporting requirements. A potential software platform has been identified to facilitate the capture of data which also accommodates the calculation of emission returns, factoring in the 'country of origin' conversion factors applicable to these calculations.</p> <p><b>Community</b><br/>We aim to be a part of the communities in which we work and, as such, seek to assist projects by providing non-financial support. We encourage volunteering and working with local educational institutions in the promotion and raising of awareness of engineering and manufacturing.</p> | <p><b>Developing capability</b><br/>We strongly believe it is essential to maintain our skill pool. A good example of this is the commitment to a healthy flow of apprentices being recruited, trained and potentially permanently employed across our factories in the UK. For example, at the Renold Gears facility we have an Apprentice Training School. Apprentices spend their first year learning basic engineering skills, before transferring to the shopfloor and other areas of the business such as planning, quality, purchasing and distribution so that they also gain an appreciation and awareness of the wider business operations and how these work together.</p> <p>The apprentices themselves value this mix of formal learning and the 'hands on' experience they gain from working alongside their colleagues. There are currently 16 apprentices in the training school at various stages of a four year programme.</p> <p>In addition to traditional apprentice schemes, Renold also employs school leavers at a trainee level in the UK who continue to progress through higher education on a day release basis. This year there has been one trainee member in the sales team and two trainees working in finance. Extensive training in the areas in which the trainees work is given internally to complement the external courses being undertaken.</p> <p>Renold also continues to liaise closely with various universities which conduct relevant research. We serve our engineering pipeline through these relationships with key universities and through sponsorship.</p> |

## Responsibilities

### Health and safety

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

As part of continuous improvement we made a number of important governance and control enhancements during the year. An updated Group Health and Safety Policy was issued to improve clarity regarding management control obligations and to enhance independent assurance arrangements. This was supported by the launch of the Group Health and Safety Management Framework to assist all parts of Renold to understand the Board's expectations regarding Health and Safety performance.

The Framework is not a set of rules and regulations to be applied mechanically across the Group. It contains principles and expectations which describe a set of outcomes. It is a structured process to manage specific Health and Safety risks, encompassing continual monitoring and periodic review. The Framework is consistent with internationally recognised standards, including OHSAS 18001 and HS(G)65.

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

## The Group Health and Safety Management Framework

Each stage has a number of key components

### Plan

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

### Do

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

### Learn

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

### Measure

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

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                    |                      |
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| <p>A number of third party site audits were undertaken during the year. An enhanced internal audit capability is being established to test and report site compliance against the requirements of the Framework.</p> <p>We also completed the global implementation of an Integrated Risk Management System which supports a number of business processes including standardised Accident reporting, Near Misses, Safety Opportunities and related action tracking.</p> <p>The Board regularly reviews health and safety performance and ensures that any issues identified are promptly addressed. Reporting enhancements have been made to broaden the performance measures. Trend reviews have also been completed on behalf of the Board focusing on particular incident types.</p> <p>The following charts show the Group's health and safety performance for the four years to 31 March 2013. Further details of the lost time accident frequency rate and reportable injury rate can be found on page 45 of the Directors' report.</p> | <p>The Group uses the UK average manufacturing index for Reportable Incident Rates (RIR) as the performance benchmark for each of our locations. That benchmark is a score of 1,500 or lower. Sites with a score in excess of 1,500 are required to implement remediation actions to improve their performance.</p> <p>Specific site improvement projects have also been undertaken during the year. By way of example, at the main UK Chain facility a specialist consultancy firm has supported a Health and Safety improvement initiative including cultural and process aspects. This has included UK IOSH (Institution of Occupational Safety and Health) training of employees at all levels and the completion of sub-projects by the team to improve safety. During the year ended 31 March 2013 there has been a resulting 34.7% reduction in the reportable accident statistics at that facility.</p> <p>All production facilities across the Group which are not currently accredited have declared a target to achieve OHSAS 18001, the management system for Occupational Health and Safety. All sites are required to develop specific health and safety plans to highlight areas that require particular attention and are monitored on a regular basis by the health and safety team.</p> | <p><b>Average lost time accident frequency rates</b><br/>Average number</p> <p><b>Working days lost</b><br/>Days lost</p> <p><b>Reportable injury rates (average trend)</b><br/>Average reportable injury rate</p> | Overview             |
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The lost time accident frequency rate is calculated using the rolling lost time accident figure for the year to date divided by the number of hours worked in the year and multiplied by 1,000,000 thus providing the lost time accident rate per 1,000,000 hours worked.

# Board of Directors

|                                 | Mark Harper<br>Chairman                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Robert Purcell<br>Chief Executive                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Brian Tenner<br>Finance Director                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Appointment to the Board</i> | May 2012                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | January 2013                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | September 2010                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <i>Experience</i>               | <p>Mark, aged 57, was appointed to the Board as a Non-Executive Director and Chairman-elect on 1 May 2012. He took on the role of Chairman in succession to Matthew Peacock at the close of the Annual General Meeting on 12 July 2012. Mark was appointed Executive Chairman on a temporary basis with effect from 1 January 2013, until Robert Purcell joined the Group on 21 January 2013. 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.</p> | <p>Robert, aged 51, joined the Group on 21 January 2013 as Chief Executive following the retirement of Robert Davies. Prior to joining Renold, Robert was Managing Director of Filtrona plc's Protection and Finishing Product 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.</p> | <p>Brian, aged 44, joined the Group in September 2010 as Finance Director. Until 31 August 2010, he was Group Finance Director and a member of the Board of Scapa Group plc. Prior to this, he was Group Finance Director for the former British Nuclear Group. Brian held various Finance Director posts within National Grid and his first industry role was as Head of Investor Relations of Lattice Group plc. His early career was spent with PricewaterhouseCoopers where he qualified as a chartered accountant and he completed several extended international assignments and a wide range of consulting and corporate finance projects.</p> |

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

**Ian Griffiths**  
Non-Executive Director

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

April 2008

January 2010

June 2012

John, aged 63, was appointed to the Board and to the chair of the Audit Committee in April 2008 and became the Senior Independent Non-Executive Director on 21 January 2013. John brings strong relevant technical experience to the role having served as the finance director of the publicly quoted companies MyTravel Group plc and Equant NV. He is also a Non-Executive Director of Fairpoint Group plc, Punch Taverns plc and Nobina SA and was previously a Non-Executive Director of Intec Telecom Systems plc, Molins plc, Albemarle & Bond Holdings plc and Linpac Senior Holdings Limited. John is a fellow of the Chartered Institute of Management Accountants.

Ian, aged 62, was appointed to the Board in January 2010 and to the chair of the Remuneration Committee in November 2010. His appointment to both was extended in January 2013. He was previously Managing Director of Royal Mail Letters and a Director of Royal Mail Holdings plc. He has also been a Non-Executive Director of Ultra Electronics Holdings plc and held Executive Director roles at GKN plc and GKN Holdings plc where he was Group Managing Director, GKN Automotive.

Louise, aged 40, joined Renold as Group Legal Manager in June 2012 and was appointed Company Secretary in November 2012. Louise qualified as a solicitor at a leading City law firm in 1998 and specialised in London market insurance litigation and insurance insolvency until 2003. She spent three years as a Senior Associate at Addleshaw Goddard LLP and six years at Pannone LLP where she was appointed Legal Director, advising in relation to commercial litigation and dispute resolution.

## Corporate governance

The Group is committed to high standards of corporate governance in order to facilitate efficient, effective and entrepreneurial management of the Company. Your Board acknowledges its contribution to achieving management accountability, improving risk management and ultimately to creating shareholder value over the longer term. This statement describes how the principles of corporate governance contained in the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 (the Governance Code), to which the Company is subject for the year ended 31 March 2013, have been applied. The Governance Code is available to view on the Financial Reporting Council's website at [www.frc.org.uk](http://www.frc.org.uk)

### Compliance with the Governance Code

The Board considers that the Company has complied with all relevant provisions set out in the Governance Code throughout the year ended 31 March 2013 except where highlighted below

#### Leadership and Effectiveness

##### Composition

There have been a number of changes to the composition of the Board during the year ended 31 March 2013. The changes made have been designed to ensure that 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.

Currently, the Board comprises a Non-Executive Chairman, two Non-Executive Directors and two Executive Directors. During the year, the number of Non-Executive Directors has ranged from three to four. Changes to the board have included the appointment of Mark Harper as a Non-Executive Director on 1 May 2012 (and as Non-Executive Chairman from 12 July 2012), the resignations of Matthew Peacock (as Non-Executive Chairman) and David Shearer (as Non-Executive Director) with effect from 12 July 2012, the retirement of Robert Davies as Chief Executive with effect from 31 December 2012 and the appointment of Robert Purcell as Chief Executive on 21 January 2013. John Alikins was appointed to the role of Senior Independent Non-Executive Director on 21 January 2013, David Shearer having previously performed this role.

As a consequence of the Board changes, there was no director performing the role of Senior Independent Non-Executive Director between 12 July 2012 and 21 January 2013. The Board considers that whilst the Company was not in compliance with paragraph A.4.1 of the Governance Code in this regard, no issues arose which could have only been best dealt with by an appointed Senior Independent Non-Executive Director and the position was resolved at the earliest available opportunity.

The roles of Chairman and Chief Executive are separated with a clear division of responsibilities set out in writing and agreed by the Board. The Chairman's primary role is to ensure the effectiveness of the Board in setting the direction of the Company and the agenda of the Board. The Chief Executive has the responsibility for managing the business and implementing the strategy agreed by the Board.

The Corporate Governance Code requires under provision A.3.1 that the Chairman of the Company should meet the independence criteria on appointment. This criteria was met upon the appointment of Mark Harper as Chairman which took effect on 12 July 2012.

For the period from 20 November 2012 to 20 January 2013, Mark Harper acted as Executive Chairman on an interim basis, until Robert Purcell was able to join the Company as Chief Executive on 21 January 2013. The Board considers that, whilst the Company was not in compliance with paragraph A.2.1 of the Governance Code (which states that the roles of Chairman and Chief Executive should not be exercised by the same individual), Mark Harper acted with complete independence of character and judgement in this regard and the non-compliance with the provision was unavoidable in the circumstances.

Biographical details of the Directors as at the date of this report appear on pages 26 and 27.

The Company has a detailed framework for the induction of new Directors. This includes the issuing of all key documents relating to the new Director's role on the Board to the new Director, as well as site visits and face-to-face meetings with senior executives. Since joining the Group in January 2013, Robert Purcell has visited the majority of Renold's sites including the US, China, Australia and Germany.

#### Board operation

The Board has approved a schedule of matters reserved for decision by it to ensure that it takes all major strategy, policy and investment decisions affecting the Group. The Board provides entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. In addition, it is responsible for business planning, including reviewing succession planning and risk management and the development of Group policies for areas such as health, safety and environmental, Directors' and senior managers' remuneration and ethics. The Executive Directors have authority to deal with all other matters affecting the Group. Appropriate ongoing training is provided for the Board and individual directors as required.

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

#### Business model and strategy

Please refer to the Business Review section on pages 6 to 25 for details of the Company's ongoing reviews in relation to the business model and strategy of the business.

### Board evaluation

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

Both an evaluation of the Board and the Audit Committee and an evaluation of the Chairman were carried out during the year ended 31 March 2013.

Given the changes to its composition this year, the Board took the view that the evaluation of the Nomination and Remuneration Committees could be postponed to enable the Board to spend time on other priorities. Evaluations of each of these Committees will be carried out in the first half of the current year, together with the annual reviews of the Board and its members and the Audit Committee.

### Board independence

Despite the various changes to the Board during the year ended 31 March 2013, there has at all times been a balance of Executive and Non-Executive Directors and at least two independent Non-Executive Directors. The Board is of the opinion that all of the Directors take decisions objectively and in the best interests of the Company and that no individual or small group of individuals can dominate the Board's decision taking. The balance between Non-Executive and Executive Directors allows independent challenge to the Executive Directors and senior management.

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

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

The Company's articles of association require that one-third of Directors retire by rotation each year and that each Director must retire where he or she has not been elected or re-elected at either of the two preceding Annual General Meetings. At the Annual General Meeting on 23 July 2013 (Annual General Meeting), John Allkins and Ian Griffiths will be offering themselves for re-election having both been previously elected or re-elected on 15 July 2010. Therefore the requirement for one-third of the Directors to retire at the Annual General Meeting has been met.

Robert Purcell will be elected as a Director at the Annual General Meeting in accordance with the Company's articles of association. Biographical details of Robert Purcell are contained in the notice of the Annual General Meeting.

The Board meets on a regular basis with an agenda and necessary papers for discussion distributed in advance of each meeting. The following table shows the number of meetings of the Board and its committees during the year and individual attendance by Board and committee members at those meetings.

|                             | Number attended |                 |                      |                        |                           |
|-----------------------------|-----------------|-----------------|----------------------|------------------------|---------------------------|
|                             | Board           | Audit Committee | Nomination Committee | Remuneration Committee | Risk Monitoring Committee |
| Matthew Peacock             | 3               | —               | 1                    | 1                      | —                         |
| Robert Davies <sup>1</sup>  | 6               | 3               | —                    | 2                      | 3                         |
| Brian Tenner <sup>1</sup>   | 11              | 4               | —                    | 1                      | 5                         |
| David Shearer               | 3               | 2               | 1                    | 2                      | —                         |
| John Allkins                | 11              | 4               | 2                    | 7                      | —                         |
| Ian Griffiths               | 11              | 4               | 2                    | 7                      | —                         |
| Mark Harper                 | 10              | 3               | 1                    | 5                      | 1                         |
| Robert Purcell <sup>1</sup> | 3               | 1               | —                    | —                      | 1                         |
| Total number of meetings    | 11              | 4               | 2                    | 7                      | 5                         |

1 Robert Davies, Robert Purcell and Brian Tenner attended Remuneration Committee and/or Audit Committee meetings by invitation.

### Board committees

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

Louise Brace acted as secretary to the committees since her appointment as Company Secretary on 28 November 2012 and as secretary to the Remuneration Committee since January 2013. Previously, Maggie Hurt (former Group Human Resources Director) acted as secretary to the Remuneration Committee and Brian Tenner, as Company Secretary, acted as secretary to the Audit and Risk Monitoring Committees.

The terms of reference of the Remuneration Committee currently provide for the Group Human Resources Director to be the secretary of the Remuneration Committee and these will be amended to reflect the change in responsibility for this role to the Company Secretary.

The terms of reference for each of these committees are available on the Company's website at [www.renold.com](http://www.renold.com).

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continued

## Board committees continued

| Composition                              | Role                                                                                                                                                                                                                                    | Activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| John Allkins (Chairman)<br>Ian Griffiths | The review of the Group's financial statements, internal financial control systems, ethics policy, internal audit reports and the appointment/reappointment and independence of the external auditors and conduct of the external audit | <p>The Audit Committee normally meets four times a year. The Board is satisfied that the Chairman of the Audit Committee has recent and relevant financial experience.</p> <p>Throughout the year, John Allkins and Ian Griffiths have been members of the Audit Committee. David Shearer was appointed to the Audit Committee until he left the Board (on 12 July 2012).</p> <p>The Chairman, Chief Executive, Finance Director and other managers (including those from the internal audit function) attend meetings from time to time at the invitation of the Audit Committee. The external auditor, who attends by invitation, is invited by the Audit Committee to advise it of any matters which they consider should be brought to the Audit Committee's attention without the Executive Directors present.</p> <p>A formal process for evaluating the performance and independence of the external auditors and the performance of the Audit Committee and the internal audit function is conducted annually. The Board reviews the outcome. Additionally, to safeguard the independence and objectivity of the auditor, the Audit Committee has approved a policy on non-audit services provided by the auditors in line with professional practice. The policy is discussed in further detail on page 32 under 'Review of the work of the external auditor' and is available on the Company's website at <a href="http://www.renold.com">www.renold.com</a>.</p> <p>The Audit Committee met four times during the year ended 31 March 2013. In the course of these meetings the Audit Committee considered matters which included the following:</p> <ul style="list-style-type: none"> <li>• <b>Internal controls</b> The Audit Committee considered reports from the internal audit function summarising work planned and undertaken, recommending improvements and describing actions taken by management. The Audit Committee also sought the views of the external auditor in making its assessment of the internal control environment including all material controls, financial, operational and compliance controls and risk management systems.</li> <li>• <b>Internal audit function</b> The Audit Committee evaluated the performance of the internal audit function and assessed the work planned and undertaken through the completion of a questionnaire which was used to facilitate a discussion of performance.</li> <li>• <b>Risk monitoring</b> The Risk Monitoring Committee reported the results of its discussions to the Audit Committee.</li> <li>• <b>Financial reporting</b> The Audit Committee reviewed draft annual and interim reports before recommending their publication to the Board. The Audit Committee discussed with the Chief Executive, Finance Director and external auditor the significant accounting policies, estimates and judgements applied in preparing these reports and reviewed data provided in accordance with policies which aim to provide assurance that transactions are recorded properly to permit the preparation of financial statements in accordance with International Financial Reporting Standards (IFRSs). It also reviewed papers prepared by the Board to support key judgements and their related disclosures in accordance with IFRS.</li> <li>• <b>Whistle blowing</b> The Audit Committee reviews the Group's procedures for staff to raise concerns about financial reporting or other misconduct in confidence. The Audit Committee considers any and all reports summarising the concerns raised, how these were investigated and follow-up action taken.</li> </ul> |

|                                 |                                                                               |                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Overview             |
|---------------------------------|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| <div>Nomination Committee</div> | <b>Composition</b><br>Mark Harper (Chairman)<br>John Allkins<br>Ian Griffiths | <b>Role</b><br>To select and recommend to the Board new appointments of Executive and Non-Executive Directors<br>The Nomination Committee meets as required | <b>Activities</b><br>Throughout the year, John Allkins and Ian Griffiths have been members of the Nomination Committee. Mark Harper was appointed Chairman of the Nomination Committee on 12 July 2012. Prior to that, Matthew Peacock was the Chairman of the Nomination Committee and David Shearer a member until they left the Board (on 12 July 2012).<br>Mark Harper was appointed to the Board as Non-Executive Director and Chairman elect with effect from 1 May 2012.<br>Robert Purcell was appointed to the Board as an Executive Director and Chief Executive and joined the Company on 21 January 2013.<br>Robert Purcell was appointed following an evaluation of a number of candidates. Robert Purcell's appointment was made on merit and against objective criteria based upon his skills, experience, independence and knowledge of the company and the process for his appointment was led by the Nomination Committee through the use of experienced external recruitment consultants, which recommended the appointment to the Board.                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Business review      |
|                                 | <div>Remuneration Committee</div>                                             | Ilan Griffiths (Chairman)<br>John Allkins                                                                                                                   | To determine the terms and conditions of employment including remuneration and benefits of the Chairman and the Executive Directors as well as performance-related bonus schemes and pension rights.<br>The main Board determines the remuneration of the Non-Executive Directors (other than the Chairman) and individual Non-Executive Directors are not present when their own remuneration is being discussed.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Governance           |
|                                 | <div>Risk Monitoring Committee</div>                                          | Robert Purcell (Chairman)<br>Brian Tenner                                                                                                                   | To evaluate and manage the risks to the Group.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Financial statements |
|                                 |                                                                               |                                                                                                                                                             | The Remuneration Committee is chaired by Non-Executive Director Ian Griffiths. John Allkins is also a member of the Remuneration Committee. David Shearer was a member of the Remuneration Committee until he left the Board (on 12 July 2012).<br>The Chairman of the Board and Chief Executive attend meetings from time to time at the invitation of the Remuneration Committee.<br>The Directors' remuneration report is set out on pages 34 to 43. Details of advice taken by the Remuneration Committee during the year ended 31 March 2013 is contained within the Directors' remuneration report on pages 34 to 43 which is incorporated by reference here.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                      |
|                                 |                                                                               |                                                                                                                                                             | The Risk Monitoring Committee is chaired by the Chief Executive Robert Purcell and is comprised of the Executive Directors. Robert Davies was Chairman until his retirement on 31 December 2012.<br>The Chairman invites attendance to the Risk Monitoring Committee of any employee as appropriate depending upon the nature of the risks to be considered at any one time.<br>In addition, the following people currently attend by invitation: the Group IT Director, the Group Head of Business Process and Assurance and the Group Legal Manager and Company Secretary.<br>During the period 1 April 2012 to 10 January 2013, the following also attended by invitation: the Group Human Resources Director, the Group Engineering Director and the Managing Director of European Chain.<br>The Risk Monitoring Committee meets quarterly and reports to the Audit Committee at least twice each year. For the year ended 31 March 2013, the Risk Monitoring Committee met five times to facilitate a hand over between the Executive Chairman and Chief Executive. It is intended that, in future, the Risk Monitoring Committee will meet quarterly.<br>The Risk Monitoring Committee considers the principal risks to the Group and the appropriate actions to be taken to minimise such risks. It is also provided with information in the form of reports on health and safety, treasury, insurance and material litigation. The Chairman of the Risk Monitoring Committee reports to the Audit Committee. |                      |

# Corporate governance continued

## Review of the work of the external auditor

Ernst & Young LLP were appointed as the external auditor in 2007 following a tender process where assessment criteria included quality of service, qualifications, expertise, independence, effectiveness and scale of international network to service Renold

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

The Audit Committee is responsible for ensuring that an appropriate relationship is maintained between the Group and the external auditor. The Group has implemented a policy of controlling the provision of non-audit services by the external auditor in order to ensure that its objectivity and independence are safeguarded. This control is exercised by ensuring that all non-audit services where fees exceed an agreed limit are subject to the prior approval of the Audit Committee. During the year ended 31 March 2013, the Audit Committee continued with the appointment of other accountancy firms to provide non-audit services to the Group and anticipates that this will continue during the year ending 31 March 2014.

A full breakdown of the audit and non-audit related fees is set out in Note 2(b) to the financial statements on page 66. The Audit Committee discussed the level of fees and considered them appropriate given the current size of the Group. The Audit Committee is satisfied that the level and scope of non-audit services undertaken by the external auditor does not impair its independence or objectivity and considers that the Company receives particular benefit from the advice provided by its external auditor, given its wide and detailed knowledge of the Group and its international operations. An assignment would not be given to the external auditor when the result may be that as part of the statutory audit, it is required to report directly on its own non-audit work, it makes management decisions on behalf of the Group, it acts as advocate for the Group, or the level of non-audit fees is such, relative to audit fees, as to raise concerns about its ability to form objective judgements.

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

## Conflicts of interest

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

## Internal control

The Board has overall responsibility for the Group's system of internal control including financial, operational and compliance controls and risk management systems, and for reviewing internal control effectiveness. The ongoing process, in accordance with the Financial Reporting Council's 'Internal Control: Revised Guidance for Directors on the Combined Code (October 2005)', of review of the system of internal controls by the Directors, to identify, evaluate and manage the significant risks faced by the Group, has been in place for the year ended 31 March 2013 and up to the date of approval of this report and the financial statements. Internal controls and the risk management process are reviewed on a regular basis by the Audit Committee, which reports directly to the Board, and the Risk Monitoring Committee, which reports to the Audit Committee and, ultimately, to the Board.

During the year ended 31 March 2013, the responsibility to review internal control effectiveness was discharged by the Audit Committee and reported to the Board as follows:

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

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

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

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

- a Risk Monitoring Committee which oversees, on behalf of the Audit Committee and, ultimately, the Board, that appropriate policies are implemented to identify and evaluate risks. As part of the Group's efforts to ensure continuous improvement, the Group's risk management processes were critically reviewed to ensure that these continue to meet the requirements of the Group Board. As a result, a number of process changes were implemented during the year ended 31 March 2013 and will continue to be implemented during the next financial year to ensure a deeper and broader assessment of risk, as ratified by the Group Board. Output from the new risk management processes, comprising risk profiles and full action tracking, will be subject to Board review at least four times in the year, to ensure that risks deemed to be excessive are receiving commensurate management attention,
- access for all Group employees to a free of charge, independent whistle blowing hotline enabling them to report any concerns about theft, fraud or other malpractice in the workplace,
- an internal audit function which assists management and the Audit Committee in the fulfilment of the Board's responsibility for ensuring that the Group's financial and accounting

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systems provide accurate and up-to-date information about its current financial position whilst also permitting the accurate preparation of financial statements,

- an organisational structure which supports clear lines of communication and tiered levels of authority,
- a schedule of matters reserved for the Board's approval to ensure it maintains control over appropriate strategic, financial, organisational and compliance issues,
- the preparation of detailed annual financial plans covering profit and cash flow, which are approved by the Board,
- the review of detailed regular reports comparing actual performance with plans and of updated financial forecasts,
- procedures for the appraisal, approval and control of capital investment proposals,
- procedures for the appraisal, approval and control of acquisitions and disposals,
- monitoring procedures which include a system of key financial controls self assessment questionnaires, and
- enhancements in internal controls have been achieved from the standardisation of processes and core transactional controls as supported by the implementation of the new ERP system

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

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

#### Going concern

After making enquiries, we, the Directors, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. We therefore continue to adopt the going concern basis in preparing the financial statements.

The basis on which this conclusion has been reached is set out on page 50 which is incorporated by reference here.

#### Communications with shareholders

Communications with shareholders are given high priority. The Board is accountable to shareholders and therefore, it is important for the Board to appreciate the requirements of shareholders and equally that shareholders understand

how the actions of the Board and short term financial performance relate to the achievement of longer term goals. The Non-Executive Directors make themselves available to meet shareholders on request, attend shareholder visits at Company sites and are available for discussions with analysts and the Company's broker.

The reporting calendar is driven by the publication of interim and final results each year, in which the Board reports to shareholders on its management of the Company. Comments on Group financial performance in the context of the business risks faced and objectives and plans for the future are set out in the Business review on pages 6 to 25.

At other times during the year, presentations are given by the Executive Directors to analysts and updates provided to the London Stock Exchange and shareholders via the Company's website at [www.renold.com](http://www.renold.com). In addition, the Chairman, Chief Executive and Finance Director meet with major shareholders to discuss governance and Group strategy.

The Senior Independent Non-Executive Director does not generally attend meetings with shareholders although makes himself available to attend such meetings if and when required. Whilst the Company is not in compliance with paragraph E1.1 of the Governance Code, the Chairman ensures that the Chief Executive and Finance Director provide feedback to the Board following presentations to investors and meetings with shareholders and analysts' and brokers' briefings are circulated to all Directors in order to ensure that Board members, and in particular Non-Executive Directors, develop an understanding of the views of major shareholders about their Company.

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

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

#### Other information

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

If you wish to advise a change of name, address, or dividend mandate, please contact the Company's registrar, Capita Registrars, whose contact details appear on page 104. Alternatively, you can view up-to-date information and manage your shareholding through Capita's share portal where you will be able to access and maintain your holding at your own convenience. You will require your unique investor code, which can be found on your share certificate. The URL for the portal is [www.capitashareportal.com](http://www.capitashareportal.com).

## Directors' remuneration report

### Introduction

As Chairman of the Remuneration Committee I am pleased to present the Directors' remuneration report for the year ended 31 March 2013 which anticipates the new policy and disclosure requirements on Directors' remuneration required by the draft Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations'). Although the Regulations will not come into force until 1 October 2013 and are therefore not yet mandatory, the Remuneration Committee has decided to adopt some of these changes early, including a remuneration policy table and charts showing Executive Directors' remuneration at various performance levels.

The Remuneration Committee welcomes the introduction of the reforms. The Remuneration Committee has always believed in actively engaging with shareholders, employees and individual directors and will continue to do so in relation to executive remuneration policy.

The Remuneration Committee determines on behalf of the Board, and within agreed terms of reference set by the Board, the overall remuneration packages for the Executive Directors and the Chairman, and the terms of the service contracts and all other terms and conditions of employment of the Executive Directors.

The Remuneration Committee also takes into account the pay and employment conditions of employees within the Group when determining Executive Directors' remuneration. During the year ended 31 March 2013 there were no pay rises for Executive Directors. The proportion of the Group's basic salary bill attributable to the Executive Directors' base salaries for the year ended 31 March 2013 was 0.93% (2012: 0.78%).

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

### Remuneration Committee membership

Details of those who were members of the Remuneration Committee during the year ended 31 March 2013 are contained in the Corporate governance section of the Annual Report on pages 30 to 33. The members of the Remuneration Committee during the financial year were:

- Ian Griffiths (Chairman)
- John Allkins
- David Shearer<sup>1</sup>

The Chief Executive and the Chairman attend meetings of the Remuneration Committee by invitation but do not take part in the Remuneration Committee's recommendations on their own remuneration. No Director is involved in deciding his own remuneration, whether determined by the Remuneration Committee, or in the case of the Non-Executive Directors, by the Board.

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

<sup>1</sup> David Shearer was a member of the Remuneration Committee until 12 July 2012.

#### Remuneration Committee activities

The Remuneration Committee met on seven occasions during the year to discuss

| Theme                             | Agenda Items                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Best practice                     | <ul style="list-style-type: none"><li>• The Company's remuneration policy in light of the Regulations, discussions and feedback from the Company's AGM in 2012</li><li>• Review of the current UK corporate governance environment and the implications for the Company</li></ul>                                                                                                                                                                                                                                                                         |
| Pay Policy                        | <ul style="list-style-type: none"><li>• Consideration and approval of the pay policy as summarised in this report</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Implementation report             | <ul style="list-style-type: none"><li>• Consideration and approval of the Implementation report to be put to shareholders and as summarised in this report</li></ul>                                                                                                                                                                                                                                                                                                                                                                                      |
| Executive Directors' remuneration | <ul style="list-style-type: none"><li>• Determination of the former Chief Executive's package on leaving the Company</li><li>• Determination of the new Chief Executive's remuneration package</li><li>• The basic salaries payable to each of the Executive Directors</li><li>• The annual bonus and payments for the financial year ended 31 March 2013</li><li>• The annual bonus structure and performance targets for the financial year ending 31 March 2014</li><li>• The Company's Share Option Plans, including adoption of a new plan</li></ul> |

#### Advisers to the Remuneration Committee

During the year ended 31 March 2013 the Remuneration Committee received independent advice relating to remuneration matters from Ernst & Young LLP, with total fees for services provided amounting to £15,250. This included advice in relation to the Company's Share Option Plans, best practice corporate governance and advice on the Regulations.



**Ian Griffiths**  
Chairman of the Remuneration Committee  
28 May 2013

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# Directors' remuneration report

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## Executive remuneration policy

The following table summarises the elements of remuneration for the Executive Directors for the year ending 31 March 2014

### Remuneration table

|                             | Purpose and link to corporate strategy                                                                                                                                 | Operation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Maximum value/<br>Review basis                                                                                | Performance metrics                                                                                                                                                     |
|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Base salary                 | To ensure competitive salaries to attract, retain and motivate the talent responsible for executing strategy while ensuring the Company pays no more than is necessary | Reviewed annually, policy is to provide salary at around market median level and comparable to jobs in manufacturing companies of a similar size and reach<br>Influenced by: <ul style="list-style-type: none"> <li>• Role experience and performance</li> <li>• Change in broader workforce salary</li> <li>• Salaries payable in similar companies</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Reviewed annually and set on 1 April each year                                                                | Not applicable                                                                                                                                                          |
| Benefits                    | To align with market and to attract and retain talent responsible for executing strategy while ensuring the Company pays no more than is necessary                     | Benefits consist of a fully expensed company car (or cash equivalent) and private medical insurance, in addition to life assurance. The value of benefits is not pensionable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Reviewed annually and set on 1 April each year                                                                | Not applicable                                                                                                                                                          |
| Pension                     | To ensure competitiveness and to attract and retain talent responsible for executing strategy while ensuring the Company pays no more than is necessary                | The Executive Directors are not members of the Company pension scheme and have their own pension arrangements. The Company has no pension liability beyond making annual cash contributions to the personal pension schemes of the Executive Directors. On death, a lump sum death-in-service benefit of four times base salary is payable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Cash allowances equivalent to 15% of base salary                                                              | Not applicable                                                                                                                                                          |
| Annual bonus                | To incentivise delivery of corporate strategy and reward delivery of superior performance                                                                              | Bonus payments are based on Group financial targets. Maximum bonus payments are made only upon the achievement of outstanding performance. Bonuses are not pensionable.<br><br>Objectives are set at the start of the financial year and determined by reference to performance targets. The level of bonus paid is determined by the Remuneration Committee after the year end based on performance against target                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | For Executive Directors the maximum annual bonus payable is 100% of base salary                               | Group financial results only using a matrix of adjusted EBITDA and average net debt                                                                                     |
| 2013 Performance Share Plan | To incentivise delivery of long-term shareholder value                                                                                                                 | As the 2004 Option Plans (as described later in this report) are due to expire in the near future, the Remuneration Committee is seeking to adopt a new 2013 Performance Share Plan ('PSP') for use going forward. Shareholder approval to the PSP will be sought at the AGM on 23 July 2013. The key features of the 2013 PSP are: <ul style="list-style-type: none"> <li>• Conditional share awards or options may be granted under the PSP (the exercise price of options is to be determined by the Remuneration Committee and can be nil (or not less than nominal value where new issue shares are to be used))</li> <li>• The Remuneration Committee intends to impose performance conditions on the vesting of awards made to Executive Directors</li> <li>• Outstanding commitments to issue new shares under all share plans operated by the Company are subject to a maximum of 10% of the Company's issued share capital in any ten year period</li> <li>• The PSP includes the ability to grant options under an HM Revenue &amp; Customs approved schedule. Such approved options may be granted alone or in conjunction with a non-approved award, but within the limits stated above</li> </ul> | A maximum of 100% of base salary each year. 200% of base salary in exceptional circumstances (eg recruitment) | Performance condition based on compound annual growth rate ('CAGR') in adjusted earnings per share with entry level vesting at 30% CAGR and maximum vesting at 50% CAGR |

### Selection of performance conditions

The Remuneration Committee considers the performance conditions selected for the annual bonus and PSP to appropriately underpin the Company's strategic objectives for the following reasons

- The Remuneration Committee considers the performance conditions for the annual bonus encourages achievement of stretching financial targets so that the Company is in a position to pay a dividend to shareholders, reward its shareholders, and be able to make future investment
- The Remuneration Committee considers compound annual growth in earnings per share to be the most appropriate performance condition to align the goals of executive management with the interests of shareholders
- The Remuneration Committee will always review the performance conditions prior to awards being made to ensure that they remain appropriate given the Company's expectations of future performance

### Scenarios

Robert Purcell joined the Company as Chief Executive on 21 January 2013 following the retirement of Robert Davies on 31 December 2012. The charts (right) demonstrate the total amount of remuneration payable to Robert Purcell and Brian Tenner for the year ending 31 March 2014 should they achieve below, at or above threshold performance. The amounts shown represent £000s and for share related elements the face value of awards

### Service contracts and remuneration

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

|                | Date of contract | Expiry date of current term/notice period         |
|----------------|------------------|---------------------------------------------------|
| Robert Purcell | 21 January 2013  | No specified term/terminable on 12 months' notice |
| Brian Tenner   | 1 September 2010 | No specified term/terminable on 12 months' notice |
| Robert Davies  | 2 March 2004     | No specified term/terminable on 12 months' notice |

Other than normal payments due during the notice period, there are no express provisions for compensation payable upon early termination of the Executive Directors' contracts. In the event of early termination, the Company's policy is to act fairly in all circumstances. The Remuneration Committee has noted the Association of British Insurers' and National Association of Pension Funds' joint statement on Executive Contracts and Severance. Neither of the contracts provides for compensation to be paid in the event of a change of control of the Company. Copies of the two service contracts will be available for inspection by shareholders at the AGM.

### External non-executive directorships

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

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## Directors' remuneration report

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#### Service contracts and exit payments

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

|               |                                                                                                                                                                                                                                                                                                                                                                         |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Calculation   | On a leaver event the Remuneration Committee will consider the reasons for cessation and whether the individual is to be treated as a good or bad leaver and consequently whether any exit payments other than those contractually required are warranted                                                                                                               |
| Leaver policy | A bad leaver event, such as cessation being caused by reason of resignation will be treated in accordance with the terms of the individual's contract and exit payments will be limited to the minimum amount provided for by contract. A good leaver will be treated in accordance with the rules applicable to each particular element of compensation not yet vested |
| Performance   | In all instances where a person is deemed to be a good leaver, the Remuneration Committee will consider the performance conditions applying to any unvested awards and the performance period which has elapsed                                                                                                                                                         |

#### Shareholder views

The Remuneration 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 advisors. The Remuneration 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 Remuneration Committee and where thought necessary amendments made to remuneration policy.

#### Non-Executive Directors

The Company's policy in respect of Non-Executive Directors' remuneration is managed by the Board. Remuneration for Non-Executive Directors is confined to fees alone, without a performance-related element. Each of the Non-Executive Directors is entitled to reimbursement of reasonable expenses incurred in the course of his duties.

#### Chairman's and Non-Executive Directors' fees

The contractual fee levels payable to the Chairman and Non-Executive Directors for the year ending 31 March 2014 are

| Name          | Contractual fees      |
|---------------|-----------------------|
| Mark Harper   | £110,000 <sup>1</sup> |
| John Allkins  | £43,000 <sup>2</sup>  |
| Ian Griffiths | £38,000               |

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

2 John Allkins' fee was increased from £40,500 to £43,000 with effect from 21 January 2013, the additional fee being payable on his appointment as Senior Independent Non-Executive Director.

#### Appointment details

The details of the appointments of the Chairman and Non-Executive Directors are as follows

| Name            | Date of appointment            | Unexpired term (months) | Date of election/last re-election |
|-----------------|--------------------------------|-------------------------|-----------------------------------|
| Mark Harper     | 1 May 2012                     | 25                      | 12 July 2012                      |
| John Allkins    | 17 April 2008 <sup>3</sup>     | 11                      | 15 July 2010                      |
| Ian Griffiths   | 13 January 2010                | 33                      | 15 July 2010                      |
| Matthew Peacock | 21 September 2006 <sup>4</sup> | —                       | 21 September 2009                 |
| David Shearer   | 1 May 2007 <sup>5</sup>        | —                       | 21 September 2009                 |

3 John Allkins' appointment was renewed on 3 March 2011 for a further period of three years in line with best practice guidelines.

4 Matthew Peacock left the Company on 12 July 2012.

5 David Shearer left the Company on 12 July 2012.

The letters of appointment of the Chairman and Non-Executive Directors confirm that the appointment in each case is for a specified term and that reappointment is not automatic. When making a decision on reappointment, the Board reviews the Non-Executive Director's attendance and performance at meetings and the composition and skill of the Board as a whole. Each Non-Executive Director is appointed for an initial period of three years, subject to earlier termination by either party. Thereafter, the appointment may be renewed, provided that both the Non-Executive Director and the Board agree. The letters of appointment contain no provision for payment or compensation on early termination. Copies of the individual letters of appointment are available for inspection by shareholders at the AGM.

Ian Griffiths' initial appointment as Non-Executive Director expired in January 2013 and his appointment was renewed by the Board for a further period of three years in line with best practice guidelines with effect from 14 January 2013. John Allkins was appointed Senior Independent Non-Executive Director on 21 January 2013.

#### Fixed elements of pay

##### Base salary

The base salaries of the Executive Directors

| Name           | Position               | Salary from 1 April 2013 | Salary from 1 April 2012 |
|----------------|------------------------|--------------------------|--------------------------|
| Robert Purcell | Chief Executive        | £300,000                 | –                        |
| Robert Davies  | Former Chief Executive | –                        | £291,000                 |
| Brian Tenner   | Finance Director       | £185,000                 | £185,000                 |

##### Pension

The Company did not provide separate pension contributions for Robert Davies up to the date of his retirement on 31 December 2012, his pension contributions being paid as a cash allowance of £32,703 for the year ended 31 March 2013 (£43,605 for the year ended 31 March 2012).

Pension contributions of £27,750 were paid during the year ended 31 March 2013 for Brian Tenner (£27,750 for the year ended 31 March 2012).

Pension contributions of £8,831 were paid during the year ended 31 March 2013 for Robert Purcell, annual contributions of £45,000 having been agreed upon his appointment.

#### Variable elements of pay – awards vested in year

##### (i) Annual Bonus (cash)

The annual bonus, which is payable in cash, provides the Executive Directors with the opportunity to receive an annual bonus based on achievement of certain performance targets.

In the previous year, 25% of the annual bonus was paid in Company shares with a matching award from the Company. No such matching awards were made in the year ended 31 March 2013 and 100% of the annual bonuses is payable in cash.

For the year ended 31 March 2013 the annual bonus scheme for Executive Directors was structured as follows:

| Name         | Maximum<br>(% salary) | Adjusted EBIT |          | Cash generation and<br>working capital<br>ratio to sales |          | Personal<br>objectives |          | Paid in<br>cash |
|--------------|-----------------------|---------------|----------|----------------------------------------------------------|----------|------------------------|----------|-----------------|
|              |                       | Weight        | Achieved | Weight                                                   | Achieved | Weight                 | Achieved |                 |
| Brian Tenner | 100%                  | 30%           | Nil      | 50%                                                      | 175%     | 20%                    | 13.7%    | £57,720         |

Under the discretion of the Remuneration Committee, it was decided that a bonus of £35,000 (after pro-rating for nine months employment during the year) should be paid to Robert Davies. This was agreed to be fair and reasonable payment on the basis of personal performance conditions and the overall financial performance of the Company.

Robert Purcell did not participate in the Annual Bonus scheme for the year ended 31 March 2013.

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## Directors' remuneration report continued

### (ii) 2004 Option Plans

During the year ended 31 March 2013, the 2004 Option Plans were used as the sole long term incentive arrangement for the Executive Directors. These plans consist of the Renold plc 2004 Inland Revenue Approved Company Share Option Plan and the Renold plc 2004 Non-Inland Revenue Approved Company Share Option Plan (together the '2004 Option Plans'). The key features of the 2004 Option Plans are

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

For options granted during and since the year ended 31 March 2010, the performance condition is based on a varying percentage of the shares under option becoming exercisable depending on the Company's share price on the date three years following the date of the grant of the share options. The following tables show the different conditions for individual directors in awards granted under the 2004 Option Plans

#### Granted 27 September 2010

| Share price (p) | % of shares under option that become exercisable <sup>1</sup> |
|-----------------|---------------------------------------------------------------|
| 30              | 25                                                            |
| 40              | 50                                                            |
| 50              | 75                                                            |
| 60              | 100                                                           |

#### Granted 8 June 2011

| Share price (p) | % of shares under option that become exercisable <sup>1</sup> |
|-----------------|---------------------------------------------------------------|
| 45              | 25                                                            |
| 55              | 50                                                            |
| 60              | 75                                                            |
| 65              | 100                                                           |

#### Granted 21 January 2013

| Share price (p) | % of shares under option that become exercisable <sup>1, 2</sup> |
|-----------------|------------------------------------------------------------------|
| 30              | 0                                                                |
| 35              | 50                                                               |
| 40              | 100                                                              |

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

2 These are the conditions for the options awarded during the year ended 31 March 2013

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

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

As the 2004 Option Plans are due to expire next year, as noted above, the Remuneration Committee is proposing a new PSP plan which will be the sole long term incentive arrangement for Executive Directors for the year ending 31 March 2014 and onwards.

### Awards where performance period ends in year

Awards made under the 2004 Option Plans in 2010 had a three year performance period ending on 31 March 2013 subject to satisfaction of share price targets. The shares awarded to Robert Davies did not vest as at 31 March 2013 as the performance criteria were not met. Due to his retirement, it was agreed by the Remuneration Committee that Robert Davies would be classed as a good leaver and have six months from the date of leaving the Company to exercise previously vested options. It was also agreed that the deferred bonus held in shares on his behalf would be transferred to him on the date of leaving the Company in accordance with the rules of the 2004 Option Plans.

**Variable elements of pay – awards made in year**

The awards made to Executive Directors during the year under the Option Plans and the associated performance conditions are set out in the tables below

**Other long term incentive plans**

The Company operates a savings related share option scheme (SAYE Scheme) in which the Executive Directors are eligible to participate on the same terms as all UK employees. Options granted under this scheme have been exercisable on completion of either a three year or five year savings contract. No options were granted during the year ended 31 March 2013 under the SAYE Scheme and all options previously granted under the SAYE Scheme have now lapsed

Details of the market price of shares in the Company at the end of the year and the highest and lowest market price, are set out in Note 20 to the financial statements

**(i) 2004 Option Plans (granted in year)**

Awards were made to the following Executive Directors during the year

|                | Type of award       | Face value | Maximum value        | Date of award   |
|----------------|---------------------|------------|----------------------|-----------------|
| Robert Purcell | Market value option | £300,000   | 100 % of base salary | 21 January 2013 |

**(ii) 2004 Option Plans (performance conditions)**

The performance conditions attaching to options granted under the 2004 Option Plans in the year ended 31 March 2013 are as follows

| Target         | Entry       |           | Threshold   |           | Maximum     |           | Performance period           |
|----------------|-------------|-----------|-------------|-----------|-------------|-----------|------------------------------|
|                | Performance | % vesting | Performance | % vesting | Performance | % vesting |                              |
| Robert Purcell | 30p         | 0%        | 35p         | 50%       | 40p         | 100%      | 3 years from 21 January 2013 |

**Statement of shareholder voting**

Votes cast in respect of the Remuneration Committee's remuneration report are detailed in the table below

|                                      | 2012 Remuneration report % |
|--------------------------------------|----------------------------|
| Votes cast                           | 53.02                      |
| Abstained (including those withheld) | 46.98                      |
| For                                  | 85.02                      |
| Against                              | 14.98                      |

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# Directors' remuneration report

## continued

### Total remuneration

|                                | Year ended 31 March 2013     |                                        |                |                    |                                                      | Year ended<br>31 March<br>2012<br>(£000) |
|--------------------------------|------------------------------|----------------------------------------|----------------|--------------------|------------------------------------------------------|------------------------------------------|
|                                | Salary<br>and fees<br>(£000) | Annual<br>bonus <sup>5</sup><br>(£000) | Cash<br>(£000) | Non-cash<br>(£000) | Payment in<br>respect of<br>loss of office<br>(£000) | Total<br>(£000)                          |
| Robert Davies <sup>1</sup>     | 218                          | 35                                     | 33             | 25                 | 367                                                  | 678                                      |
| Robert Purcell <sup>2</sup>    | 59                           | –                                      | 9              | 3                  | –                                                    | 71                                       |
| Brian Tenner                   | 185                          | 58                                     | 38             | 1                  | –                                                    | 282                                      |
|                                | 462                          | 93                                     | 80             | 29                 | 367                                                  | 1,031                                    |
| <b>Non-Executive Directors</b> |                              |                                        |                |                    |                                                      |                                          |
| Mark Harper                    | 87                           | –                                      | –              | –                  | –                                                    | 87                                       |
| Matthew Peacock <sup>3</sup>   | 27                           | –                                      | –              | –                  | –                                                    | 27                                       |
| David Shearer <sup>4</sup>     | 14                           | –                                      | –              | –                  | –                                                    | 14                                       |
| John Allkins                   | 41                           | –                                      | –              | –                  | –                                                    | 41                                       |
| Ian Griffiths                  | 38                           | –                                      | –              | –                  | –                                                    | 38                                       |
|                                | 669                          | 93                                     | 80             | 29                 | 367                                                  | 1,238                                    |
|                                |                              |                                        |                |                    |                                                      | 955                                      |

1 Robert Davies left the Company on 31 December 2012 and therefore the amounts above excluding the payment in respect of loss of office have been pro rated over the period in office during the year. It was agreed that an amount of £334,305 (in 12 equal instalments) be paid to Robert Davies on leaving the Company by way of compensation for loss of office. In addition, he retained the following benefits until 31 December 2013, use of a fully expensed car reimbursement via expenses of home telephone line and calls, continued insurance under the Company's Death-in-Service Scheme, and continued insurance including family under the Company's Private Medical Insurance Scheme. The sum of these benefits had a total estimated value of £33,000 and, in addition, legal advice costs to a maximum of £500 (plus VAT).

2 Robert Purcell joined the Company on 21 January 2013

3 Matthew Peacock was Chairman of the Company until 12 July 2012. His fee is paid to Hanover Investors Management LLP for the provision of his services as Non-Executive Director.

4 David Shearer was a Non-Executive Director of the Company until 12 July 2012. His fee was paid to Buchanan Shearer Associates LLP for the provision of his services as Non-Executive Director from 1 January 2012.

5 Further details in relation to the annual bonus paid to Executive Directors are on page 39 within the Directors' remuneration report.

Robert Davies received a non-cash benefit of £25,000 for his company car and private healthcare during his period in office. Robert Purcell received a non-cash benefit of £3,000 for his company car and private healthcare. Brian Tenner received a cash benefit of £10,000 for his company car allowance and £1,000 non-cash benefit for private healthcare. Details of the pension contributions paid in cash can be found on page 39.

### Directors' interests (unaudited information)

The beneficial interest of the Directors and their connected persons in the ordinary shares of the Company is detailed below.

|                | 31 March 2013 | 31 March 2012 |
|----------------|---------------|---------------|
| Mark Harper    | 276,207       | –             |
| Robert Purcell | 1,748,526     | –             |
| Robert Davies  | 1,030,583     | 924,409       |
| Brian Tenner   | 408,396       | 240,831       |
| David Shearer  | –             | 68,442        |
| John Allkins   | 75,000        | –             |
| Ian Griffiths  | 10,000        | –             |

There have been no other changes in the interests of Directors in the ordinary shares of the Company between 31 March 2013 and the date of this report.

# **Directors' share options**

Awards over shares in which the Executive Directors retain an interest are detailed in the table below

|                       | Options held at 1 April 2012 | Number of share options Granted in year | Options Lapsed in year | Options held at 31 March 2013 | Option price (p) | Date from which exercisable | Expiry date             |
|-----------------------|------------------------------|-----------------------------------------|------------------------|-------------------------------|------------------|-----------------------------|-------------------------|
| <b>Robert Davies</b>  |                              |                                         |                        |                               |                  |                             |                         |
| 2004 Option Plans     | 146,799                      | —                                       | —                      | 146,799                       | 65.14            | 11 03 2007                  | 30 06 2013 <sup>1</sup> |
|                       | 557,835                      | —                                       | —                      | 557,835                       | 74.93            | 02 09 2007                  | 30 06 2013 <sup>1</sup> |
|                       | 117,439                      | —                                       | —                      | 117,439                       | 52.45            | 26 07 2009                  | 30 06 2013 <sup>1</sup> |
|                       | 117,439                      | —                                       | —                      | 117,439                       | 97.24            | 02.01 2010                  | 30 06 2013 <sup>1</sup> |
|                       | 2,456,896                    | —                                       | (2,456,896)            | —                             | 23.20            | 05 02 2013                  | 04 02 2020              |
|                       | 779,356                      | —                                       | (779,356) <sup>2</sup> | —                             | 37.30            | 08 06 2014                  | 07 06 2021              |
| <b>Total</b>          | <b>4,175,764</b>             | <b>—</b>                                | <b>(3,236,252)</b>     | <b>939,512</b>                |                  |                             |                         |
| <b>Robert Purcell</b> |                              |                                         |                        |                               |                  |                             |                         |
| 2004 Option Plans     | —                            | 1,145,038                               | —                      | 1,145,038                     | 26.20            | 21 11 2016                  | 20 01 23                |
| <b>Total</b>          | <b>—</b>                     | <b>1,145,038</b>                        | <b>—</b>               | <b>1,145,038</b>              |                  |                             |                         |
| <b>Brian Tenner</b>   |                              |                                         |                        |                               |                  |                             |                         |
| 2004 Option Plans     | 678,898                      | —                                       | —                      | 678,898                       | 27.25            | 27 09 2013                  | 26 09 2020              |
|                       | 495,978                      | —                                       | —                      | 495,978                       | 37.30            | 08 06 2014                  | 07 06 2021              |
| <b>Total</b>          | <b>1,174,876</b>             | <b>—</b>                                | <b>—</b>               | <b>1,174,876</b>              |                  |                             |                         |

1 The expiry dates of these options were shortened to 30 June 2013 on the retirement of Robert Davies. Further details can be found in the section Awards under performance period ends in year, on page 40

2 These options have been forfeited as they cannot vest within six months of the date upon which Robert Davies left the Company ie by 30 June 2013

There have been no other changes in the interests of Directors in the share options between 31 March 2013 and the date of this report. The performance conditions to which the share options are subject are disclosed on pages 39 and 40 and are included in this audited information section by reference. None of the terms and conditions of the share options were varied in the year

The market value of shares in the Company at 31 March 2013 was £53.1m and the lowest and highest share prices during the year were 16.75p and 38.00p respectively

## **Performance graph (unaudited information)**

The graph below shows the Company's total shareholder return (share price growth plus dividends reinvested where applicable) for each of the last five financial years of a holding of shares in the Company against a hypothetical holding of shares in the FTSE All-Share Industrial Engineering Index. The Remuneration Committee considers this index to be an appropriate index for total shareholder return and comparison disclosure as it represents a broad equity index of which the Company is a constituent.



Approved by the Board

Ian Griffiths

Chairman of the Remuneration Committee

28 May 2013

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

## Consolidated financial statements prepared under IFRS

The directors are responsible for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable United Kingdom law and regulations and International Financial Reporting Standards ('IFRS') as adopted by the European Union

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

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

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

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

## Parent company financial statements prepared under UK GAAP

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period

In preparing these financial statements, the directors are required to

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

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

The directors who were members of the Board at the time of approving the Directors' report are listed on pages 26 and 27. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that

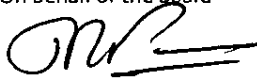
- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's auditor in connection with preparing its report) of which the Company's auditor is unaware, and
- each Director has taken all the steps a Director might reasonably be expected to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

## Directors' responsibility statements pursuant to DTR4

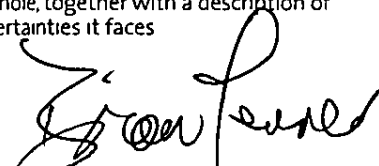
Each of us, for himself and on behalf of each other director who held office on 31 March 2013, confirms that, to the best of his or her knowledge

- the Consolidated Financial Statements, prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Company and the undertakings included in the consolidation as a whole, and
- the Business Review (comprising pages 6 to 25) and the Directors' Report (on pages 45 to 48) includes fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces

On behalf of the Board



Robert Purcell  
Chief Executive



Brian Tenner  
Finance Director

# Directors' report

The Directors submit their report and the financial statements as set out on pages 49 to 92. The Directors' report, which comprises pages 6 to 48, incorporates the management report and corporate governance statement required under the Financial Conduct Authority's Disclosure and Transparency rules for listed companies. In compiling this report, the Directors have consulted with the management of the Company and its subsidiaries.

## Group

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

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

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

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

## Business review and future developments

A review of the business and future developments of the Group, together with a description of the principal risks and uncertainties affecting the business, is set out in the Business review on pages 6 to 25.

## Results

Loss before tax for the year ended 31 March 2013 is £77m compared with a profit of £7.6m for the year ended 31 March 2012. The loss for the year is £8.6m (a profit of £6.4m for the year ended 31 March 2012).

## Key performance indicators

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

|                                                               | 2013  | 2012   |
|---------------------------------------------------------------|-------|--------|
| Operating profit before exceptional items                     | £7.2m | £14.1m |
| Return on sales <sup>1</sup>                                  | 3.8%  | 6.7%   |
| Average working capital as a percentage of sales <sup>2</sup> | 21.2% | 22.4%  |
| Adjusted earnings per share <sup>3</sup>                      | 1.4p  | 4.2p   |
| Group reportable injury rate (RIR) <sup>4</sup>               | 485   | 960    |

<sup>1</sup> Operating profit before exceptional items as a percentage of sales.

<sup>2</sup> Working capital is the sum of inventories, trade and other receivables and trade and other payables.

<sup>3</sup> This is basic earnings per share from continuing operations before exceptional items and pension financing charges.

<sup>4</sup> The RIR is calculated by dividing the number of reportable injuries in a year by the average number of Group employees for the year and multiplying by 100,000. The figures show an improved RIR in the year compared to RIR of 960 for the year ended 31 March 2012. There has also been a 4.3% reduction in the average lost time accident frequency rate compared to the rate for the year ended 31 March 2012 which included all injuries involving more than eight hours of lost working time and therefore also reportable injuries. The target remains to minimise the RIR.

The Group monitors the performance of its business through detailed monthly operational and financial reporting, with comparisons to budgets and updated forecasts being routinely made. In addition, the Group maintains regular reviews and dialogue with the management of each of the Group's businesses.

## Directors

The current Directors' biographical details, including the date upon which they were appointed to the Board, can be found on pages 26 and 27 and are incorporated by reference here. The following were also serving Directors at the start of the year ended 31 March 2013.

| Director        | Date of resignation/retirement |
|-----------------|--------------------------------|
| Matthew Peacock | 12 July 2012                   |
| David Shearer   | 12 July 2012                   |
| Robert Davies   | 31 December 2012               |

The Company's articles of association give power to the Board to appoint Directors to fill a vacancy or as additional Directors, but also require Directors to retire and submit themselves for election at the first Annual General Meeting following their appointment.

Under the terms of reference of the Nomination Committee, appointments to the Board are recommended by the Nomination Committee for approval by the Board.

Shareholders may also appoint a Director by ordinary resolution. Further information on the Company's internal procedures for the appointment and replacement of Directors is given in the Corporate governance section on pages 28 to 33.

## 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 34 to 43. No Director had any interests in contracts of significance in relation to the Company's business during the year.

## Directors' and officers' liability insurance

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

## Statement of Directors' responsibilities

Please refer to page 44 for the statement of Directors' responsibilities in respect of the Annual Report and for the Directors' statement as to disclosure of information to auditors.

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# **Directors' report** continued

## **Employees**

As at 31 March 2013, the Group employed 2,275 people, including 609 in the UK

### **Employment policies**

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

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

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

Further details in relation to the Group's Employment policy is set out in the Responsibilities section of the Business review on pages 22 to 25

### **UK pension schemes**

These disclosures are included in Note 18 to the Group financial statements on page 79 and incorporated by reference here

The UK pension schemes are largely defined benefit type schemes with assets held separately from those of the Group in trustee administered funds, managed by independent managers. Under the terms of their management agreements, the investment managers of the schemes' assets are not permitted to invest in the securities of the Company. The boards of trustees of the principal schemes include employee representatives

In April 2002, the UK defined benefit pension schemes were closed to new entrants subject to appropriate transitional arrangements for existing eligible employees being put in place, and a defined contribution scheme was established as from that date

Neither the Chairman nor the Chief Executive is a trustee of the defined benefit or the defined contribution schemes. An independent trustee company has been appointed to provide an individual to act as chairman of the boards of trustees of the principal schemes

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

Details of the agreement to merge the three closed UK defined benefit pension schemes and wind up the other two schemes are included in the Chairman's Statement and the Finance Director's review

## **Shares**

### **Share capital**

On 17 May 2012, the Company allotted 1,499,750 fully paid new ordinary shares pursuant to the exercise of warrants by Fortis Bank UK Branch at a price of 21.06 pence per share. This was conditional only on admission of the new shares to the Official List and to trading on the London Stock Exchange's main market for listed securities becoming effective. Admission to the main market became effective on 23 May 2012. The warrants were originally granted in August 2009 as part of the refinancing agreed with the Company's banks at that time, being Royal Bank of Scotland plc and Fortis Bank UK Branch. The warrants were subsequently modified during the equity placement in December 2009 at which time the exercise price was fixed at 21.06 pence. Following the exercise by Fortis Bank UK Branch, the number of remaining warrants is 2,000,250 held by The Royal Bank of Scotland plc and these are exercisable up to 13 August 2016 at the same price of 21.06 pence per share

As a result of the above allotment, as at 31 March 2013, the issued share capital of the Company was £27,046,645.25 divided into 221,064,453 ordinary shares of 5p each, 580,482 units of 6% cumulative preference stock of £1 each and 77,064,703 deferred shares of 20p each. The ordinary shares represent 40.86% of the Company's total share capital, the preference stock represents 2.15% and the deferred shares represent 56.99%. The Company's ordinary shares and preference stock are listed on the London Stock Exchange. The deferred shares have no voting or dividend rights and are not able to be traded

The Company obtained shareholder authority at the 2012 Annual General Meeting to make market purchases of up to 21,956,470 ordinary shares in the Company, which remains outstanding until the conclusion of the 2013 Annual General Meeting. The minimum price which must be paid for any ordinary share is the nominal value of such share at the time of the purchase and the maximum price is that permitted under the Financial Conduct's Authority's Listing Rules or, in the case of a tender offer, 5% above the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the tender offer is announced. As at the date of this report, the Company had not purchased any of its own ordinary shares in the market pursuant to such authority. The Directors will seek authority from shareholders at the forthcoming Annual General Meeting for the Company to purchase, in the market, up to 22,106,445 of its own ordinary shares (which represents approximately 10% of the Company's ordinary share capital as at the date of this report) either to be cancelled or retained as treasury shares

Details of the Company's share capital and any changes during the year are set out in Note 19 to the Group financial statements on page 83

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

#### Voting rights

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

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

The remaining warrants (2,000,250) held by The Royal Bank of Scotland plc have no rights to vote at general meetings of the Company unless and until they exercise their subscription rights under the terms of the warrant instruments and shares in the Company are issued to them.

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

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

#### Major shareholdings

As at 31 March 2013, the Company had been notified of the following major holdings of voting rights attached to its ordinary shares under the Financial Conduct Authority's Disclosure and Transparency Rule 5.

| Shareholder                             | Number of voting rights | % of total number of voting rights |
|-----------------------------------------|-------------------------|------------------------------------|
| Henderson Global Investors Limited      | 30,941,625              | 14.00                              |
| Prudential plc group of companies       | 30,007,234              | 13.57                              |
| M&G Investment Funds 3 <sup>1</sup>     | 30,229,092              | 13.67                              |
| JP Morgan Asset Management Holdings Inc | 20,713,618              | 9.37                               |
| Cazenove Capital Management Limited     | 26,051,073              | 11.78                              |
| Discretionary Unit Fund Managers        | 9,770,405               | 4.42                               |

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

<sup>2</sup> Subsequent to the year ended 31 March 2013, the Company was notified of the following: by Henderson Global Investors Limited, a reduction in its shareholding to 26,809,814 ordinary shares and by Cazenove Capital Management, an increase in its shareholding to 30,269,033 ordinary shares.

No major shareholder had any interest in derivatives or financial instruments relating to shares carrying voting rights that are linked to the Company's shares.

#### Dividends

Details about dividend policy are set out on page 56 of the Group financial statements.

The Board has decided to recommend that no ordinary dividend be paid in respect of the year ended 31 March 2013, 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 2012 and 1 January 2013.

#### Directors' rights in respect of shares

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

#### Issue of shares

The Directors are authorised to issue equity securities either by way of a rights issue or in any other way, provided that the shares issued other than by way of a rights issue, open offer or other pre-emptive offer or under the various share option schemes of the Company be limited to shares with an aggregate nominal value of £548,911.75, being equal to 5% of the aggregate nominal amount of the Company's ordinary share capital in issue as at the date of the notice of the Company's 2012 Annual General Meeting. The authority will expire at the forthcoming Annual General Meeting. The Directors will seek authority from shareholders at the Annual General Meeting to issue equity securities either by way of a rights issue or in any other way, provided that the shares issued other than by way of a rights issue, open offer or other pre-emptive offer or under the various share option schemes of the Company be limited to shares with an aggregate nominal value of £552,661.13.

In addition, the Directors have authority to allot shares up to a maximum nominal amount of £7,311,504.60, representing approximately two thirds of the issued ordinary share capital as at the date of the notice of the Company's 2012 Annual General Meeting. The authority will expire at the forthcoming Annual General Meeting. The Directors will seek authority from shareholders at the Annual General Meeting to allot shares up to a maximum nominal amount of £7,361,446.28, representing approximately 66.6% of the issued ordinary share capital as at the date of the notice of the Annual General Meeting.

## Directors' report continued

### Transfer of shares

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

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

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

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

### Finance

#### Financial instruments

Financial risk management objectives and policies, and exposure to risk (including credit risk) are discussed in the Business review section on pages 6 to 25, and in Note 25 to the Group financial statements on pages 86 to 91.

#### Policy on payment of suppliers

Under the supervision of the head office of the Group, individual operating businesses are responsible for agreeing the terms and conditions under which transactions with their suppliers are undertaken, including the terms of payment. It is Group policy that payments to suppliers are made in accordance with these terms, provided that the supplier complies with all relevant terms and conditions. It is intended that such policy will remain in place for the year ending 31 March 2014.

As at 31 March 2013, trade creditors of the Group's businesses in the UK and overseas represented 101 days' purchases, compared with 86 last year.

#### Donations

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

### Contracts

#### Change of control provisions

The Company's main UK facilities agreement with Lloyds TSB Bank plc and Svenska Handelsbanken AB contains a change of control provision. This requires the Company to provide notification to the agent in the event of a change of control. The banks may then demand cancellation and repayment of the commitments and the loans.

The share subscription and shareholders' agreement between L. G. Balakrishnan & Bros Ltd, Renold International Holdings Limited and Renold Chain India Private Limited dated 24 June 2008 contains certain change of control provisions. On the change of control of a shareholder (being one of the parties to the agreement), the other shareholder has a right to terminate the agreement and/or to require the shareholder suffering the change of control to sell, at a fair price, all of its equity shares to the terminating shareholder or a nominee of such shareholder.

No other material contracts contain change of control provisions.

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

Note 18 to the Group financial statements on pages 79 to 83 details the Group's obligations to contribute to the UK defined benefit pension schemes and is incorporated by reference here.

#### Contractual or other arrangements essential to the business

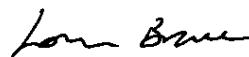
There are no contractual or other arrangements essential to the business, other than those described under the section on change of control provisions above, that require disclosure under the enhanced business review requirements of the Companies Act 2006.

### Related party transactions

Related party transactions which took place during the year ended 31 March 2013 are set out in Note (xiii) to the Company financial statements on page 102 which are incorporated by reference here.

### Important events affecting the Group since 31 March 2013

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



Louise Brace  
Company Secretary  
28 May 2013

# Independent auditor's report

## To the members of Renold plc

We have audited the Group financial statements of Renold plc for the year ended 31 March 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Accounting Policies and the related Notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

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

## Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities in relation to the Group financial statements set out on page 44, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

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

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

## Opinion on financial statements

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 March 2013 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

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

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

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

- Under the Companies Act 2006 we are required to report to you if, in our opinion:
  - certain disclosures of Directors' remuneration specified by law are not made, or
  - we have not received all the information and explanations we require for our audit.
- Under the Listing Rules we are required to review:
  - the Directors' statement, set out on page 33, in relation to going concern, and
  - the part of the Corporate governance section of the Directors' report relating to the Company's compliance with the nine provisions of the Combined Code specified for our review, and
  - certain elements of the Directors' remuneration report.

## Other matter

We have reported separately on the parent company financial statements of Renold plc for the year ended 31 March 2013 and on the information in the Directors' remuneration report that is described as having been audited.

*E - UK & Young LLP*

## Gary Harding

(Senior statutory auditor)

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

Manchester

28 May 2013

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## Accounting policies

### Basis of preparation

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

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 93 to 103. The financial statements were approved by the Board on 28 May 2013.

### Going concern

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

Further information in relation to the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Business review section of the Directors' report on pages 6 to 25.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business review section of the Directors' report on pages 6 to 25. In addition Note 25 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to foreign exchange, credit and interest rate risk. Further details of the Group's cash balances and borrowings are included in Notes 13, 14 and 24 of the financial statements.

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

Having undertaken this work, the Directors are of the opinion that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

### Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous year.

The Group has adopted all applicable amendments to standards with an effective date from 1 April 2012. Adoption of these revised standards and interpretations did not have any material impact on the financial performance or position of the Group.

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

The Group has not adopted the following pronouncements, which have been issued by the International Accounting Standards Board (IASB) but are not effective for the year ended 31 March 2013.

| International Accounting Standards (IAS/IFRSs) |                                                                   | Effective date <sup>1</sup> |
|------------------------------------------------|-------------------------------------------------------------------|-----------------------------|
| IAS 1                                          | Presentation of Items of Other Comprehensive Income               | 1 July 2012                 |
| IAS 19                                         | Employee Benefits (revised)                                       | 1 January 2013              |
| IAS 27                                         | Separate Financial Statements                                     | 1 January 2014              |
| IAS 28                                         | Investments in Associates and Joint Ventures                      | 1 January 2014              |
| IAS 32                                         | Offsetting Financial Assets and Financial Liabilities             | 1 January 2014              |
|                                                | Improvements to IFRSs                                             | 1 January 2013              |
| IFRS 7                                         | Disclosures Offsetting Financial Assets and Financial Liabilities | 1 January 2013              |
| IFRS 9                                         | Financial Instruments: Classification and Measurement             | 1 January 2015              |
| IFRS 10                                        | Consolidated Financial Statements                                 | 1 January 2014              |
| IFRS 11                                        | Joint Arrangements                                                | 1 January 2014              |
| IFRS 12                                        | Disclosures of Interests in Other Entities                        | 1 January 2014              |
| IFRS 13                                        | Fair Value Measurement                                            | 1 January 2013              |

With regard to the specific change in IAS 19 relating to the restriction on the expected rate of return on scheme assets to the interest rate on post-employment obligations, the impact on current year loss after tax would have been an increased loss of £1.5m. However, adjusted profit/(loss) after tax, which is the metric commonly used in assessing financial performance and which excludes exceptional items and IAS 19 financing charges, would have been unchanged.

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

<sup>1</sup> The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations (except that for IAS 27, IAS 28, IFRS 10-12 the duties reflect the later mandatory endorsement date in the EU). As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU endorsement mechanism. In the majority of cases, this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsements restricts the Group's discretion to early adopt standards.

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the cost cannot be recovered.

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

**Foreign currency translation** – Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (**the functional currency**). The consolidated financial statements are presented in Sterling, which is the functional and presentational currency of the parent company, Renold plc.

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

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

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

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

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

**Taxation** – The tax charge comprises current tax payable and deferred tax.

The Group is subject to taxes in numerous jurisdictions. The current tax charge represents an estimate of the amounts payable to tax authorities in respect of taxable profits. It is based on tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Currently enacted, or substantively enacted, tax rates as at the balance sheet date are used in the determination of deferred income tax.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised or taxable profit will be available against which unused tax losses can be utilised before they expire.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable authority and taxable entity, or where deferred tax relates to different taxable entities, the tax authority permits the Group to make a single net payment

#### Business combinations and goodwill – prior to 1 April 2010

The purchase method of accounting was used to account for the acquisition of subsidiaries of the Group. Goodwill represents the excess of the cost of an acquired entity over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Goodwill arising on the acquisition of an entity is included as an intangible asset. Goodwill is not amortised but is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment charge is recognised immediately in the income statement.

In circumstances where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the consideration paid, the excess is recognised immediately as a gain in the income statement.

As permitted by IFRS 1, the Group elected not to apply IFRS 3 Business Combinations to business acquisitions that occurred before 4 April 2004. Therefore, the carrying amount of goodwill (being cost less accumulated amortisation) included under UK GAAP forms the 'cost' of goodwill recognised under IFRS at the date of transition. Goodwill that was written off directly to reserves under former UK GAAP will not be taken into account when determining the gain or loss on disposal of previously acquired businesses after 4 April 2004.

#### Business combinations and goodwill – post 1 April 2010

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

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

#### Interests in joint ventures

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

#### Intangible assets

##### (a) Computer software

Computer software that is not integral to an item of plant and equipment is recognised separately as an intangible asset. Amortisation is charged on a straight-line basis so as to charge the cost of software to the income statement over its expected useful life which is between three and seven years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

##### (b) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are only recognised as intangible assets in circumstances where certain strict criteria are satisfied. These include the expectation that it is probable that the project will be a success, considering its commercial and technological feasibility, and that all associated costs can be measured reliably. Otherwise development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit.

**Property, plant and equipment** – Property, plant and equipment are stated at cost, being purchase cost plus any incidental costs of acquisition, less accumulated depreciation.

Depreciation is calculated on a straight-line basis so as to charge the depreciable amount of the respective assets to the income statement over their expected useful lives. The useful lives of assets are as follows:

|                                         | Years                                       |
|-----------------------------------------|---------------------------------------------|
| Freehold buildings                      | 50                                          |
| Leasehold properties                    | 50 years or the period of the lease if less |
| General plant and equipment             | 15                                          |
| Fixtures                                | 15                                          |
| Precision cutting and grinding machines | 10                                          |
| Motor vehicles                          | 3                                           |

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

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

As permitted by IFRS 1, at 4 April 2004, the Group has measured its freehold properties on a fair value basis and used that value as the deemed cost at the transition date.

**Asset impairment** – Intangible assets and property, plant and equipment are reviewed, at least annually, to ensure that assets are not carried above their recoverable amounts. Where some indication of impairment exists, calculations are made of the discounted cash flows resulting from continued use of the assets (value in use) or from their disposal (fair value less costs to sell). Where these values are less than the carrying amount of the assets, an impairment loss is charged to the income statement.

**Leases** – Tangible assets held under finance leases, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. The corresponding liability to the leasing company, net of finance charges, is included as an obligation under finance leases in creditors. The interest element of the lease payment is charged to the income statement on a basis which produces a constant rate of charge over the period of the liability.

Leases where a significant portion of the risk and reward of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**Investment property** – One of the Group's properties is classified as an investment property on the basis that it will be held for the long-term, earning a rental income. This is a contractual arrangement arising from the disposal of a former business segment.

The investment property was previously a manufacturing facility of the Group but owner-occupation ceased upon disposal of the Automotive business. On the date of disposal a transfer was made from property to investment property. The cost model has been applied since that date and depreciation charged at 2% on a straight-line basis.

**Inventories** – Inventories are stated at the lower of cost and estimated net realisable value, after due allowance for obsolete or slow moving items. Cost includes all direct expenditure and attributable overhead expenditure incurred in bringing goods to their current state under normal operating conditions. The first in, first out method of valuation is used. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. In the Group accounts, unrealised profit on sales within the Group is deducted from inventories.

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

#### **Financial assets and liabilities**

(a) **Financial assets** – Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through the income statement or loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through the income statement, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through the income statement and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

All standard purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Standard transactions require delivery of assets within the time frame generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:

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

Financial assets may be designated at initial recognition as at fair value through the income statement if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis, or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy, or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

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## continued

(ii) *Loans and receivables* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through the income statement or available for sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(b) *Impairment of financial assets* – The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) *Assets carried at amortised cost* If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, through the use of an allowance account. The amount of the loss is recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

(ii) *Assets carried at cost* If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

(c) *Interest-bearing loans and borrowings* – Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

(d) *Financial liabilities at fair value through the income statement* – Includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through the income statement.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

### Employee benefits

(a) *Pension obligations* – The Group operates a number of defined benefit plans around the world. The costs are calculated by independent actuaries using the projected unit credit method. Any past service costs resulting from enhanced benefits are recognised immediately in income, unless the changes are conditional upon the employees remaining in service for a specified period of time 'the vesting period'. In this case, the past service costs are amortised on a straight-line basis over the vesting period. Material administrative costs of running the plans, including the Pension Protection Fund levy, are treated as a deduction in the expected return on plan assets.

Actuarial gains and losses, which represent differences between the expected and actual returns on plan assets and the effect of changes in actuarial assumptions, are recognised in other comprehensive income in the period in which they occur.

The defined benefit liability or asset recognised in the balance sheet represents the net total for each plan of the present value of the benefit obligation at the balance sheet date, less any past service costs not yet recognised, less the fair value of plan assets (for funded schemes) at the balance sheet date. If a plan records a surplus, the asset recognised is limited to the amount of any unrecognised past service cost and the present value of any amount expected to be recoverable by the Group by way of refunds or reduction in future contributions.

For defined contribution plans, the Group's contributions are charged to the income statement in the period in which they fall due. Once the contributions have been paid, the Group has no further payment obligation.

(b) Share-based compensation – The Group operates equity settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is calculated using a Black-Scholes pricing model and is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or performance shares granted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. No expense is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon market or non-vesting conditions which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied provided that all other performance or service conditions are satisfied. The market-based conditions are linked to the market price of shares in the Company.

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

As permitted by IFRS 1, the Group has applied IFRS 2 Share-based Payment only to equity settled awards granted after 7 November 2002 and which vested on or after 1 January 2005.

#### Financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency and interest rate fluctuations. Since 1 April 2005, such derivative financial instruments have been initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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

For the purpose of hedge accounting, hedges are classified as

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

There are no fair value hedges.

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

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

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

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

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

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

**Cash and cash equivalents** – Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

**Provisions** – Provisions are recognised when the Group (i) has a present legal or constructive obligation as a result of past events, (ii) it is more likely than not that an outflow of resources will be required to settle the obligation and (iii) a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Costs related to ongoing activities of the Group are not provided in advance.

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

### Significant accounting judgements, estimates and assumptions

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

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

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

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

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

b) **Deferred tax assets** – Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Actual outcomes may vary that could require a material adjustment to the carrying amounts. Further details are contained in Note 17.

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

# Consolidated income statement

## for the year ended 31 March 2013

|                                                     | Note | 2013<br>£m | 2012<br>£m |                      |
|-----------------------------------------------------|------|------------|------------|----------------------|
| Revenue                                             | 1    | 190.3      | 209.5      | Overview             |
| Normal operating costs                              | 2    | (183.1)    | (195.4)    |                      |
| Operating profit before exceptional items           |      | 7.2        | 14.1       |                      |
| Exceptional items                                   | 2    | (11.6)     | (2.1)      |                      |
| Operating (loss)/profit                             |      | (4.4)      | 12.0       |                      |
| Share of post-tax loss of jointly controlled entity |      | (0.1)      | (0.1)      | Business review      |
| Financial costs                                     |      | (2.7)      | (2.5)      |                      |
| Net IAS 19 financing costs                          |      | (0.3)      | (1.8)      |                      |
| Exceptional financing costs                         |      | (0.2)      | -          |                      |
| Net financing costs                                 | 3    | (3.2)      | (4.3)      |                      |
| (Loss)/profit before tax                            |      | (7.7)      | 7.6        |                      |
| Taxation                                            | 4    | (0.9)      | (1.2)      |                      |
| (Loss)/profit for the financial year                |      | (8.6)      | 6.4        | Governance           |
| Attributable to                                     |      |            |            |                      |
| Owners of the parent                                |      | (8.7)      | 6.2        |                      |
| Non-controlling interests                           |      | 0.1        | 0.2        |                      |
| (Loss)/earnings per share                           | 5    |            |            | Financial statements |
| Basic (loss)/earnings per share                     |      | (3.9)p     | 2.8p       |                      |
| Diluted (loss)/earnings per share                   |      | (3.9)p     | 2.8p       |                      |
| Adjusted earnings per share <sup>1</sup>            |      | 1.4p       | 4.2p       |                      |
| Diluted adjusted earnings per share <sup>1</sup>    |      | 1.4p       | 4.2p       |                      |

<sup>1</sup> Adjusted for the after tax effects of exceptional items and the IAS 19 charge

# Consolidated statement of comprehensive income

for the year ended 31 March 2013

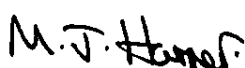
|                                                                                                | 2013<br>£m    | 2012<br>£m    |
|------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>(Loss)/profit for the year</b>                                                              | <b>(8 6)</b>  | <b>6 4</b>    |
| <b>Other comprehensive income/(expense)</b>                                                    |               |               |
| Net (losses)/gains on cash flow hedges                                                         | (0 2)         | 0 1           |
| Foreign exchange translation differences                                                       | 0 8           | (1 1)         |
| Foreign exchange differences on loans forming part of the net investment in foreign operations | 1 0           | (0 5)         |
| Actuarial losses on retirement benefit obligations                                             | (18 6)        | (9 9)         |
| Tax on components of other comprehensive income                                                | 7 9           | 1 4           |
| IFRIC 14 adjustment on pension funding contributions                                           | (6 9)         | –             |
| <b>Other comprehensive expense for the year, net of tax</b>                                    | <b>(16 0)</b> | <b>(10 0)</b> |
| <b>Total comprehensive expense for the year, net of tax</b>                                    | <b>(24 6)</b> | <b>(3 6)</b>  |
| Attributable to                                                                                |               |               |
| Owners of the parent                                                                           | (24 7)        | (3 8)         |
| Non-controlling interest                                                                       | 0 1           | 0 2           |
|                                                                                                | <b>(24 6)</b> | <b>(3 6)</b>  |

# Consolidated balance sheet

as at 31 March 2013

|                                                     | Note | 2013<br>£m     | 2012<br>£m     |
|-----------------------------------------------------|------|----------------|----------------|
| <b>ASSETS</b>                                       |      |                |                |
| <b>Non-current assets</b>                           |      |                |                |
| Goodwill                                            | 7    | 21.8           | 22.3           |
| Other intangible assets                             | 7    | 6.2            | 5.8            |
| Property, plant and equipment                       | 8    | 43.1           | 47.2           |
| Investment property                                 | 9    | 1.4            | 1.9            |
| Investment in jointly controlled entity             | 10   | –              | 0.2            |
| Other non-current assets                            | 12   | 0.4            | 0.2            |
| Deferred tax assets                                 | 17   | 25.9           | 18.1           |
|                                                     |      | <b>98.8</b>    | <b>95.7</b>    |
| <b>Current assets</b>                               |      |                |                |
| Inventories                                         | 11   | 40.9           | 45.5           |
| Trade and other receivables                         | 12   | 32.8           | 33.4           |
| Retirement benefit surplus                          | 18   | 1.4            | 1.6            |
| Cash and cash equivalents                           | 13   | 9.8            | 4.8            |
|                                                     |      | <b>84.9</b>    | <b>85.3</b>    |
| <b>TOTAL ASSETS</b>                                 |      | <b>183.7</b>   | <b>181.0</b>   |
| <b>LIABILITIES</b>                                  |      |                |                |
| <b>Current liabilities</b>                          |      |                |                |
| Borrowings                                          | 14   | (6.3)          | (13.6)         |
| Trade and other payables                            | 15   | (39.8)         | (38.6)         |
| Current tax                                         |      | (1.4)          | (1.4)          |
| Derivative financial instruments                    | 25   | (0.2)          | (0.1)          |
| Provisions                                          | 16   | (1.6)          | (1.5)          |
|                                                     |      | <b>(49.3)</b>  | <b>(55.2)</b>  |
| <b>NET CURRENT ASSETS</b>                           |      | <b>35.6</b>    | <b>30.1</b>    |
| <b>Non-current liabilities</b>                      |      |                |                |
| Borrowings                                          | 14   | (25.8)         | (13.6)         |
| Preference stock                                    | 14   | (0.5)          | (0.5)          |
| Trade and other payables                            | 15   | (0.8)          | (0.4)          |
| Deferred tax liabilities                            | 17   | (0.6)          | (0.8)          |
| Retirement benefit obligations                      | 18   | (77.8)         | (57.3)         |
| Provisions                                          | 16   | (0.3)          | –              |
|                                                     |      | <b>(105.8)</b> | <b>(72.6)</b>  |
| <b>TOTAL LIABILITIES</b>                            |      | <b>(155.1)</b> | <b>(127.8)</b> |
| <b>NET ASSETS</b>                                   |      | <b>28.6</b>    | <b>53.2</b>    |
| <b>EQUITY</b>                                       |      |                |                |
| Issued share capital                                | 19   | 26.5           | 26.4           |
| Share premium account                               |      | 29.6           | 29.4           |
| Currency translation reserve                        | 21   | 6.1            | 4.3            |
| Other reserves                                      | 21   | 1.2            | 1.5            |
| Retained earnings                                   | 21   | (37.2)         | (10.7)         |
| Equity attributable to equity holders of the parent |      | <b>26.2</b>    | <b>50.9</b>    |
| Non-controlling interests                           |      | 2.4            | 2.3            |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                   |      | <b>28.6</b>    | <b>53.2</b>    |

Approved by the Board on 28 May 2013 and signed on its behalf by

  
Mark Harper  
Chairman

  
Robert Purcell  
Director

# Consolidated statement of changes in equity

for the year ended 31 March 2013

|                                                                  | Share<br>capital<br>£m<br>Note 19 | Share<br>premium<br>account<br>£m | Retained<br>earnings<br>£m<br>Note 21 | Currency<br>translation<br>reserve<br>£m<br>Note 21 | Other<br>reserves<br>£m<br>Note 21 | Attributable<br>to owners<br>of parent<br>£m<br>Note 21 | Non-<br>controlling<br>interests<br>£m | Total<br>equity<br>£m |
|------------------------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------------|-----------------------------------------------------|------------------------------------|---------------------------------------------------------|----------------------------------------|-----------------------|
| At 1 April 2011                                                  | 26.4                              | 29.4                              | (8.3)                                 | 5.9                                                 | 1.4                                | 54.8                                                    | 2.1                                    | 56.9                  |
| Profit for the year                                              | —                                 | —                                 | 6.2                                   | —                                                   | —                                  | 6.2                                                     | 0.2                                    | 6.4                   |
| Other comprehensive income/(expense)                             | —                                 | —                                 | (8.5)                                 | (1.6)                                               | 0.1                                | (10.0)                                                  | —                                      | (10.0)                |
| Total comprehensive income/(expense)<br>for the year             | —                                 | —                                 | (2.3)                                 | (1.6)                                               | 0.1                                | (3.8)                                                   | 0.2                                    | (3.6)                 |
| Employee share options<br>— value of employee services           | —                                 | —                                 | (0.1)                                 | —                                                   | —                                  | (0.1)                                                   | —                                      | (0.1)                 |
| At 31 March 2012                                                 | 26.4                              | 29.4                              | (10.7)                                | 4.3                                                 | 1.5                                | 50.9                                                    | 2.3                                    | 53.2                  |
| Loss for the year                                                | —                                 | —                                 | (8.7)                                 | —                                                   | —                                  | (8.7)                                                   | 0.1                                    | (8.6)                 |
| Other comprehensive income/(expense)                             | —                                 | —                                 | (17.6)                                | 1.8                                                 | (0.2)                              | (16.0)                                                  | —                                      | (16.0)                |
| Total comprehensive income/(expense)<br>for the year             | —                                 | —                                 | (26.3)                                | 1.8                                                 | (0.2)                              | (24.7)                                                  | 0.1                                    | (24.6)                |
| Employee share options<br>— value of employee services           | —                                 | —                                 | (0.3)                                 | —                                                   | —                                  | (0.3)                                                   | —                                      | (0.3)                 |
| Exercise of share warrants<br>— release of share warrant reserve | —                                 | —                                 | 0.1                                   | —                                                   | (0.1)                              | —                                                       | —                                      | —                     |
| — proceeds from share issue                                      | 0.1                               | 0.2                               | —                                     | —                                                   | —                                  | 0.3                                                     | —                                      | 0.3                   |
| At 31 March 2013                                                 | 26.5                              | 29.6                              | (37.2)                                | 6.1                                                 | 1.2                                | 26.2                                                    | 2.4                                    | 28.6                  |

## Consolidated statement of cash flows

for the year ended 31 March 2013

|                                                               | 2013<br>£m   | 2012<br>£m   |                             |
|---------------------------------------------------------------|--------------|--------------|-----------------------------|
| <b>Cash flows from operating activities (Note 24)</b>         |              |              | <b>Overview</b>             |
| Cash generated from operations                                | 8 9          | 5 9          |                             |
| Income taxes paid                                             | (0 7)        | (0 5)        |                             |
| <b>Net cash from operating activities</b>                     | <b>8 2</b>   | <b>5 4</b>   |                             |
| <b>Cash flows from investing activities</b>                   |              |              | <b>Business review</b>      |
| Investment in jointly controlled entity (Note 10)             | –            | (0 3)        |                             |
| Purchase of property, plant and equipment                     | (3 1)        | (3 7)        |                             |
| Purchase of intangible assets                                 | (1 8)        | (1 9)        |                             |
| <b>Net cash from investing activities</b>                     | <b>(4 9)</b> | <b>(5 9)</b> |                             |
| <b>Cash flows from financing activities</b>                   |              |              | <b>Governance</b>           |
| Proceeds from issue of ordinary shares                        | 0 3          | –            |                             |
| Financing costs paid                                          | (2 8)        | (2 7)        |                             |
| Proceeds from borrowings                                      | 43 1         | 10 7         |                             |
| Repayment of borrowings                                       | (36 1)       | (10 9)       |                             |
| Payment of finance lease liabilities                          | (0 1)        | (0 1)        |                             |
| <b>Net cash from financing activities</b>                     | <b>4 4</b>   | <b>(3 0)</b> |                             |
| <b>Net increase/(decrease) in cash and cash equivalents</b>   | <b>7 7</b>   | <b>(3 5)</b> |                             |
| <b>Net cash and cash equivalents at beginning of year</b>     | <b>1 2</b>   | <b>4 9</b>   |                             |
| <b>Effects of exchange rate changes</b>                       | <b>0 3</b>   | <b>(0 2)</b> |                             |
| <b>Net cash and cash equivalents at end of year (Note 13)</b> | <b>9 2</b>   | <b>1 2</b>   | <b>Financial statements</b> |

# Notes to the consolidated financial statements

## 1 Segmental information

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

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The Chief Operating Decision Maker 'CODM' for the purposes of IFRS 8 'Operating Segments' is considered to be the Board of Directors of Renold plc. Segment performance is evaluated based on operating profit and loss and is measured consistently with operating profit and loss in the consolidated financial statements. However, Group net financing charges (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<br>£m  | Torque<br>Transmission<br>£m | Head Office<br>costs and<br>eliminations<br>£m | Consolidated<br>£m |
|-----------------------------------------------------|--------------|------------------------------|------------------------------------------------|--------------------|
| <b>Year ended 31 March 2013</b>                     |              |                              |                                                |                    |
| Revenue                                             |              |                              |                                                |                    |
| External customer                                   | 141.9        | 48.4                         | —                                              | 190.3              |
| Inter-segment (i)                                   | 0.8          | 4.6                          | (5.4)                                          | —                  |
| <b>Total revenue</b>                                | <b>142.7</b> | <b>53.0</b>                  | <b>(5.4)</b>                                   | <b>190.3</b>       |
| Operating profit/(loss) before exceptional items    | 6.9          | 5.3                          | (5.0)                                          | 7.2                |
| Exceptional items                                   | (9.5)        | 0.7                          | (2.8)                                          | (11.6)             |
| <b>Operating (loss)/profit</b>                      | <b>(2.6)</b> | <b>6.0</b>                   | <b>(7.8)</b>                                   | <b>(4.4)</b>       |
| Share of post-tax loss of jointly controlled entity |              |                              |                                                | (0.1)              |
| Net financing costs                                 |              |                              |                                                | (3.2)              |
| <b>Loss before tax</b>                              |              |                              |                                                | <b>(7.7)</b>       |
| <b>Other disclosures</b>                            |              |                              |                                                |                    |
| Inventories                                         | 30.4         | 10.2                         | 0.3                                            | 40.9               |
| Working capital (v)                                 | 18.5         | 8.6                          | 6.0                                            | 33.1               |
| Capital expenditure (ii)                            | 2.3          | 0.8                          | 1.8                                            | 4.9                |
| Depreciation and amortisation                       | 3.2          | 1.0                          | 0.4                                            | 4.6                |

## 1. Segmental information continued

| Year ended 31 March 2012                            | Chain<br>£m  | Torque<br>Transmission<br>£m | Head Office<br>costs and<br>eliminations<br>£m | Consolidated<br>£m |
|-----------------------------------------------------|--------------|------------------------------|------------------------------------------------|--------------------|
| Revenue                                             |              |                              |                                                |                    |
| External customer                                   | 157.5        | 52.0                         | –                                              | 209.5              |
| Inter-segment (i)                                   | 1.5          | 5.9                          | (7.4)                                          | –                  |
| <b>Total revenue</b>                                | <b>159.0</b> | <b>57.9</b>                  | <b>(7.4)</b>                                   | <b>209.5</b>       |
| Operating profit/(loss) before exceptional items    | 9.3          | 8.3                          | (3.5)                                          | 14.1               |
| Exceptional items                                   | (1.6)        | (0.1)                        | (0.4)                                          | (2.1)              |
| <b>Operating profit/(loss)</b>                      | <b>7.7</b>   | <b>8.2</b>                   | <b>(3.9)</b>                                   | <b>12.0</b>        |
| Share of post-tax loss of jointly controlled entity |              |                              |                                                | (0.1)              |
| Net financing costs                                 |              |                              |                                                | (4.3)              |
| <b>Profit before tax</b>                            |              |                              |                                                | <b>7.6</b>         |
| <b>Other disclosures</b>                            |              |                              |                                                |                    |
| Inventories                                         | 35.4         | 10.8                         | (0.7)                                          | 45.5               |
| Working capital (v)                                 | 27.0         | 9.1                          | 3.8                                            | 39.9               |
| Capital expenditure (ii)                            | 2.4          | 1.2                          | 2.0                                            | 5.6                |
| Depreciation and amortisation                       | 3.4          | 1.0                          | 0.2                                            | 4.6                |

i Inter-segment revenues are eliminated on consolidation  
 ii Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries  
 iii Included in Chain external sales is £13.8m (2012: £12.3m) of Torque Transmission product sold through the Chain NSCs. The Torque Transmission businesses may use the Chain NSC framework in countries where it does not have its own presence  
 iv The measures of segment assets reviewed by the CODM are inventories and total working capital  
 v Working capital includes inventories and trade and other receivables, less trade and other payables

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

| Year ended 31 March 2012 (restated)                                | Chain<br>£m  | Torque<br>Transmission<br>£m | Head Office<br>costs and<br>eliminations<br>£m | Consolidated<br>£m |
|--------------------------------------------------------------------|--------------|------------------------------|------------------------------------------------|--------------------|
| Revenue                                                            |              |                              |                                                |                    |
| External customer                                                  | 157.5        | 52.0                         | –                                              | 209.5              |
| Foreign exchange                                                   | (3.8)        | (0.2)                        | –                                              | (4.0)              |
| <b>Underlying external sales</b>                                   | <b>153.7</b> | <b>51.8</b>                  | <b>–</b>                                       | <b>205.5</b>       |
| Operating profit/(loss) before exceptional items                   | 9.3          | 8.3                          | (3.5)                                          | 14.1               |
| Foreign exchange                                                   | (0.3)        | (0.1)                        | –                                              | (0.4)              |
| <b>Underlying operating profit/(loss) before exceptional items</b> | <b>9.0</b>   | <b>8.2</b>                   | <b>(3.5)</b>                                   | <b>13.7</b>        |

# Notes to the consolidated financial statements

## continued

### 1. Segmental information continued

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

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

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

|                 | External revenues |              | Non-current assets |             |
|-----------------|-------------------|--------------|--------------------|-------------|
|                 | 2013<br>£m        | 2012<br>£m   | 2013<br>£m         | 2012<br>£m  |
| United Kingdom  | 17.6              | 20.3         | 14.0               | 16.9        |
| Rest of Europe  | 50.1              | 61.3         | 13.2               | 14.0        |
| North America   | 69.3              | 66.7         | 26.0               | 24.7        |
| Other countries | 53.3              | 61.2         | 19.3               | 21.8        |
|                 | <b>190.3</b>      | <b>209.5</b> | <b>72.5</b>        | <b>77.4</b> |

All revenue relates to the sale of goods and services. No individual customer, or group of customers, represents more than 10% of Group revenue (2012: none).

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

## 2. Operating costs and exceptional items

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

|                                               | 2013  |       | 2012  |       |
|-----------------------------------------------|-------|-------|-------|-------|
|                                               | £m    | £m    | £m    | £m    |
| Change in finished goods and work in progress |       | 4.4   |       | (2.5) |
| Raw materials and consumables                 |       | 75.1  |       | 92.8  |
| Other external charges                        |       | 31.1  |       | 28.5  |
| Employee costs                                |       |       |       |       |
| Gross wages and salaries                      | 56.8  |       | 61.0  |       |
| Social security costs                         | 7.4   |       | 8.1   |       |
| Pension costs                                 |       |       |       |       |
| – defined benefit (Note 18)                   | 0.3   |       | (0.8) |       |
| – defined contribution (Note 18)              | 1.9   |       | 1.9   |       |
| Share-based incentive plans                   | (0.3) |       | 0.1   |       |
|                                               |       | 66.1  |       | 70.3  |
| Depreciation of property, plant and equipment |       |       |       |       |
| – owned assets                                |       | 4.2   |       | 4.3   |
| – leased assets                               |       | –     |       | 0.1   |
| Amortisation of intangible assets             |       | 0.4   |       | 0.2   |
| Operating leases – minimum lease payments     |       |       |       |       |
| – plant and machinery                         | 0.4   |       | 0.4   |       |
| – property                                    | 1.8   |       | 2.0   |       |
|                                               |       | 2.2   |       | 2.4   |
| Other operating income                        |       | (1.5) |       | (2.4) |
| Research and development expenditure          |       | 0.7   |       | 0.6   |
| Auditors' remuneration (Note 2(b))            |       | 0.6   |       | 0.6   |
| Trade receivables impairment                  |       | 0.1   |       | 0.2   |
| Foreign exchange                              |       | (0.3) |       | 0.3   |
| Normal operating costs                        |       | 183.1 |       | 195.4 |
| Exceptional items (Note 2(c))                 |       | 11.6  |       | 2.1   |
| Total operating costs                         |       | 194.7 |       | 197.5 |

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### 2. Operating costs and exceptional items continued

#### (b) Auditors' remuneration

|                                                                        | 2013<br>£000<br>Total | 2012<br>£000<br>Total |
|------------------------------------------------------------------------|-----------------------|-----------------------|
| Audit of the Group's annual financial statements                       | 69                    | 60                    |
| Audit of the Company's subsidiaries                                    | 271                   | 226                   |
| Total audit fees                                                       | 340                   | 286                   |
| Tax compliance services                                                | 51                    | 65                    |
| Other taxation services                                                | 190                   | 32                    |
| Corporate finance services                                             | –                     | 156                   |
| All other assurance services                                           | 42                    | 31                    |
| All other non-audit services                                           | 15                    | –                     |
|                                                                        | 638                   | 570                   |
| This is analysed in the following captions in the financial statements |                       |                       |
| Exceptional abortive acquisition costs                                 | –                     | 156                   |
| Exceptional reorganisation and restructuring costs                     | 153                   | –                     |
| Operating costs                                                        | 485                   | 414                   |
|                                                                        | 638                   | 570                   |

The Group's auditors also received fees of £37,000 for audit services provided to Group pension schemes (2012: £31,000). These were the only services provided to the pension schemes.

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

|                                                       | 2013<br>£m | 2012<br>£m |
|-------------------------------------------------------|------------|------------|
| <b>Included in operating costs</b>                    |            |            |
| Chain business model review – impairment of goodwill  | 15         | –          |
| – impairment of intangible assets                     | 11         | –          |
| – impairment of tangible fixed assets                 | 37         | –          |
| – impairment of inventory and production tooling      | 28         | –          |
| – provision for onerous licence costs                 | 03         | –          |
| Impairment of investment in jointly controlled entity | 01         | –          |
| Impairment of investment property                     | 05         | –          |
| Reorganisation and redundancy costs                   | 26         | 17         |
| Abortive acquisition costs                            | –          | 04         |
| Insurance proceeds                                    | (10)       | –          |
|                                                       | 116        | 21         |
| <b>Included in financing costs</b>                    |            |            |
| Costs associated with refinancing                     | 02         | –          |
|                                                       | 02         | –          |

Following the Interim results, the Group began a review of the business model for the Chain division. One aspect of that review was to assess manufacturing capacity across the full range of operational activities. Future increases in demand and volume were compared to the current installed capacity base (whether manned or unmanned). The review identified that significant excess capacity existed in a number of steps in the manufacturing process for a range of Chain products. The identification of excess capacity considered existing demand, the likelihood of further subdued demand growth in future due to the economic conditions in many of the Group's end markets, and also the change in strategic objectives to focus on lowering the break even point of the Chain division as opposed to pursuing less profitable growth opportunities. As a result of this exercise, it was identified that a number of assets were impaired: goodwill in respect of the acquisition of Renold Hangzhou (see Note 7), a number of production assets (£3.7m) and items of stock and tooling (£2.8m) used in various production processes.

## 2. Operating costs and exceptional items continued

In addition, related to the business model review but also arising from a reduction in the number of management units and expected users resulting from restructuring activities completed during the last year, a proportion of the costs in respect of the ERP system that is being implemented has also been impaired (intangible assets impairment charge of £1.1m). A provision for future payments for licences that are now unlikely to be used has also been made of £0.3m.

The impairment of the interest in the jointly controlled entity is detailed in Note 10.

Reorganisation and redundancy costs incurred in the current year relate to the completion of the restructuring of the Group's European back office support functions (£0.7m) that was started in the prior year and a number of additional cost reduction exercises in the second half that were initiated in response to the continuing slow down in many end markets. These included a number of changes in the executive management team in the fourth quarter and the closure of one of the two offices in Switzerland.

In the prior year, exceptional costs primarily related to European restructuring noted above as well as the closure of a number of distribution facilities in other regions. The prior year also saw abortive acquisition costs of £0.4m.

An impairment charge of £0.5m has been made against the valuation of the investment property following the independent valuation performed in March 2013 on the basis of continuing use as a rented industrial building. The property is now held at £1.4m (see Note 9).

During the year a machine in the Milnrow (UK) facility was destroyed by fire. A new machine has been ordered and the insurers have accepted liability to pay for the new machine. The sum above represents the net difference between the book value of the old machine and the replacement cost of the new machine.

Following completion of the refinancing of the Group's principal borrowing facilities, costs of £0.2m associated with the previous borrowing arrangements that would have been amortised over the remaining duration of those facilities were charged to exceptional financing costs.

### (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:

|                                      | 2013<br>£000 | 2012<br>£000 |
|--------------------------------------|--------------|--------------|
| Short term employee benefits         | 871          | 872          |
| Social security costs                | 122          | 126          |
| Payment in respect of loss of office | 367          | –            |
| Post employment benefits             | 37           | 28           |
| Share-based payments                 | (270)        | 163          |
|                                      | 1,127        | 1,189        |

Further details of the remuneration of Directors are provided in the audited part of the Directors' remuneration report on page 42.

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

|                 | 2013  | 2012  |
|-----------------|-------|-------|
| United Kingdom  | 635   | 649   |
| Rest of Europe  | 418   | 441   |
| North America   | 352   | 333   |
| Other countries | 979   | 1,161 |
|                 | 2,384 | 2,584 |

The total number of employees employed by the Group at 31 March 2013 was 2,275 (2012: 2,569).

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## 3. Net financing costs

|                                               | 2013<br>£m   | 2012<br>£m   |
|-----------------------------------------------|--------------|--------------|
| <b>Financial costs</b>                        |              |              |
| Interest payable on bank loans and overdrafts | (2 6)        | (2 4)        |
| Amortised financing costs                     | (0 1)        | (0 1)        |
| Exceptional refinancing charges               | (0 2)        | –            |
| <b>Total financing costs</b>                  | <b>(2 9)</b> | <b>(2 5)</b> |
| <b>IAS 19 financing costs</b>                 |              |              |
| Interest cost on plan balances                | (10 1)       | (11 6)       |
| Expected return on pension plan assets        | 9 8          | 9 8          |
| <b>Net IAS 19 financing costs</b>             | <b>(0 3)</b> | <b>(1 8)</b> |
| <b>Net financing costs</b>                    | <b>(3 2)</b> | <b>(4 3)</b> |

## 4. Taxation

Analysis of tax charge/(credit) in the year

|                                                                  | 2013<br>£m         | 2012<br>£m         |
|------------------------------------------------------------------|--------------------|--------------------|
| <b>United Kingdom</b>                                            |                    |                    |
| UK corporation tax at 24% (2012 26%)                             | –                  | –                  |
| Less double taxation relief                                      | –                  | –                  |
| <b>Overseas taxes</b>                                            |                    |                    |
| Corporation taxes                                                | 0 6                | 0 9                |
| Withholding taxes                                                | 0 1                | 0 1                |
| <b>Current income tax charge</b>                                 | <b>0 7</b>         | <b>1 0</b>         |
| <b>Deferred tax</b>                                              |                    |                    |
| UK – origination and reversal of temporary differences           | 0 2                | 0 7                |
| Overseas – origination and reversal of temporary differences     | –                  | (0 5)              |
| <b>Total deferred tax charge</b>                                 | <b>0 2</b>         | <b>0 2</b>         |
| <b>Tax charge on (loss)/profit on ordinary activities</b>        | <b>0 9</b>         | <b>1 2</b>         |
|                                                                  | <b>2013<br/>£m</b> | <b>2012<br/>£m</b> |
| Tax on items taken to other comprehensive income                 |                    |                    |
| Deferred tax on changes in net pension deficits                  | (7 9)              | (1 4)              |
| <b>Tax credit in the statement of other comprehensive income</b> | <b>(7 9)</b>       | <b>(1 4)</b>       |

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

In his annual Budget announcement of 20 March 2013, the Chancellor of the Exchequer announced certain tax changes which will have a significant effect on the Group's future tax position. The proposals included phased reductions in the UK corporation tax rate to 20% from 1 April 2015. As at 31 March 2013, only the previously announced reduction in the rate to 23% has been substantively enacted and this has been reflected in the Group's financial statements as at 31 March 2013. This has resulted in a £0.2m deferred tax charge to the income statement and a £0.5m deferred tax charge to other comprehensive income, due to the reduction in the value of the deferred tax assets recognised in the UK.

#### 4. Taxation continued

Based on the closing deferred tax assets at the balance sheet date, the effect of the reduction of the UK corporation tax rate to 20% on the Group's deferred tax asset would be to reduce the deferred tax asset by £1.8m

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)/profit before tax differs from the theoretical amount using the UK corporation tax rate as follows

|                                                   | 2013<br>£m | 2012<br>£m |
|---------------------------------------------------|------------|------------|
| (Loss)/profit on ordinary activities before tax   | (7.7)      | 7.6        |
| Theoretical tax credit at 24% (2012: 26%)         | (1.8)      | 2.0        |
| Effects of                                        |            |            |
| Permanent differences                             | 0.3        | 0.1        |
| Overseas tax rate differences                     | 0.4        | —          |
| Deferred tax not recognised                       | 1.8        | —          |
| Utilisation of previously unrecognised tax losses | —          | 0.1        |
| Other temporary differences                       | —          | (1.2)      |
| Change in tax rate                                | 0.2        | 0.2        |
| Total tax charge/(credit)                         | 0.9        | 1.2        |

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

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

|                                                     | 2013                      |                               |                                | 2012           |                               |                                |
|-----------------------------------------------------|---------------------------|-------------------------------|--------------------------------|----------------|-------------------------------|--------------------------------|
|                                                     | Loss<br>£m                | Shares<br>(thousands)         | Per share<br>amount<br>(pence) | Earnings<br>£m | Shares<br>(thousands)         | Per share<br>amount<br>(pence) |
| <b>Basic EPS</b>                                    |                           |                               |                                |                |                               |                                |
| (Loss)/earnings attributed to ordinary shareholders | (8.7)                     | 220,939                       | (3.9)                          | 6.2            | 219,565                       | 2.8                            |
| <b>Basic EPS</b>                                    | (8.7)                     | 220,939                       | (3.9)                          | 6.2            | 219,565                       | 2.8                            |
|                                                     |                           |                               |                                |                |                               |                                |
|                                                     | (Loss)/<br>Earnings<br>£m | 2013<br>Shares<br>(thousands) | Per share<br>amount<br>(pence) | Earnings<br>£m | 2012<br>Shares<br>(thousands) | Per share<br>amount<br>(pence) |
| <b>Adjusted EPS</b>                                 |                           |                               |                                |                |                               |                                |
| Basic EPS                                           | (8.7)                     | 220,939                       | (3.9)                          | 6.2            | 219,565                       | 2.8                            |
| Effect of exceptional items, after tax              |                           |                               |                                |                |                               |                                |
| Exceptional items in operating costs                | 11.5                      |                               | 5.2                            | 1.8            |                               | 0.8                            |
| Exceptional refinancing costs                       | 0.2                       |                               | 0.1                            | —              |                               | —                              |
| Net pension financing costs                         | 0.1                       |                               | —                              | 1.3            |                               | 0.6                            |
| <b>Adjusted EPS</b>                                 | 3.1                       | 220,939                       | 1.4                            | 9.3            | 219,565                       | 4.2                            |

Inclusion of the dilutive securities, comprising 30,000 (2012: 1,357,000) additional shares due to share options and 434,000 (2012: 1,246,000) additional shares due to warrants over shares, in the calculation of adjusted EPS does not change the amounts shown above (2012: no change)

Further details in relation to the warrants can be found in Note 19 and Note 21

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

# Notes to the consolidated financial statements

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### 6 Dividends

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

### 7. Intangible assets

|                                                | Goodwill<br>£m | Computer<br>software<br>£m | Total<br>£m |
|------------------------------------------------|----------------|----------------------------|-------------|
| <b>Cost</b>                                    |                |                            |             |
| At 1 April 2011                                | 22.4           | 7.4                        | 29.8        |
| Exchange adjustment                            | (0.1)          | (0.1)                      | (0.2)       |
| Additions                                      | –              | 1.9                        | 1.9         |
| Disposals                                      | –              | (0.3)                      | (0.3)       |
| At 1 April 2012                                | 22.3           | 8.9                        | 31.2        |
| Exchange adjustment                            | 1.0            | 0.3                        | 1.3         |
| Additions                                      | –              | 1.8                        | 1.8         |
| Disposals                                      | –              | (0.1)                      | (0.1)       |
| <b>At 31 March 2013</b>                        | <b>23.3</b>    | <b>10.9</b>                | <b>34.2</b> |
| <b>Accumulated amortisation and impairment</b> |                |                            |             |
| At 1 April 2011                                | –              | 3.3                        | 3.3         |
| Exchange adjustment                            | –              | (0.1)                      | (0.1)       |
| Amortisation charge                            | –              | 0.2                        | 0.2         |
| Disposals                                      | –              | (0.3)                      | (0.3)       |
| At 1 April 2012                                | –              | 3.1                        | 3.1         |
| Exchange adjustment                            | –              | 0.1                        | 0.1         |
| Amortisation charge                            | –              | 0.4                        | 0.4         |
| Impairment charge                              | 1.5            | 1.1                        | 2.6         |
| <b>At 31 March 2013</b>                        | <b>1.5</b>     | <b>4.7</b>                 | <b>6.2</b>  |
| <b>Net book amount at 31 March 2013</b>        | <b>21.8</b>    | <b>6.2</b>                 | <b>28.0</b> |
| <b>Net book amount at 31 March 2012</b>        | <b>22.3</b>    | <b>5.8</b>                 | <b>28.1</b> |
| <b>Net book amount at 31 March 2011</b>        | <b>22.4</b>    | <b>4.1</b>                 | <b>26.5</b> |

The Group performed its annual impairment test of goodwill at 31 March 2013 that compares the current book value to the recoverable amount from the continued use or sale of the related business. The recoverable amount of each Cash Generating Unit (CGU) has been determined on a value in use basis. Value in use is calculated as the net present value of cash flows derived from detailed financial plans for the next financial year as approved by the Board. Cash flows beyond this are extrapolated using the long term country growth rates disclosed overleaf.

A strategic review of the Chain division business model during the period examined the manufacturing capacity in the current low to negative growth trading environment. This review identified significant excess production capacity on a number of manufacturing processes within the division. The impact of that review on the fixed assets of the division is disclosed in Note 8.

## 7. Intangible assets continued

Renold Hangzhou, a manufacturing operation within the Chain division, was identified with excess capacity and also has goodwill associated with the business. In previous years, the cash flow projections were based upon the assumption that excess capacity would be utilised via growth in demand for products. However, continued economic uncertainty has resulted in reduced demand in the last year compared to expectations. In addition, management has altered strategic priorities with the emphasis switched to lowering the break even point of the Chain division rather than pursuing growth. Therefore the expected future cash flows of Hangzhou have been reduced to reflect both of these factors.

It was concluded that the value in use of Hangzhou was lower than the book value of the assets (including goodwill). As a result, management has recognised an impairment charge of £1.5m against goodwill, reducing the carrying value at 31 March 2013 to nil for this CGU. This impairment has been recognised as an exceptional charge in the period (see Note 2(c)).

No impairment charge has been recognised in relation to the other CGUs tested in the period (2012: £nil).

The table below sets out the CGUs, their associated carrying amounts of goodwill and assumed levels of growth and discount rates used to assess value in use.

|                        | Growth rates |           | Discount rates |           | Carrying values |            |
|------------------------|--------------|-----------|----------------|-----------|-----------------|------------|
|                        | 2013<br>%    | 2012<br>% | 2013<br>%      | 2012<br>% | 2013<br>£m      | 2012<br>£m |
| Jeffrey Chain, US      | 3.3          | 3.1       | 14.3           | 14.2      | 19.1            | 18.2       |
| Renold Hangzhou, China | 8.5          | 8.7       | 13.8           | 13.7      | —               | 1.5        |
| Ace Chains, Australia  | 3.2          | 3.5       | 15.3           | 15.7      | 0.6             | 0.5        |
| Renold Chain, India    | 6.9          | 7.3       | 23.0           | 23.5      | 2.1             | 2.1        |
|                        |              |           |                |           | 21.8            | 22.3       |

### Key assumptions used in the value in use calculations

#### Sales volume, selling prices and cost changes

The Group prepares cash flow forecasts based on the latest management estimates for the next financial year. The expected sales prices and volumes reflect management's experience of how sales will develop at this point of the economic cycle. The expected profit margin reflects management's experience of each CGU's profitability at the forecast level of sales and incorporates the impact of any restructuring that took place during the year ended 31 March 2013.

Cash flows beyond the period of projections are extrapolated using the long term growth rate published by the Organisation for Economic Co-operation and Development for the territory in which the CGU is based. The discount rates applied to the cash flows of each of the CGUs are based on the risk free rate for long term bonds (typically ten years) issued by the government in the respective market. This is then adjusted to reflect both the increased risk of investing in equities and the systematic risk of the specific CGU (using an average of the betas of comparable companies).

Management believe that no reasonably possible change in any of the key assumptions would cause the carrying value of Jeffrey Chain and Ace Chains to materially exceed each CGU's recoverable amount. With respect to Renold Chain India if long term growth rates fell by approximately 25% the goodwill in respect of that unit may become impaired.

### Computer Software

As a result of the Chain division business model review and the reduction in the number of management units and expected users, a proportion of the costs in respect of the ERP system that have been capitalised has been impaired (see Note 2(c) for details). The total impairment charge in relation to the ERP system was £1.1m.

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## 8. Property, plant and equipment

|                                         | Land and<br>buildings<br>£m | Plant and<br>equipment<br>£m | Total<br>£m  |
|-----------------------------------------|-----------------------------|------------------------------|--------------|
| <b>Cost</b>                             |                             |                              |              |
| At 1 April 2011                         | 23.6                        | 121.4                        | 145.0        |
| Exchange adjustment                     | (0.5)                       | (2.6)                        | (3.1)        |
| Additions                               | 0.3                         | 3.4                          | 3.7          |
| Disposals                               | –                           | (1.7)                        | (1.7)        |
| <b>At 1 April 2012</b>                  | <b>23.4</b>                 | <b>120.5</b>                 | <b>143.9</b> |
| Exchange adjustment                     | 1.7                         | 1.2                          | 2.9          |
| Additions                               | 0.2                         | 2.9                          | 3.1          |
| Disposals                               | (0.3)                       | (3.3)                        | (3.6)        |
| <b>At 31 March 2013</b>                 | <b>25.0</b>                 | <b>121.3</b>                 | <b>146.3</b> |
| <b>Accumulated depreciation</b>         |                             |                              |              |
| At 1 April 2011                         | 3.5                         | 92.6                         | 96.1         |
| Exchange adjustment                     | (0.1)                       | (2.0)                        | (2.1)        |
| Charge for the year                     | 0.4                         | 4.0                          | 4.4          |
| Disposals                               | –                           | (1.7)                        | (1.7)        |
| <b>At 1 April 2012</b>                  | <b>3.8</b>                  | <b>92.9</b>                  | <b>96.7</b>  |
| Exchange adjustment                     | 1.0                         | 0.7                          | 1.7          |
| Charge for the year                     | 0.5                         | 3.7                          | 4.2          |
| Impairment charge                       | 0.7                         | 3.0                          | 3.7          |
| Disposals                               | –                           | (3.1)                        | (3.1)        |
| <b>At 31 March 2013</b>                 | <b>6.0</b>                  | <b>97.2</b>                  | <b>103.2</b> |
| <b>Net book amount at 31 March 2013</b> | <b>19.0</b>                 | <b>24.1</b>                  | <b>43.1</b>  |
| Net book amount at 31 March 2012        | 19.6                        | 27.6                         | 47.2         |
| Net book amount at 31 March 2011        | 20.1                        | 28.8                         | 48.9         |

The book amount for plant and equipment includes £nil (2012: £nil) in respect of assets acquired under finance leases

As a consequence of the Chain division business model review (see Note 2(c)) excess capacity was identified at various locations in the division. An exercise was performed to assess the recoverable amount of property, plant and equipment that was deemed to be in excess of current and future manufacturing requirements and as a result a number of impairments were identified.

An impairment charge of £3.7m has been charged in the year, £0.7m against land and buildings and £3.0m against plant and machinery.

### Future capital expenditure

At 31 March 2013 capital expenditure contracted for but not provided for in these accounts amounted to £1.0m (2012: £0.4m).

## 9. Investment property

|                                         | £m         |
|-----------------------------------------|------------|
| <b>Cost</b>                             |            |
| At 1 April 2011                         | 2.2        |
| Exchange adjustment                     | (0.2)      |
| At 1 April 2012                         | 2.0        |
| Exchange adjustment                     | –          |
| <b>At 31 March 2013</b>                 | <b>2.0</b> |
| <b>Accumulated depreciation</b>         |            |
| At 1 April 2011                         | 0.1        |
| Charge for the year                     | –          |
| At 1 April 2012                         | 0.1        |
| Impairment charge                       | 0.5        |
| Charge for the year                     | –          |
| <b>At 31 March 2013</b>                 | <b>0.6</b> |
| <b>Net book amount at 31 March 2013</b> | <b>1.4</b> |
| Net book amount at 31 March 2012        | 1.9        |
| Net book amount at 31 March 2011        | 2.1        |

The present sub-lease of the Group's Calais property commenced on 3 August 2007 for a period of nine years. This agreement is terminable by the tenant at the end of each three year period. The rental income recognised in the period was £0.3m (2012: £0.3m). The total future minimum lease payments under the non-cancellable term amount to £0.1m (2012: £0.3m) and of this £0.1m (2012: £0.3m) is due within one year from the balance sheet date. Notice has been served by the tenant to leave the property in August 2013.

The property has been accounted for on a cost model basis with a value of £1.4m in respect of land and £0.6m in respect of the building. The most recent valuation of the property was conducted in March 2013 by BNP Paribas, French chartered surveyors and property consultants. At that date, the fair value of the property was assessed at £1.9m (excluding de-pollution costs) based on ongoing rental for industrial use. As a result of this valuation, an impairment charge of £0.5m has been made in the period to include estimated depollution costs. The Directors are not aware of any long term circumstances that have arisen to materially alter that external valuation. The Group is currently assessing options with regards to the future use of this site.

## 10 Investment in jointly controlled entity

|                                                     | 2013<br>£m | 2012<br>£m |
|-----------------------------------------------------|------------|------------|
| <b>Group share of net book amount</b>               |            |            |
| Investment in jointly controlled entity             | 0.2        | 0.3        |
| Share of post-tax loss of jointly controlled entity | (0.1)      | (0.1)      |
| Impairment of investment                            | (0.1)      | –          |
| <b>At 31 March 2013</b>                             | <b>–</b>   | <b>0.2</b> |

In the prior period, the Group formed a joint venture, Renold Transmission Technology (Jiangsu) Inc., to pursue potential opportunities in the Chinese mass transit infrastructure sector. The business licence for the jointly controlled entity was granted on 20 April 2011. Each shareholder holds 50% of the shares and voting rights in the jointly controlled entity and has the right to appoint three directors. The agreement provided that each shareholder would invest £0.3m (US\$0.45m) within three months of the business licence being issued and a further US\$2.55m within two years of the business licence being issued.

The Group is currently reviewing options as part of the overall strategic review and are in discussions with our joint venture partner, Changzhou Baiyidar Railway Carparts Co., Ltd, a Chinese entity.

An impairment charge of £0.1m has been made against the carrying value of the investment in the jointly controlled entity as it is likely any residual asset value will be consumed during the strategic review.

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## 11. Inventories

|                                          | 2013<br>£m | 2012<br>£m |
|------------------------------------------|------------|------------|
| Materials                                | 66         | 77         |
| Work in progress                         | 83         | 93         |
| Finished products and production tooling | 260        | 285        |
|                                          | <b>409</b> | <b>455</b> |

Inventories pledged as security for liabilities amounted to £10.7m (2012: £18.4m). Write-offs taken to the income statement amount to £3.9m (2012: £1.0m). This includes an impairment charge of £2.8m arising in connection with the review of the Chain division operating model. See Note 2(c) for details.

## 12. Trade and other receivables

|                                | 2013<br>Current<br>£m | 2013<br>Non-current<br>£m | 2012<br>Current<br>£m | 2012<br>Non-current<br>£m |
|--------------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| Trade receivables <sup>1</sup> | 301                   | –                         | 314                   | –                         |
| Less: impairment provision     | (0.8)                 | –                         | (0.7)                 | –                         |
| Trade receivables net          | 293                   | –                         | 307                   | –                         |
| Other receivables <sup>1</sup> | 17                    | 0.4                       | 0.9                   | 0.2                       |
| Prepayments and accrued income | 18                    | –                         | 18                    | –                         |
|                                | <b>328</b>            | <b>0.4</b>                | <b>334</b>            | <b>0.2</b>                |

<sup>1</sup> Financial assets carried at cost

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

Trade receivables are non-interest bearing and are generally on 30-90 days' terms. See Note 25(d) for the Group's credit risk policy.

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

|      | Total<br>£m | Neither past due<br>nor impaired<br>£m | < 30 days<br>£m | Past due<br>but not impaired<br>30-60 days<br>£m | 60-90 days<br>£m | > 90 days<br>£m |
|------|-------------|----------------------------------------|-----------------|--------------------------------------------------|------------------|-----------------|
| 2013 | 293         | 24.4                                   | 3.0             | 0.7                                              | 0.3              | 0.9             |
| 2012 | 307         | 25.3                                   | 3.3             | 0.7                                              | 0.5              | 0.9             |

|                                             | 2013<br>£m | 2012<br>£m |
|---------------------------------------------|------------|------------|
| <b>Movement on impairment provision</b>     |            |            |
| Opening provision                           | 0.7        | 0.6        |
| Net charge to income statement              | 0.1        | 0.2        |
| Utilised in year through assets written off | –          | (0.1)      |
| Closing provision                           | <b>0.8</b> | <b>0.7</b> |

### 13. Cash and cash equivalents

|                           | 2013<br>£m | 2012<br>£m |
|---------------------------|------------|------------|
| Cash and cash equivalents | 9 8        | 4 8        |

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

|                                            | 2013<br>£m | 2012<br>£m |
|--------------------------------------------|------------|------------|
| Cash and cash equivalents (as shown above) | 9 8        | 4 8        |
| Less Overdrafts (Note 14)                  | (0 6)      | (3 6)      |
| Net cash and cash equivalents              | 9 2        | 1 2        |

### 14. Borrowings

|                                                     | 2013<br>£m  | 2012<br>£m  |
|-----------------------------------------------------|-------------|-------------|
| <b>Amounts falling due within one year</b>          |             |             |
| Overdrafts                                          | 0 6         | 3 6         |
| Bank loans                                          | 5 7         | 9 9         |
| Obligations under finance leases                    | –           | 0 1         |
|                                                     | 6 3         | 13 6        |
| <b>Amounts falling due after more than one year</b> |             |             |
| Bank loans                                          | 25 8        | 13 6        |
| Preference stock                                    | 0 5         | 0 5         |
|                                                     | 26 3        | 14 1        |
| <b>Total borrowings (Note 25(d))</b>                | <b>32 6</b> | <b>27 7</b> |

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

#### New banking facilities

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

At the year end the undrawn facility was £13.1m (2012: £7.0m). The Group pays interest at LIBOR plus a variable margin in respect of this facility. The average rate of interest paid in the year was LIBOR plus 2.5% for the Euro and Sterling denominated facility and LIBOR plus 2.75% for the US Dollar denominated facility (2012: all facilities LIBOR plus 4%). This facility has a number of financial and non-financial covenants which are tested on a bi-annual or annual basis. The Group also benefits from a number of overseas facilities.

Costs of £1.1m associated with the refinancing have been capitalised in the period and offset against loans and will be amortised over the life of the loan.

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### 14. Borrowings continued

#### Secured borrowings

Included in Group borrowings are secured borrowings of £28.7m (2012: £20.9m). Security is provided by fixed and floating charges over assets (including certain property, plant and equipment) primarily in the UK, USA, France, Germany, Australia and some other, more minor, overseas territories.

#### Finance leases

The Group has no obligations under finance leases.

|                                         | 2013<br>£m | 2012<br>£m |
|-----------------------------------------|------------|------------|
| <b>Obligations under finance leases</b> |            |            |
| Amounts payable within one year         | –          | 0.1        |
| <b>Total gross payments</b>             | <b>–</b>   | <b>0.1</b> |
| Allocated as                            |            |            |
| Current obligations                     | –          | 0.1        |
|                                         | <b>–</b>   | <b>0.1</b> |

#### Preference Stock

At 31 March 2013 there were 580,482 units of Preference Stock in issue (2012: 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

|                                           | 2013<br>Current<br>£m | 2013<br>Non-current<br>£m | 2012<br>Current<br>£m | 2012<br>Non-current<br>£m |
|-------------------------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| Trade payables <sup>1</sup>               | 20.9                  | –                         | 21.9                  | –                         |
| Other tax and social security             | 1.8                   | –                         | 2.8                   | –                         |
| Other payables <sup>1</sup>               | 1.6                   | –                         | 1.6                   | –                         |
| Accruals and deferred income <sup>1</sup> | 15.5                  | 0.8                       | 12.3                  | 0.4                       |
|                                           | <b>39.8</b>           | <b>0.8</b>                | <b>38.6</b>           | <b>0.4</b>                |

<sup>1</sup> Financial liabilities carried at amortised cost.

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

## 16. Provisions

|                         | Business restructuring<br>£m | Onerous licences<br>£m | Contingent consideration<br>£m | Total provisions<br>£m |
|-------------------------|------------------------------|------------------------|--------------------------------|------------------------|
| At 1 April 2012         | 0.9                          | –                      | 0.6                            | 1.5                    |
| Arising during the year | 2.6                          | 0.3                    | –                              | 2.9                    |
| Utilised in year        | (2.5)                        | –                      | –                              | (2.5)                  |
| <b>At 31 March 2013</b> | <b>1.0</b>                   | <b>0.3</b>             | <b>0.6</b>                     | <b>1.9</b>             |

|                        | 2013<br>£m | 2012<br>£m |
|------------------------|------------|------------|
| Allocated as           |            |            |
| Current provisions     | 1.6        | 1.5        |
| Non-current provisions | 0.3        | –          |
|                        | <b>1.9</b> | <b>1.5</b> |

### Business restructuring

This provision relates to the reorganisation and restructuring of businesses and will be completed within the next financial year. See Note 2(c) on exceptional charges for more details.

### Contingent consideration

Renold (Hangzhou) Co Limited, China

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

### Onerous licences

A provision was established in relation to onerous licence costs in respect of the ERP system that is being implemented. See Note 2(c) on exceptional charges for more details.

## 17. Deferred tax

|                                | Assets      |             | Liabilities |            | Net         |             |
|--------------------------------|-------------|-------------|-------------|------------|-------------|-------------|
|                                | 2013<br>£m  | 2012<br>£m  | 2013<br>£m  | 2012<br>£m | 2013<br>£m  | 2012<br>£m  |
| Accelerated capital allowances | 0.3         | 0.4         | (0.5)       | (0.2)      | (0.2)       | 0.2         |
| Pension plans                  | 18.0        | 10.9        | (0.3)       | (0.4)      | 17.7        | 10.5        |
| Tax losses                     | 9.4         | 7.7         | 0.2         | 0.1        | 9.6         | 7.8         |
| Other temporary differences    | (1.8)       | (0.9)       | –           | (0.3)      | (1.8)       | (1.2)       |
| Tax assets/(liabilities)       | 25.9        | 18.1        | (0.6)       | (0.8)      | 25.3        | 17.3        |
| Net off (liabilities)/assets   | (0.6)       | (0.8)       | 0.6         | 0.8        | –           | –           |
| <b>Net deferred tax assets</b> | <b>25.3</b> | <b>17.3</b> | <b>–</b>    | <b>–</b>   | <b>25.3</b> | <b>17.3</b> |

The net deferred tax asset recoverable after more than one year is £25.3m (2012: £17.3m). The pension plan deferred tax asset includes an amount of £4.5m which arises in accordance with IFRIC 14. See Note 18 for more details.

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## 17. Deferred tax continued

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

|                                | Opening<br>balance<br>£m | Exchange<br>adjustments<br>£m | Recognised<br>in income<br>statement<br>£m | Recognised<br>directly in other<br>comprehensive<br>income<br>£m | Closing<br>balance<br>£m |
|--------------------------------|--------------------------|-------------------------------|--------------------------------------------|------------------------------------------------------------------|--------------------------|
| <b>2013</b>                    |                          |                               |                                            |                                                                  |                          |
| Accelerated capital allowances | 0.4                      | —                             | (0.1)                                      | —                                                                | 0.3                      |
| Pension plans                  | 10.9                     | —                             | (0.8)                                      | 7.9                                                              | 18.0                     |
| Tax losses                     | 7.7                      | 0.3                           | 1.4                                        | —                                                                | 9.4                      |
| Other temporary differences    | (0.9)                    | —                             | (0.9)                                      | —                                                                | (1.8)                    |
|                                | 18.1                     | 0.3                           | (0.4)                                      | 7.9                                                              | 25.9                     |

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

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

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

|                                | Opening<br>balance<br>£m | Exchange<br>adjustments<br>£m | Recognised<br>in income<br>statement<br>£m | Recognised<br>directly in other<br>comprehensive<br>income<br>£m | Closing<br>balance<br>£m |
|--------------------------------|--------------------------|-------------------------------|--------------------------------------------|------------------------------------------------------------------|--------------------------|
| <b>2012</b>                    |                          |                               |                                            |                                                                  |                          |
| Accelerated capital allowances | (0.3)                    | —                             | 0.1                                        | —                                                                | (0.2)                    |
| Pension plans                  | (0.5)                    | —                             | 0.1                                        | —                                                                | (0.4)                    |
| Tax losses                     | 0.1                      | —                             | —                                          | —                                                                | 0.1                      |
| Other temporary differences    | (0.1)                    | —                             | (0.2)                                      | —                                                                | (0.3)                    |
|                                | (0.8)                    | —                             | —                                          | —                                                                | (0.8)                    |

During the year the Group has reported an operating profit before exceptional items of £7.2m. 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 £19.3m (2012: £17.4m) arising from unrecognised losses of £16.1m (2012: £14.8m) (representing losses of £54.6m (2012: £48.4m)) and other timing differences of £3.2m (2012: £2.6m). Based on available evidence, it is considered unlikely that these amounts will be recovered within the foreseeable future. Materially all of these losses are not subject to time limits.

## 18. Pensions

The Group operates a number of pension plans throughout the world covering many of its employees. The principal funds are those in the UK: (i) the Renold Group Pension Scheme 'RGPS', (ii) the Jones & Shipman plc Retirement Benefits Plan (1971) 'J&S RBP', and (iii) the Renold Supplementary Pension Scheme 1967 'RSPS'. These three plans are funded plans of the defined benefit type with assets held in separate trustee administered funds. The Trustees are chaired by an independent professional trustee firm. Future accrual to the J&S RBP and RSPS ceased in August 2008 and RGPS in June 2009.

Agreement was reached at the end of the financial year to merge the three schemes into the RSPS and to wind up the other two schemes. Members and their benefits will either be transferred into the RSPS or, for those members with smaller pension entitlements who so elect, to be paid out in wind up lump sums. The merger and wind up is expected to complete during the new financial year.

The merged scheme will be underpinned by a 25 year asset backed partnership structure. The partnership holds an intercompany loan from Renold International Holdings Limited, the holding company for most of the Group's overseas trading companies and the associated interest income, which will provide annual cash contributions of £2.5m to the pension fund, with annual increases linked to RPI and capped at 5%. This income stream will be used to fund deficit repair payments and the first £0.5m of annual administrative expenses (with the company bearing any excess). The interest in the SLP held by the Schemes is not reported as a plan asset in the consolidated financial statements as it is a non-transferable interest issued by the Group. The IAS 19 deficit will be reduced as the cash contributions under the new structure are made.

Total cash costs for UK deficit repair payments and UK administrative expenses in the period was £3.8m (2012: £3.4m). The Group has also agreed that if operating profits reach an absolute pre-determined level in the year ended 31 March 2017, additional contributions will become payable while profits remain above this level. The pre-determined profit level is significantly higher than the operating results disclosed in the current year.

The new arrangement replaces all other existing funding arrangements for the UK defined benefit schemes and there is no separate schedule of contributions as at 31 March 2013. The merger will reduce the total reported UK liabilities and assets by a similar amount depending on the take up by members of the option to leave the scheme. If all the members entitled to leave the scheme choose that option, the total gross assets and liabilities that would be extinguished would be approximately £20m. There is also expected to be a small net impact on the scheme deficit. We will report on all of these matters when the merger completes during the first half of the new financial year. The new arrangements are not expected to have a substantive net impact on the Group's tax position.

The triennial valuation of the J&S scheme which was due to be completed with a valuation date of 5 April 2012 will no longer be required as the scheme will be in the process of being wound up. An opening valuation of the merged scheme will be carried out in the new financial year with an effective date of 5 April 2013 (which was to have been the next due date for a Triennial Review of the RSPS in any event). The valuation will be carried out by Barnett Waddingham, professionally qualified actuaries.

The Renold Group Money Purchase Pension Scheme 'RGMPs' is a defined contribution type plan. Future contributions to the RGMPs ceased in April 2009. All current and future UK employees have the opportunity to join the Renold Personal Pension Plan which is a contract based defined contribution scheme.

Overseas employees participate in a variety of different pension arrangements of the defined contribution or defined benefit type, funded in accordance with local practice. The small defined benefit scheme in the Canadian business was closed to new members in the period.

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

The total net pension liability of £76.4m includes £6.9m in respect of the application of IFRIC 14 in the current period (2012: nil).

The principal financial assumptions used to calculate plan liabilities as at 31 March 2013 are presented below. The assumptions adopted by the plans' actuaries represent the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

|                                                               | UK   |      | Overseas |      |
|---------------------------------------------------------------|------|------|----------|------|
|                                                               | 2013 | 2012 | 2013     | 2012 |
| Rate of increase in pensionable salaries <sup>1</sup>         | —    | —    | 1.9%     | 1.5% |
| Rate of increase in pensions in payment and deferred pensions | 1.9% | 1.7% | 1.5%     | 1.9% |
| Discount rate                                                 | 4.3% | 4.9% | 3.8%     | 4.1% |
| Inflation assumption <sup>2</sup>                             | 2.2% | 2.0% | 1.7%     | 1.7% |
| Expected return on plan assets                                | 6.1% | 6.1% | 7.7%     | 7.7% |

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

2 Inflation assumption used for UK schemes was changed to a blend of RPI and CPI in 2012.

# Notes to the consolidated financial statements

## continued

### 18. Pensions continued

The weighted average expected rate of return on UK plan assets is 6.6% less 0.5% for expenses

Plan assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of plan assets

The predominant defined benefit obligation for funded plans within the Group resides in the UK (£199.1m of the £217.7m 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 expectations for RGPS on retirement at age 65 are as follows (different rates apply for the smaller RSPS and J&S RBP)

|                             | 2013 | 2012 |
|-----------------------------|------|------|
| <b>Retiring today</b>       |      |      |
| Males                       | 18.6 | 18.5 |
| Females                     | 22.0 | 21.9 |
| <b>Retiring in 20 years</b> |      |      |
| Males                       | 19.6 | 19.5 |
| Females                     | 23.2 | 23.1 |

The post-retirement mortality tables used for the plan are the Heavy series tables with a 10% uplift published by the UK actuarial profession (2012 Heavy series tables with a 10% uplift). The mortality rates for RGPS (which represents approximately two-thirds of the UK defined benefit obligation) are based on average year of birth for both non-pensioners and pensioners with an allowance for the medium cohort projection. The uplift of 10% to the Heavy tables has been estimated based on ten years actual mortality experience. The effect of this adjustment and the change in base tables was to reduce life expectancy. The assumed life expectancy is slightly longer for the other two UK defined benefit plans.

#### Sensitivity analysis

| Assumption        | Change in assumption            | Impact on plan liabilities |
|-------------------|---------------------------------|----------------------------|
| Discount rate     | Increase/decrease by 0.1%       | Decrease/increase by £2.8m |
| Rate of inflation | Increase/decrease by 0.1%       | Increase/decrease by £2.0m |
| Rate of mortality | Increase by 1 year <sup>1</sup> | Increase by £7.4m          |

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

It should be noted that in Australia and New Zealand, where no deep market for high quality corporate bonds exists or where government bonds of appropriate duration do not exist, liabilities have been discounted using available rates on existing actual government bonds in accordance with the requirements of IAS 19. If discount rates in those territories reflected the typical spreads seen over government bonds in high quality corporate bonds in more developed markets the reported overseas liabilities would be reduced. The expected long term rates of return and market values of assets of the principal defined benefit plans of the Group, together with the present value of plan liabilities, are shown below. It should be noted that the market values of the plans' assets are stated as at the Group's year end. It is not intended to realise the assets in the short term and the value may therefore be subject to significant change before being realised. The present values of the plans' liabilities are derived from cash flow projections over long periods and are thus inherently uncertain.

The fair values of plan assets were

|                                     | UK<br>£m     | 2013<br>Overseas<br>£m | Total<br>£m  | UK<br>£m     | 2012<br>Overseas<br>£m | Total<br>£m  |
|-------------------------------------|--------------|------------------------|--------------|--------------|------------------------|--------------|
| Equities                            | 79.6         | 7.3                    | 86.9         | 77.5         | 6.9                    | 84.4         |
| Corporate bonds                     | 46.7         | 3.6                    | 50.3         | 43.2         | 3.1                    | 46.3         |
| Gilts                               | 28.1         | 0.8                    | 28.9         | 26.9         | 0.8                    | 27.7         |
| Other                               | 1.6          | 4.2                    | 5.8          | 1.5          | 3.5                    | 5.0          |
| <b>Total market value of assets</b> | <b>156.0</b> | <b>15.9</b>            | <b>171.9</b> | <b>149.1</b> | <b>14.3</b>            | <b>163.4</b> |

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

## 18. Pensions continued

### Pension obligations

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

|                                    | UK<br>£m | 2013<br>Overseas<br>£m | Total<br>£m | UK<br>£m | 2012<br>Overseas<br>£m | Total<br>£m |
|------------------------------------|----------|------------------------|-------------|----------|------------------------|-------------|
| Opening obligation                 | (180 6)  | (38 5)                 | (219 1)     | (178 9)  | (35 9)                 | (214 8)     |
| Current service cost               | –        | (0 3)                  | (0 3)       | –        | (0 5)                  | (0 5)       |
| Interest cost                      | (8 6)    | (1 5)                  | (10 1)      | (9 8)    | (1 8)                  | (11 6)      |
| Contributions by plan participants | –        | (0 1)                  | (0 1)       | –        | (0 1)                  | (0 1)       |
| Actuarial losses                   | (21 1)   | (3 1)                  | (24 2)      | (4 0)    | (3 6)                  | (7 6)       |
| Negative past service cost         | –        | –                      | –           | 13       | –                      | 13          |
| Benefits paid                      | 11 2     | 2 4                    | 13 6        | 10 8     | 2 4                    | 13 2        |
| Exchange adjustment                | –        | (1 2)                  | (1 2)       | –        | 1 0                    | 1 0         |
| Closing obligation                 | (199 1)  | (42 3)                 | (241 4)     | (180 6)  | (38 5)                 | (219 1)     |

The total defined benefit obligation can be analysed as follows

|                        |         |        |         |         |        |         |
|------------------------|---------|--------|---------|---------|--------|---------|
| Funded pension plans   | (199 1) | (18 6) | (217 7) | (180 6) | (17 3) | (197 9) |
| Unfunded pension plans | –       | (23 7) | (23 7)  | –       | (21 2) | (21 2)  |
|                        | (199 1) | (42 3) | (241 4) | (180 6) | (38 5) | (219 1) |

### Pension assets

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

|                           | UK<br>£m | 2013<br>Overseas<br>£m | Total<br>£m | UK<br>£m | 2012<br>Overseas<br>£m | Total<br>£m |
|---------------------------|----------|------------------------|-------------|----------|------------------------|-------------|
| Opening assets            | 149 1    | 14 3                   | 163 4       | 149 1    | 14 2                   | 163 3       |
| Expected return           | 8 8      | 1 0                    | 9 8         | 8 9      | 0 9                    | 9 8         |
| Actuarial gains/(losses)  | 5 5      | 0 1                    | 5 6         | (1 5)    | (0 8)                  | (2 3)       |
| Employer contributions    | 3 8      | 1 2                    | 5 0         | 3 4      | 1 1                    | 4 5         |
| Participant contributions | –        | 0 1                    | 0 1         | –        | 0 1                    | 0 1         |
| Benefits paid             | (11 2)   | (1 2)                  | (12 4)      | (10 8)   | (1 2)                  | (12 0)      |
| Exchange adjustment       | –        | 0 4                    | 0 4         | –        | –                      | –           |
| Closing assets            | 156 0    | 15 9                   | 171 9       | 149 1    | 14 3                   | 163 4       |

### Balance sheet reconciliation

|                     |         |        |         |         |        |         |
|---------------------|---------|--------|---------|---------|--------|---------|
| Plan obligations    | (199 1) | (42 3) | (241 4) | (180 6) | (38 5) | (219 1) |
| Plan assets         | 156 0   | 15 9   | 171 9   | 149 1   | 14 3   | 163 4   |
| Net plan deficit    | (43 1)  | (26 4) | (69 5)  | (31 5)  | (24 2) | (55 7)  |
| IFRIC 14 adjustment | (6 9)   | –      | (6 9)   | –       | –      | –       |
| Net deficit         | (50 0)  | (26 4) | (76 4)  | (31 5)  | (24 2) | (55 7)  |

Analysed as follows

### Current assets

|                            |   |    |    |   |    |    |
|----------------------------|---|----|----|---|----|----|
| Retirement benefit surplus | – | 14 | 14 | – | 16 | 16 |
|----------------------------|---|----|----|---|----|----|

### Non-current liabilities

|                                |        |        |        |        |        |        |
|--------------------------------|--------|--------|--------|--------|--------|--------|
| Retirement benefit obligations | (50 0) | (27 8) | (77 8) | (31 5) | (25 8) | (57 3) |
| Net deficit                    | (50 0) | (26 4) | (76 4) | (31 5) | (24 2) | (55 7) |

The IFRIC 14 adjustment represents the impact of IFRIC 14. The Group has an agreed 25 year deficit funding plan underpinned by the 25 year asset backed partnership structure detailed earlier in the note. This would, if and when paid, give rise to a surplus as measured under IFRS. This surplus is deemed to be recoverable, but any surplus ultimately repaid by the trustees would currently be subject to a 35% tax charge deducted at source. Consequently, a liability for £6 gm representing this 35% tax element, is recognised at the balance sheet date, which along with an associated deferred tax asset of £4 5m results in a net £2 4m decrease in the Group statement of comprehensive income.

# Notes to the consolidated financial statements

## continued

### 18. Pensions continued

The retirement benefit surplus shown previously is a net £1.4m balance in respect of a closed South African defined benefit pension scheme (2012: £1.6m, the movement in the year being due to foreign exchange movements). The legal steps to allow final liquidation of the scheme were completed at the end of the financial year. Approval to make the liquidation payment was received in April 2013 and cash of £1.3m was transferred to the Group with an outstanding receivable of £0.1m.

The negative past service costs of £nil (2012: £1.3m) relates to the impact of the Pension Increase Exchange Scheme in the prior year.

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

|                                                      | UK<br>£m | 2013<br>Overseas<br>£m | Total<br>£m | UK<br>£m | 2012<br>Overseas<br>£m | Total<br>£m |
|------------------------------------------------------|----------|------------------------|-------------|----------|------------------------|-------------|
| Losses arising on plan obligations                   | (21.1)   | (3.1)                  | (24.2)      | (4.0)    | (3.6)                  | (7.6)       |
| Gains/(losses) arising on plan assets                | 5.5      | 0.1                    | 5.6         | (1.5)    | (0.8)                  | (2.3)       |
|                                                      | (15.6)   | (3.0)                  | (18.6)      | (5.5)    | (4.4)                  | (9.9)       |
| IFRIC 14 adjustment in pension funding contributions | (6.9)    | –                      | (6.9)       | –        | –                      | –           |
| Net losses                                           | (22.5)   | (3.0)                  | (25.5)      | (5.5)    | (4.4)                  | (9.9)       |

The actual return on plan assets was £15.4m (2012: £75m).

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

|                             | 2013<br>£m | 2012<br>£m |
|-----------------------------|------------|------------|
| Operating costs             |            |            |
| Current service cost        | (0.3)      | (0.5)      |
| Negative past service costs | –          | 1.3        |
|                             | (0.3)      | 0.8        |

### History of experience gains and losses

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

|                                                                | 2013<br>£m | 2012<br>£m | UK<br>2011<br>£m | 2010<br>£m | 2009<br>£m |
|----------------------------------------------------------------|------------|------------|------------------|------------|------------|
| Experience on plan assets (£m)                                 | 5.5        | (1.5)      | (0.3)            | 1.7        | (3.1)      |
| Percentage of plan assets                                      | 3.5%       | (1.0%)     | (0.2%)           | 12.0%      | (24.1%)    |
| Actuarial (losses)/gains on plan liabilities (£m) <sup>1</sup> | (21.1)     | (4.0)      | 19.9             | (40.9)     | 12.5       |
| Percentage of present value of plan liabilities                | (10.6%)    | (2.2%)     | 11.1%            | (20.7%)    | 7.9%       |
| Present value of plan liabilities (£m)                         | (199.1)    | (180.6)    | (178.9)          | (197.4)    | (157.8)    |
| Fair value of plan assets (£m)                                 | 156.0      | 149.1      | 149.1            | 147.7      | 130.7      |
| Deficit (£m) <sup>1</sup>                                      | (43.1)     | (31.5)     | (29.8)           | (49.7)     | (27.1)     |

|                                                   | 2013<br>£m | 2012<br>£m | Overseas<br>2011<br>£m | 2010<br>£m | 2009<br>£m |
|---------------------------------------------------|------------|------------|------------------------|------------|------------|
| Experience on plan assets (£m)                    | 0.1        | (0.8)      | 0.6                    | 1.0        | (3.7)      |
| Percentage of plan assets                         | 0.6%       | (5.6%)     | 4.2%                   | 5.7%       | (23.7%)    |
| Actuarial (losses)/gains on plan liabilities (£m) | (3.1)      | (3.6)      | 0.2                    | 2.2        | 0.4        |
| Percentage of present value of plan liabilities   | (7.3%)     | (9.4%)     | 0.6%                   | 5.4%       | 0.9%       |
| Present value of plan liabilities (£m)            | (42.3)     | (38.5)     | (35.9)                 | (40.8)     | (43.6)     |
| Fair value of plan assets (£m)                    | 15.9       | 14.3       | 14.2                   | 17.5       | 15.6       |
| Deficit (£m)                                      | (26.4)     | (24.2)     | (21.7)                 | (23.3)     | (28.0)     |

<sup>1</sup> These exclude the impact of the IFRIC 14 adjustment of £6.9m included in the statement of other comprehensive income.

## 18. Pensions continued

|                                                                | 2013<br>£m | 2012<br>£m | Total<br>2011<br>£m | 2010<br>£m | 2009<br>£m |
|----------------------------------------------------------------|------------|------------|---------------------|------------|------------|
| Experience on plan assets (£m)                                 | 5 6        | (2 3)      | 0 3                 | 18 7       | (35 2)     |
| Percentage of plan assets                                      | 3 3%       | (1 4%)     | 0 1%                | 11 3%      | (24 1%)    |
| Actuarial (losses)/gains on plan liabilities (£m) <sup>1</sup> | (24 2)     | (7 6)      | 20 1                | (38 7)     | 12 9       |
| Percentage of present value of plan liabilities                | (10 0%)    | (3 5%)     | 9 4%                | (16 2%)    | 6 4%       |
| Present value of plan liabilities (£m)                         | (241 4)    | (219 1)    | (214 8)             | (238 2)    | (201 4)    |
| Fair value of plan assets (£m)                                 | 171 9      | 163 4      | 163 3               | 165 2      | 146 3      |
| Deficit (£m) <sup>1</sup>                                      | (69 5)     | (55 7)     | (51 5)              | (73 0)     | (55 1)     |

1 These exclude the impact of the IFRIC 14 adjustment of £6 gm included in the statement of other comprehensive income

Cumulative actuarial losses recognised in other comprehensive income since 4 April 2004 were £61 6m (2012 £36 1m)

The Group operates a number of fully paid up defined contribution plans. The cost for the period was £1 9m (2012 £1 9m) and was fully paid up.

## 19. Called up share capital

|                             | 2013<br>£m | 2012<br>£m |
|-----------------------------|------------|------------|
| Ordinary shares of 5p each  | 11 1       | 11 0       |
| Deferred shares of 20p each | 15 4       | 15 4       |
|                             | 26 5       | 26 4       |

At 31 March 2013, the issued ordinary share capital comprised 221,064,453 ordinary shares of 5p each (2012 219,564,703) and 77,064,703 deferred shares of 20p each (2012 77,064,703)

In May 2012, the Company issued 1,499,750 fully paid ordinary 5p shares (2012 nil) pursuant to the exercise of warrants by Fortis Bank UK Branch at a price of 21 06p. The warrants had a seven year term commencing from 13 August 2009 during which they could be exercised at any time and were granted as part of the re-financing agreed with the Group's banks at that time. Outstanding warrants with the Royal Bank of Scotland plc number 2,000,250 with the same terms noted above.

## 20. Share-based payments

Details of the share-based payment arrangements are provided in the Directors' remuneration report on pages 34 to 43.

At 31 March 2013, unexercised options for ordinary shares amounted to 5,343,642 (2012 9,737,599)

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

|                                                        | 2013<br>Executive share<br>option scheme | 2012<br>Executive share<br>option scheme |
|--------------------------------------------------------|------------------------------------------|------------------------------------------|
| Grant date                                             | 31 7 12                                  | 21 1 13                                  |
| Share price at date of grant                           | 28 5p                                    | 25 5p                                    |
| Exercise price                                         | 29 4p                                    | 26 2p                                    |
| Number of employees                                    | 1                                        | 1                                        |
| Shares under option                                    | 258,449                                  | 1,145,038                                |
| Vesting period (years)                                 | 3                                        | 3                                        |
| Expected volatility                                    | 51%                                      | 56%                                      |
| Option life (years)                                    | 10                                       | 10                                       |
| Expected life (years)                                  | 6                                        | 6                                        |
| Risk free interest rate                                | 0 3%                                     | 0 8%                                     |
| Assumed dividends expressed as a dividend yield        | Zero                                     | Zero                                     |
| Possibility of ceasing employment before vesting       | Zero                                     | Zero                                     |
| Fair value per option                                  | 13 3p                                    | 13 1p                                    |
| Probability of meeting market based vesting conditions | 24%                                      | 60%                                      |

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### 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 2013 is shown below.

#### Executive share option schemes

|                         | 2013        |                                 | 2012        |                                 |
|-------------------------|-------------|---------------------------------|-------------|---------------------------------|
|                         | Number      | Weighted average exercise price | Number      | Weighted average exercise price |
| Outstanding at 1 April  | 9,737,599   | 35.1p                           | 7,335,447   | 34.3p                           |
| Granted                 | 1,403,487   | 26.8p                           | 3,653,062   | 37.3p                           |
| Lapsed                  | (2,273,400) | 23.7p                           | (102,172)   | 57.3p                           |
| Forfeited               | (3,524,044) | 38.5p                           | (1,148,738) | 35.2p                           |
| Outstanding at 31 March | 5,343,642   | 35.5p                           | 9,737,599   | 35.1p                           |
| Exercisable at 31 March | 387,551     | 67.7p                           | 1,392,849   | 69.8p                           |

#### Executive share option schemes

|                          | 2013                            |                  |          |                                             | 2012                            |                  |          |                                             |
|--------------------------|---------------------------------|------------------|----------|---------------------------------------------|---------------------------------|------------------|----------|---------------------------------------------|
| Range of exercise prices | Weighted average exercise price | Number of shares | Expected | Weighted average remaining life Contractual | Weighted average exercise price | Number of shares | Expected | Weighted average remaining life Contractual |
| 20p to 30p               | 26.9p                           | 2,082,385        | 5.0      | 9.0                                         | 23.8p                           | 4,959,784        | 3.9      | 7.9                                         |
| 30p to 40p               | 37.3p                           | 2,873,706        | 4.2      | 8.2                                         | 37.3p                           | 3,406,126        | 5.2      | 9.2                                         |
| 40p to 100p              | 67.7p                           | 387,551          | —        | 2.8                                         | 70.4p                           | 1,371,689        | —        | 3.0                                         |

No options have been exercised in the period (2012: nil). The total credit for the year relating to employee share-based payment plans was £0.3m (2012: charge £0.1m), all of which related to equity settled share-based transactions. After deferred tax, the total credit was £0.3m (2012: charge £0.1m).

No charge has been made in the year in relation to the equity portion of the Executive bonus scheme's (2012: £0.1m). The terms of the scheme are outlined in the Directors' report on pages 34 to 43.

The middle market price of ordinary shares at 31 March 2013 was 24p and the range of prices during the year was 16.75p to 38p.

### 21. Reserves

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

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

Cumulative goodwill written off directly to Group reserves at 31 March 2013 amounted to £3.5m (2012: £2.0m).

Other reserves include £0.2m (2012: £0.4m), being the fair value of the unexercised warrant issued to one of the Group's former lenders as part of the refinancing that was completed in August 2009. The warrants are over 2,000,250 ordinary shares of 5p each and have a seven year term commencing from 13 August 2009 during which they can be exercised at any time.

Included in retained earnings is an amount of £6.5m (net of tax) (2012: £7.0m) relating to the revaluation of freehold property that was undertaken at the date of IFRS adoption. The amount is not distributable until it is realised.

## 22. Operating lease obligations

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

|                            | 2013             |                 | 2012             |                 |
|----------------------------|------------------|-----------------|------------------|-----------------|
|                            | Properties<br>£m | Equipment<br>£m | Properties<br>£m | Equipment<br>£m |
| Within one year            | 18               | 0.2             | 18               | 0.4             |
| Between two and five years | 5.2              | 0.1             | 7.3              | 0.4             |
| Over five years            | 15.7             | —               | 15.1             | —               |
|                            | 22.7             | 0.3             | 24.2             | 0.8             |

Certain of the leased properties have been sublet and the future minimum sublease payments expected to be received under non-cancellable sublease agreements is £1.8m (2012: £1.8m)

## 23. Contingent liabilities and commitments

Performance guarantees given to third parties in respect of Group companies were £nil (2012: £3.4m associated with the disposal of the Automotive business in 2006 which expired in August 2012)

Various UK group companies have extended existing guarantees to the UK pension schemes to the merged scheme to cover the full cost of buying out the liabilities to the pension schemes rather than the existing amount (which equates to 105% of the Pension Protection Fund liabilities). As sponsoring employer of the schemes the continuing obligation which is unchanged is to fully fund the members accrued benefits

## 24. Additional cash flow information

Reconciliation of operating profit to net cash flows from operations

|                                                       | 2013<br>£m | 2012<br>£m |
|-------------------------------------------------------|------------|------------|
| Cash generated from operations                        |            |            |
| Operating (loss)/profit                               | (4.4)      | 12.0       |
| Depreciation and amortisation                         | 4.6        | 4.6        |
| Impairment of goodwill                                | 1.5        | —          |
| Impairment of intangible assets                       | 1.1        | —          |
| Impairment of tangible fixed assets                   | 3.7        | —          |
| Impairment of inventories                             | 2.8        | —          |
| Impairment of investment in jointly controlled entity | 0.1        | —          |
| Impairment of investment property                     | 0.5        | —          |
| Proceeds from plant and equipment disposals           | 0.4        | —          |
| Equity share plans                                    | (0.3)      | (0.1)      |
| Decrease/(increase) in inventories                    | 2.8        | (2.0)      |
| Decrease/(increase) in receivables                    | 1.3        | (1.2)      |
| Increase/(decrease) in payables                       | 0.1        | (1.1)      |
| Increase in provisions                                | 0.4        | 0.3        |
| Movement on pension plans                             | (5.8)      | (6.5)      |
| Movement in derivative financial instruments          | 0.1        | (0.1)      |
| Cash generated from operations                        | 8.9        | 5.9        |

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### 24. Additional cash flow information continued

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

|                                                  | 2013<br>£m | 2012<br>£m |
|--------------------------------------------------|------------|------------|
| Increase/(decrease) in cash and cash equivalents | 77         | (35)       |
| Change in net debt resulting from cash flows     | (70)       | 0.2        |
| Foreign currency translation differences         | (0.6)      | 0.4        |
| Change in net debt during the period             | 0.1        | (2.9)      |
| Net debt at start of year                        | (22.9)     | (20.0)     |
| Net debt at end of year                          | (22.8)     | (22.9)     |
| Net debt comprises                               |            |            |
| Cash and cash equivalents (Note 13)              | 9.8        | 4.8        |
| Total borrowings (Note 14)                       | (32.6)     | (27.7)     |
|                                                  | (22.8)     | (22.9)     |

### 25. Financial instruments

These notes should be read in conjunction with the narrative disclosures in the Finance Director's review on pages 16 to 19

#### Foreign currency risk and sensitivity

As a result of the significant operations in the US and Europe, the Group's balance sheet can be affected significantly by movements in the US Dollar/Sterling and Euro/Sterling exchange rates

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

#### Change in US Dollar rate

|      | Increase/<br>(decrease)<br>in US\$ rate | Effect on<br>(loss)/profit<br>before tax<br>£m | Effect on<br>shareholders'<br>equity<br>£m |
|------|-----------------------------------------|------------------------------------------------|--------------------------------------------|
| 2013 | 25%                                     | 0.2                                            | 1.9                                        |
|      | (10%)                                   | (0.2)                                          | (1.0)                                      |
| 2012 | 25%                                     | 0.4                                            | 2.1                                        |
|      | (10%)                                   | (0.2)                                          | (1.1)                                      |

#### Change in Euro rate

|      | Increase/<br>(decrease)<br>in Euro rate | Effect on<br>(loss)/profit<br>before tax<br>£m | Effect on<br>shareholders'<br>equity<br>£m |
|------|-----------------------------------------|------------------------------------------------|--------------------------------------------|
| 2013 | 25%                                     | 0.1                                            | 0.1                                        |
|      | (10%)                                   | (0.1)                                          | (0.1)                                      |
| 2012 | 25%                                     | (0.4)                                          | 0.3                                        |
|      | (10%)                                   | 0.2                                            | (0.2)                                      |

## 25. Financial instruments continued

### 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<br>basis points | 2013<br>Effect on<br>loss<br>before tax<br>£m | 2012<br>Effect on<br>profit<br>before tax<br>£m |
|-----------|-----------------------------|-----------------------------------------------|-------------------------------------------------|
| Sterling  | +150                        | (0.2)                                         | —                                               |
| US Dollar | +150                        | (0.1)                                         | (0.2)                                           |
| Euro      | +150                        | (0.1)                                         | (0.1)                                           |
| Other     | +150                        | (0.1)                                         | (0.1)                                           |
|           |                             | (0.5)                                         | (0.4)                                           |

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

|                                                    | 2013<br>£m | 2012<br>£m |
|----------------------------------------------------|------------|------------|
| Current liabilities                                |            |            |
| Forward foreign currency contracts cash flow hedge | (0.2)      | (0.1)      |

The cash flow hedges of the expected future transactions in US Dollars and Euros were assessed to be highly effective. In the period £nil (2012: £nil) was transferred to operating costs in the income statement in the period.

#### (b) Short term receivables and payables

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

#### (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 2013 was £6.4m (1 April 2012: £8.1m). £0.4m of exchange difference (2012: £nil) 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.

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## continued

### 25. Financial instruments continued

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

| Currency                | Fixed rate<br>£m | 2013<br>Floating rate<br>£m | Total<br>£m | Fixed rate<br>£m | 2012<br>Floating rate<br>£m | Total<br>£m |
|-------------------------|------------------|-----------------------------|-------------|------------------|-----------------------------|-------------|
| Sterling                |                  |                             |             |                  |                             |             |
| – Financial liabilities | –                | 12.3                        | 12.3        | 0.1              | 1.4                         | 1.5         |
| – Preference Stock      | 0.5              | –                           | 0.5         | 0.5              | –                           | 0.5         |
| US Dollar               | –                | 7.7                         | 7.7         | –                | 10.7                        | 10.7        |
| Euro                    | –                | 5.6                         | 5.6         | –                | 4.8                         | 4.8         |
| Other                   | –                | 6.5                         | 6.5         | –                | 10.2                        | 10.2        |
|                         | 0.5              | 32.1                        | 32.6        | 0.6              | 27.1                        | 27.7        |

Floating rate financial liabilities bear interest at rates based on relevant national base rate equivalents, which can fluctuate on a daily basis. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest risk.

#### Interest rate risk

Exposure to the risk of changes in market interest rates relates primarily to the Group's Sterling, US Dollar and Euro debt obligations.

#### Credit risk

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

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

#### (e) Currency and interest rate profile of financial assets at 31 March 2013

| Currency  | 2013                              |             | 2012                              |             |
|-----------|-----------------------------------|-------------|-----------------------------------|-------------|
|           | Cash at bank<br>and in hand<br>£m | Total<br>£m | Cash at bank<br>and in hand<br>£m | Total<br>£m |
| Sterling  | 1.9                               | 1.9         | –                                 | –           |
| Euro      | 3.2                               | 3.2         | 1.6                               | 1.6         |
| US Dollar | 1.4                               | 1.4         | 0.9                               | 0.9         |
| Other     | 3.3                               | 3.3         | 2.3                               | 2.3         |
|           | 9.8                               | 9.8         | 4.8                               | 4.8         |

Cash balances are held with the Group's bankers. These deposits are held largely in Germany and South Africa and earn interest at bank deposit interest rates for periods of up to three months.

## 25. Financial instruments continued

### (f) Maturity of financial liabilities

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

|                                              | One year<br>or less<br>on demand<br>£m | One to<br>two years<br>£m | Two to<br>five years<br>£m | More than<br>five years<br>£m | Total<br>£m |
|----------------------------------------------|----------------------------------------|---------------------------|----------------------------|-------------------------------|-------------|
| <b>2013</b>                                  |                                        |                           |                            |                               |             |
| Interest bearing loans and borrowings        | 6.8                                    | (0.3)                     | 26.9                       | –                             | 33.4        |
| Trade payables                               | 20.9                                   | –                         | –                          | –                             | 20.9        |
| Forward foreign exchange contracts – outflow | 5.4                                    | –                         | –                          | –                             | 5.4         |
| Preference Stock <sup>1</sup>                | –                                      | –                         | –                          | 0.5                           | 0.5         |
|                                              | <b>33.1</b>                            | <b>(0.3)</b>              | <b>26.9</b>                | <b>0.5</b>                    | <b>60.2</b> |
| <b>2012</b>                                  |                                        |                           |                            |                               |             |
| Interest bearing loans and borrowings        | 14.4                                   | 14.1                      | –                          | –                             | 28.5        |
| Leases                                       | 0.1                                    | –                         | –                          | –                             | 0.1         |
| Trade payables                               | 21.9                                   | –                         | –                          | –                             | 21.9        |
| Forward foreign exchange contracts – outflow | 4.1                                    | –                         | –                          | –                             | 4.1         |
| Preference Stock <sup>1</sup>                | –                                      | –                         | –                          | 0.5                           | 0.5         |
|                                              | <b>40.5</b>                            | <b>14.1</b>               | <b>–</b>                   | <b>0.5</b>                    | <b>55.1</b> |

<sup>1</sup> No fixed repayment date

The Group has contracted forward contracts consisting of Euro forward contracts of £1.1m (2012: £3.0m) and US Dollar forward contracts of £4.3m (2012: £4.4m) and has contracted to buy foreign currency consisting of Euro swap contracts for £nil (2012: £3.3m) due within one year.

### (g) Borrowing facilities

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

|                                                | 2013<br>£m  | 2012<br>£m  |
|------------------------------------------------|-------------|-------------|
| Expiring within one year or less, or on demand | –           | 12.8        |
| Expiring between one and two years             | –           | 7.0         |
| Expiring between two and five years            | 13.1        | –           |
|                                                | <b>13.1</b> | <b>19.8</b> |

The facilities expiring in one year or less, or on demand, are primarily annual facilities subject to review at various dates during the year ending 31 March 2014.

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### 25. Financial instruments continued

#### (h) Fair values

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

|                                          | Carrying value |            | Fair value |            |
|------------------------------------------|----------------|------------|------------|------------|
|                                          | 2013<br>£m     | 2012<br>£m | 2013<br>£m | 2012<br>£m |
| Financial assets                         |                |            |            |            |
| Cash                                     | 9 8            | 4 8        | 9 8        | 4 8        |
| Financial liabilities                    |                |            |            |            |
| Bank overdraft (floating rate borrowing) | 0 6            | 3 6        | 0 6        | 3 6        |
| Interest bearing loans and borrowings    |                |            |            |            |
| Floating rate borrowing                  | 31 5           | 23 5       | 31 5       | 23 5       |
| Fixed rate borrowing                     | –              | 0 1        | –          | 0 1        |
| Preference Stock                         | 0 5            | 0 5        | 0 5        | 0 5        |

The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates

#### Fair value hierarchy

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

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

As at 31 March 2013, the Group held the following financial instruments measured at fair value

|                                                    | Total<br>£m | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m |
|----------------------------------------------------|-------------|---------------|---------------|---------------|
| <b>Liabilities measured at fair value</b>          |             |               |               |               |
| Forward foreign currency contracts cash flow hedge | 0 2         | –             | 0 2           | –             |

As at 31 March 2012

|                                                    | Total<br>£m | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m |
|----------------------------------------------------|-------------|---------------|---------------|---------------|
| <b>Liabilities measured at fair value</b>          |             |               |               |               |
| Forward foreign currency contracts cash flow hedge | 0 1         | –             | 0 1           | –             |

## 25. Financial instruments continued

### (i) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to the shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2013 and 31 March 2012.

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.

|                             | 2013<br>£m | 2012<br>£m |
|-----------------------------|------------|------------|
| Net debt (Note 24)          | 22.8       | 22.9       |
| Total debt                  | 22.8       | 22.9       |
| Total capital               | 26.2       | 50.9       |
| Capital and net debt        | 49.0       | 73.8       |
| Gearing ratio               | 47%        | 31%        |
| Adjusted EBITDA (£m)        | 11.8       | 18.7       |
| Net debt to adjusted EBITDA | 1.9 times  | 1.2 times  |

## 26. Business combinations

There were no acquisitions in the current or prior year.

## 27. Post balance sheet events

### South African pension surplus

Following the year end the South African pension surplus was approved for repayment to the Group by the relevant authorities. £1.3m of the £1.4m surplus was returned in April 2013 with £0.1m outstanding.

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**Group five year financial review** (unaudited)

|                                                  | 2013<br>£m | 2012<br>£m | 2011<br>£m | 2010<br>£m | 2009<br>£m |
|--------------------------------------------------|------------|------------|------------|------------|------------|
| Group revenue                                    | 190.3      | 209.5      | 191.0      | 156.1      | 194.7      |
| Operating profit/(loss) before exceptional items | 7.2        | 14.1       | 7.0        | (2.1)      | 10.0       |
| Operating (loss)/profit                          | (4.4)      | 12.0       | 4.3        | (4.8)      | 7.6        |
| (Loss)/profit before tax                         | (7.7)      | 7.6        | (1.3)      | (13.6)     | 2.9        |
| Taxation                                         | (0.9)      | (1.2)      | 0.4        | 3.9        | (0.8)      |
| (Loss)/profit for the year                       | (8.6)      | 6.4        | (0.9)      | (9.7)      | 2.1        |
| <b>Net assets employed</b>                       |            |            |            |            |            |
| Tangible and intangible fixed assets             | 50.7       | 54.9       | 55.1       | 53.6       | 54.4       |
| Working capital and other net assets             | 33.3       | 40.2       | 36.9       | 37.9       | 42.9       |
| Operating assets                                 | 84.0       | 95.1       | 92.0       | 91.5       | 97.3       |
| Goodwill                                         | 21.8       | 22.3       | 22.4       | 23.5       | 24.5       |
| Net debt                                         | (22.8)     | (22.9)     | (20.0)     | (17.9)     | (37.2)     |
| Deferred and current taxation                    | 23.9       | 15.9       | 15.2       | 21.8       | 14.0       |
| Provisions                                       | (1.9)      | (1.5)      | (1.2)      | (1.1)      | (3.4)      |
| Net assets excluding pension obligations         | 105.0      | 108.9      | 108.4      | 117.8      | 95.2       |
| Pension obligations                              | (76.4)     | (55.7)     | (51.5)     | (73.0)     | (55.1)     |
| Total net assets                                 | 28.6       | 53.2       | 56.9       | 44.8       | 40.1       |
| <b>Other data and ratios</b>                     |            |            |            |            |            |
| Return on capital employed (%) <sup>1</sup>      | 8.0        | 15.2       | 7.6        | (2.2)      | 11.6       |
| Return on sales (%) <sup>2</sup>                 | 3.8        | 6.7        | 3.7        | (1.3)      | 5.1        |
| Capital expenditure (£m)                         | 4.9        | 5.6        | 6.6        | 4.2        | 5.8        |
| Basic (loss)/earnings per share (p)              | (3.9)      | 2.8        | (0.4)      | (8.0)      | 2.8        |
| Employees at year end                            | 2,275      | 2,569      | 2,521      | 2,257      | 2,301      |

1 Being operating profit before exceptional items divided by average operating assets

2 Based on operating profit before exceptional items divided by revenue

# Independent auditor's report

## To the members of Renold plc

We have audited the parent company financial statements of Renold plc for the year ended 31 March 2013 which comprise the Company balance sheet, the Company statement of total recognised gains and losses, the accounting policies and the related notes (i) to (xiv). The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' responsibilities for the Company financial statements set out on page 94, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

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

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

## Opinion on financial statements

In our opinion the Company financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2013,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion

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

## Matters on which we are required to report by exception

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

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

## Other matters

We have reported separately on the Group financial statements of Renold plc for the year ended 31 March 2013.



## Gary Harding

(Senior statutory auditor) for and on behalf of Ernst & Young LLP,  
Statutory Auditor  
Manchester  
28 May 2013

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## Accounting policies

A summary of the principal Company accounting policies is set out below. These have been applied on a consistent basis unless otherwise indicated.

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

**Basis of accounting** – The accounts have been prepared in compliance with the Companies Act 2006 and in accordance with UK Generally Accepted Accounting Principles. They have been prepared under the historical cost convention.

### Statement of Directors' responsibilities for the Company financial statements

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

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

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

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

**Foreign currencies** – Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

**Financial instruments and risk management** – The accounting policies of the Company in respect of financial instruments are consistent with those of the Group, and are detailed in the consolidated financial statements. In accordance with paragraph 2(d) of Financial Reporting Standard (FRS) 29, the Company is exempt from the disclosure requirements of FRS 29. The Company's financial instruments are consolidated with those of the Group and are incorporated into the disclosures in Note 25.

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

**Tangible fixed assets** – Tangible fixed assets represented by properties and equipment are stated at cost, being purchase cost plus any incidental costs of acquisition, less accumulated depreciation. The book values of certain assets which were the subject of past revaluations have been retained as permitted by the transitional arrangements of FRS 15. Tangible Fixed Assets Depreciation is calculated by reference to original cost at fixed percentages assuming effective useful lives as follows:

- Leasehold properties: the period of the lease
- Equipment and fixtures: 10 to 15 years
- Motor vehicles: 25% per annum for three years, leaving 25% residual value
- Computer software: three to seven years

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

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

**Investments** – Investments in subsidiary companies are accounted for at cost and reviewed for impairment on an annual basis. Where indicators of impairment are present, the cashflows of the underlying entities are reviewed to determine whether the investment value is recoverable.

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

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

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

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

**Pension costs** – Employees of the Company participate in the pension plans operated by the Group in the UK. These include pension plans of the defined benefit and defined contribution types. However, the contributions paid by the Company are accounted for as defined contribution plans in all cases. This is because the Company is unable to identify its share of the underlying assets and liabilities in the respective plans, as required by FRS 17 Retirement Benefits. Therefore, contributions paid to the respective pension plans are charged to the profit and loss account as incurred. Disclosures associated with the Group defined benefit plans are provided in the Group financial statements

**Share-based compensation** – The Company operates equity settled share-based compensation plans as detailed in the Group financial statements

The fair value of the employee services received in exchange for the grant of the options is calculated using a Black-Scholes pricing model and is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. No expense is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon market or non-vesting conditions which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied provided that all other performance or service conditions are satisfied. The market-based conditions are linked to the market price of shares in the Company.

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

As permitted under the transitional provisions of FRS 20, the Company has applied the standard only to equity settled awards granted after 7 November 2002 and which vested on or after 1 January 2005

**Interest bearing loans and borrowings** – All interest bearing loans and borrowings are initially recognised at net proceeds. After initial recognition, debt is subsequently measured at amortised cost using the effective interest method

**Dividends** – Final dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders, while interim dividend distributions are recognised in the period in which the dividends are declared and paid. Dividends receivable from subsidiary undertakings are similarly recognised on this basis

**Cash flow statement** – As permitted by FRS 1 Cash Flow Statements (revised 1996), the financial statements do not contain a cash flow statement as the financial statements of the Group, which are publicly available, contain a cash flow statement

**Related party transactions** – The Company has taken advantage of the exemption not to disclose related party transactions with wholly owned subsidiaries of the Group under FRS 8 Related Party Disclosures

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

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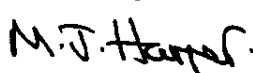
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# Company balance sheet

as at 31 March 2013

|                                                               | Note | 2013<br>£m   | 2012<br>£m  |
|---------------------------------------------------------------|------|--------------|-------------|
| <b>Fixed assets</b>                                           |      |              |             |
| Tangible assets                                               | I    | 7.0          | 6.7         |
| Investments in subsidiary undertakings                        | II   | 115.7        | 61.1        |
|                                                               |      | <b>122.7</b> | <b>67.8</b> |
| <b>Current assets</b>                                         |      |              |             |
| Debtors                                                       | III  | 12.9         | 15.4        |
| Cash and short term deposits                                  |      | 13.1         | 17.5        |
|                                                               |      | <b>26.0</b>  | <b>32.9</b> |
| <b>Creditors amounts falling due within one year</b>          |      |              |             |
| Other creditors                                               | IV   | (3.3)        | (1.9)       |
| Derivative financial instruments                              | VII  | (0.1)        | —           |
| <b>Net current assets</b>                                     |      | <b>22.6</b>  | <b>31.0</b> |
| <b>Total assets less current liabilities</b>                  |      | <b>145.3</b> | <b>98.8</b> |
| <b>Creditors amounts falling due after more than one year</b> |      |              |             |
| Other creditors                                               | IV   | (62.5)       | —           |
| Bank borrowings                                               | VI   | (7.8)        | (11.2)      |
| Preference stock                                              | VI   | (0.5)        | (0.5)       |
| Provisions for liabilities                                    | V    | (0.6)        | —           |
| <b>Net assets</b>                                             |      | <b>73.9</b>  | <b>87.1</b> |
| <b>Capital and reserves</b>                                   |      |              |             |
| Called up share capital                                       | IX   | 26.5         | 26.4        |
| Share premium account                                         | X    | 29.6         | 29.4        |
| Profit and loss account                                       | X    | 17.8         | 31.3        |
| <b>Shareholders' funds</b>                                    |      | <b>73.9</b>  | <b>87.1</b> |

Approved by the Board on 28 May 2013 and signed on its behalf by



Mark Harper  
Chairman



Robert Purcell  
Director

## Company statement of total recognised gains and losses for the year ended 31 March 2013

|                                                            | 2013<br>£m | 2012<br>£m | Overview             |
|------------------------------------------------------------|------------|------------|----------------------|
| Loss for the year                                          | (13.2)     | (0.1)      | Business review      |
| Total recognised losses for the year                       | (13.2)     | (0.1)      |                      |
| All attributable to the equity shareholders of the Company |            |            | Governance           |
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# Notes to the Company financial statements

## (i) Tangible assets

|                                      | Property<br>£m | Equipment<br>£m | Total<br>£m |
|--------------------------------------|----------------|-----------------|-------------|
| <b>Cost</b>                          |                |                 |             |
| At beginning of year                 | 0.4            | 7.6             | 8.0         |
| Additions at cost                    | –              | 1.7             | 1.7         |
| <b>At end of year</b>                | <b>0.4</b>     | <b>9.3</b>      | <b>9.7</b>  |
| <b>Depreciation</b>                  |                |                 |             |
| At beginning of year                 | 0.3            | 1.0             | 1.3         |
| Depreciation for the year            | –              | 0.3             | 0.3         |
| Impairment charge                    | –              | 1.1             | 1.1         |
| <b>At end of year</b>                | <b>0.3</b>     | <b>2.4</b>      | <b>2.7</b>  |
| <b>Net book value at end of year</b> | <b>0.1</b>     | <b>6.9</b>      | <b>7.0</b>  |
| Net book value at beginning of year  | 0.1            | 6.6             | 6.7         |

As a result of the capacity review and the reduction in the number of management units and expected users, a proportion of the costs in respect of the ERP system that have been capitalised has been impaired (see Note 2(c) and Note 7 of the Group financial statements for details). The total impairment charge in relation to the ERP system was £1.1m.

### Future capital expenditure

At 31 March 2013, contracted capital expenditure not provided for in these financial statements for which contracts have been placed amounted to £nil (2012: £nil).

## (ii) Investments in subsidiary undertakings

|                                      | Shares<br>£m | Advances<br>£m | Total<br>£m  |
|--------------------------------------|--------------|----------------|--------------|
| <b>Subsidiary undertakings</b>       |              |                |              |
| Cost or valuation                    |              |                |              |
| At beginning of year                 | 43.0         | 18.1           | 61.1         |
| Investment in subsidiary undertaking | 22.5         | –              | 22.5         |
| Net additions/(repayments)           | (3.5)        | 35.6           | 32.1         |
| <b>At end of year</b>                | <b>62.0</b>  | <b>53.7</b>    | <b>115.7</b> |

The principal subsidiary undertakings of the Company at 31 March 2013 are set out in Note (xiv).

During the year the Company established a 100% owned Scottish Limited Liability company, Renold Group General Partner 'RGGP' with a nominal £1,000 share capital. The Company and the RGGP established Renold Scottish Limited Partnership 'SLP' by making a contribution of £22.5m and a nominal £1,000 partnership contribution respectively. RGGP will act as the general partner to manage the SLP. The Company will hold 99.9% of the capital interest in the SLP with RGGP holding a nominal interest.

The Pension Schemes also invested £40m in the SLP, using a contribution of £40m made by the Company. The Company transferred to the SLP a loan receivable of £62.5m due from its subsidiary, Renold International Holdings Limited, for consideration of £62.5m. The above transactions were settled by offset arrangements.

The loan receivable from Renold International Holdings Limited was established on matching terms to a loan payable by the Company to Renold International Holdings Limited, as described in note (iv).

This partnership structure is designed to provide security and an asset backed funding structure for the merged UK defined benefit schemes (see Note 18 to the group financial statements).

The Schemes are entitled to the income interest of the SLP, arising principally from the loan receivable from Renold International Holdings Limited, for the first 25 years (except to the extent that the scheme is fully funded on a buyout basis, when the income interest will be paid to the Company). The Company holds the residual capital and income interest in the SLP.

In addition, the Company's investment in Jones & Shipman Ltd of £3.5m was returned via a capital reduction.

**(iii) Debtors**

|                                         | 2013<br>£m  | 2012<br>£m  |
|-----------------------------------------|-------------|-------------|
| Amounts owed by subsidiary undertakings | 12.1        | 14.9        |
| Deferred tax asset                      | 0.1         | 0.2         |
| Other debtors                           | 0.2         | –           |
| Prepayments and accrued income          | 0.5         | 0.3         |
|                                         | <b>12.9</b> | <b>15.4</b> |

The analysis of the deferred tax asset is as follows

|                                                  | 2013<br>£m | 2012<br>£m |
|--------------------------------------------------|------------|------------|
| All amounts falling due after more than one year |            |            |
| Decelerated capital allowances                   | 0.1        | 0.2        |
|                                                  | <b>0.1</b> | <b>0.2</b> |

Unrecognised deferred tax assets amount to £1.8m (2012: £0.4m), arising from unrecognised losses of £1.7m (2012: £0.3m) (representing losses of £7.6m (2012: £1.2m)) and other timing differences of £7.6m (2012: £0.1m). Based on available evidence it is considered unlikely that these amounts will be recovered within the foreseeable future. None of these losses are subject to time limits.

**(iv) Other creditors**

|                                         | 2013<br>£m | 2012<br>£m |
|-----------------------------------------|------------|------------|
| Amounts falling due within one year     |            |            |
| Trade creditors                         | 1.3        | 1.0        |
| Amounts owed by subsidiary undertakings | 0.7        | 0.1        |
| Other taxation and social security      | 0.2        | 0.2        |
| Accruals                                | 1.1        | 0.6        |
|                                         | <b>3.3</b> | <b>1.9</b> |

|                                    | 2013<br>£m    | 2012<br>£m |
|------------------------------------|---------------|------------|
| Amounts falling due after one year |               |            |
| Loan from subsidiary undertakings  | (62.5)        | –          |
|                                    | <b>(62.5)</b> | <b>–</b>   |

A 25 year loan of £62.5m was established with Renold International Holdings Limited in the period. Interest of £2.5m per annum, increasing in line with RPI plus 1.5% capped at 5%, is payable for the period of the loan.

**(v) Provisions for liabilities**

|                           | 2013<br>£m | 2012<br>£m |
|---------------------------|------------|------------|
| At beginning of year      | –          | –          |
| Redundancy provision      | 0.3        | –          |
| Onerous licence provision | 0.3        | –          |
| At end of year            | <b>0.6</b> | <b>–</b>   |

A provision of £0.3m in respect of redundancies in the UK and £0.3m in respect of onerous software licence costs has been charged to the profit and loss account in the period. It is anticipated that the redundancy provision will be fully utilised within the next financial year and the onerous licence provision will be utilised over the life of the ERP system deemed to be ten years.

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### (vi) Borrowings

|                                           | 2013<br>£m | 2012<br>£m |
|-------------------------------------------|------------|------------|
| Amounts falling due after one year        |            |            |
| Bank loans repayable in one to two years  | –          | 11.2       |
| Bank loans repayable in two to five years | 7.8        | –          |
| Summary of total borrowings               |            |            |
| Bank loans                                | 7.8        | 11.2       |
| Preference Stock                          | 0.5        | 0.5        |
| Total borrowings                          | 8.3        | 11.7       |

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

#### New banking facilities

On 28 September 2012, Renold agreed a new banking facility agreement for a four year period maturing in October 2016. The new facilities comprise a £41m Multi-Currency Revolving Credit Facility (MRCF), and an additional £8m of ancillary facilities. These facilities have been provided by a banking group comprised of Lloyds TSB Bank plc and Svenska Handelsbanken AB. The MRCF is fully committed and available until maturity. See Note 14 to the consolidated financial statements for more details.

#### Preference Stock

Details of the Company's Preference Stock are set out in Note 14 to the consolidated financial statements.

### (vii) Derivative financial instrument

|                                                      | 2013<br>£m | 2012<br>£m |
|------------------------------------------------------|------------|------------|
| Forward foreign currency contracts – cash flow hedge | (0.1)      | –          |

The Group has contracted forward contracts to sell foreign currency consisting of Euro forward contracts £1.1m (2012: £3.0m) and US Dollar forward contracts £4.3m (2012: £4.4m).

### (viii) Pensions

Employees of the Company include members of the principal UK defined benefit schemes. However, the contributions paid by the Company are accounted for under a defined contribution scheme, because the Company is unable to identify with any degree of reasonable certainty its share of the underlying assets and liabilities in the respective schemes. This is due to the fact that the Company cannot attribute the members of the schemes to the individual sponsoring employer company. As a consequence, the deficit in the UK defined benefit schemes is only recognised as a liability in the Group balance sheet. The basis used to determine the deficit in the schemes is disclosed in Note 18 in the Group financial statements.

No contributions are outstanding at the year end. As the pension schemes are in a deficit position a plan has been put in place for the participating employers to make additional payments into the schemes. The Company will continue to make payments in line with the plan agreed with the trustees. See Note 18 to the consolidated financial statements for more details.

(ix) Called up share capital

|                               | 2013<br>£m  | Issued<br>2012<br>£m |
|-------------------------------|-------------|----------------------|
| Equity interests              |             |                      |
| Ordinary shares of 5p each    | 11.1        | 11.0                 |
| Deferred shares of 20p each   | 15.4        | 15.4                 |
| Preference Stock <sup>1</sup> | 0.5         | 0.5                  |
|                               | <b>27.0</b> | <b>26.9</b>          |

<sup>1</sup> Included in borrowings – see Note (vi)

At 31 March 2013, the issued ordinary share capital comprised 221,064,453 ordinary shares of 5p each (2012 219,564,703) and 77,064,703 deferred shares of 20p each (2012 77,064,703). In May 2012, the Company issued 1,499,750 fully paid ordinary 5p shares (2012 nil) pursuant to the exercise of Warrants by Fortis Bank UK Branch at a price of 21.06p. The warrants had a seven year term commencing from 13 August 2009 during which they could be exercised at any time and were granted as part of the re-financing agreed with the Group's banks at that time. Outstanding warrants with the Royal Bank of Scotland plc number 2,000,250 with the same terms as those noted above.

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

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

Share options

At 31 March 2013, unexercised options for ordinary shares amounted to 5,343,642 (2012 9,737,599) made up as follows:

|                                 | Option price<br>(p per share) | Number of<br>shares<br>2013 | Number of<br>shares<br>2012 |
|---------------------------------|-------------------------------|-----------------------------|-----------------------------|
| Date normally exercisable       |                               |                             |                             |
| Executive Share Option Schemes  |                               |                             |                             |
| Within seven years from         |                               |                             |                             |
| 27 November 2005 (1995 Scheme)  | 49.8                          | –                           | 50,499                      |
| 27 November 2006 (1995 Scheme)  | 71.1                          | 41,104                      | 41,104                      |
| 11 March 2007 (1995 Scheme)     | 65.1                          | –                           | 146,799                     |
| 2 September 2007 (2004 Scheme)  | 74.9                          | –                           | 557,835                     |
| 22 November 2007 (2004 Scheme)  | 63.3                          | 88,080                      | 111,568                     |
| 26 July 2009 (2004 Scheme)      | 52.5                          | 164,415                     | 275,982                     |
| 2 January 2010 (2004 Scheme)    | 97.2                          | 93,952                      | 187,903                     |
| 25 November 2011 (2004 Scheme)  | 31.5                          | –                           | 21,160                      |
| 5 February 2013 (2004 Scheme)   | 23.2                          | –                           | 4,280,885                   |
| 27 September 2013 (2004 Scheme) | 27.3                          | 678,898                     | 678,898                     |
| 8 June 2014 (2004 Scheme)       | 37.3                          | 2,873,706                   | 3,384,966                   |
| 31 July 2015 (2004 Scheme)      | 29.4                          | 258,449                     | –                           |
| 21 January 2016 (2004 Scheme)   | 26.2                          | 1,145,038                   | –                           |
|                                 |                               | <b>5,343,642</b>            | <b>9,737,599</b>            |

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

# Notes to the Company financial statements

## continued

## (x) Reserves

|                                                            | Profit and<br>loss account<br>£m | Share<br>premium<br>£m | Total<br>reserves<br>£m |
|------------------------------------------------------------|----------------------------------|------------------------|-------------------------|
| At beginning of year                                       | 31.3                             | 29.4                   | 60.7                    |
| Loss for the year                                          | (13.2)                           | –                      | (13.2)                  |
| Proceeds from share issue                                  | –                                | 0.2                    | 0.2                     |
| Employee share option schemes – value of employee services | (0.3)                            | –                      | (0.3)                   |
| At end of year                                             | 17.8                             | 29.6                   | 47.4                    |

As permitted by section 408 of the Companies Act 2006, no profit and loss account is presented in these financial statements. The Company's loss for the financial year was £13.2m (2012: loss £0.1m).

Reserves include £0.2m (2012: £0.4m) being the fair value of the remaining warrants issued over the Company's shares to the Company's lenders as part of the refinancing that was completed in August 2009. The warrants are over 2,000,250 (2012: 3,500,000) ordinary shares of 5p each and have a seven year term commencing from 13 August 2009 during which they can be exercised at any time.

Total fees payable by the Company to Ernst & Young LLP for work in respect of the audit of the Company were £50,000 (2012: £30,000). Fees paid to the Company's auditor for non-audit services to the Company are not disclosed in these financial statements because the Group financial statements are required to disclose such fees on a consolidated basis.

## (xi) Operating lease obligations

At the end of the year there were annual commitments under non-cancellable operating leases in relation to a property as follows:

|                              | 2013<br>£m | 2012<br>£m |
|------------------------------|------------|------------|
| Leases expiring              |            |            |
| – between two and five years | 0.2        | 0.2        |
|                              | 0.2        | 0.2        |

## (xii) Contingent liabilities

The Company has guaranteed borrowings by subsidiary undertakings of £9.4m (2012: £9.9m). Performance guarantees given to third parties in respect of Group companies were £nil (2012: £3.4m, associated with the sale of the automotive business in July 2006). This guarantee expired in August 2012. No material loss is expected to arise as a result of these contingent liabilities.

## (xiii) Related party transactions

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

During the year, the Company entered into transactions in the ordinary course of business with its 90% owned subsidiary, Renold (Hangzhou) Company Limited, its 75% owned subsidiary, Renold Chain India Private Limited and its 50% jointly controlled entity, Renold Transmission Technology (Jiangsu) Inc. Transactions entered into and trading balances outstanding at 31 March 2013 (and 2012) with Renold Chain India Private Limited and Renold Transmission Technology (Jiangsu) Inc. are not material. Transactions entered into and trading balances outstanding at 31 March with Renold (Hangzhou) Company Limited are as follows:

|                                | 2013<br>Renold<br>(Hangzhou)<br>Company<br>Limited<br>£m | 2012<br>Renold<br>(Hangzhou)<br>Company<br>Limited<br>£m |
|--------------------------------|----------------------------------------------------------|----------------------------------------------------------|
| Amounts payable as at 31 March | 0.1                                                      | 0.1                                                      |

## Transactions with key management personnel

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

(xiv) Significant undertakings as at 31 March 2013

**United Kingdom**

Renold Power Transmission Limited (held directly by Renold plc)  
Renold International Holdings Limited  
Renold Europe Limited  
Renold Scottish Limited Partnership (see Note (ii)) (Address 3-5 Melville Street, Edinburgh, Scotland, UK EH3 7PE)

**Europe (other than the United Kingdom)**

Austria Renold GmbH  
France Brampton Renold SAS  
Germany Renold GmbH  
Russia Renold Russia (Obshchestvo s Ogranichennoj Otvetstvennost'yu)  
Switzerland Renold (Switzerland) GmbH

**North America**

Canada Renold Canada Limited  
USA Renold Inc  
Jeffrey Chain LP

**Other countries**

Australia Renold Australia Proprietary Limited  
China Renold Transmission (Shanghai) Company Limited  
Renold Technologies (Shanghai) Company Limited  
Renold (Hangzhou) Company Limited  
Renold Transmission Technology (Jiangsu) Inc  
India Renold Chain India Private Limited  
Malaysia Renold (Malaysia) Sdn Bhd  
New Zealand Renold New Zealand Limited  
Singapore Renold Transmission Limited (incorporated in the United Kingdom)  
South Africa Renold Crofts (Pty) Limited

The subsidiary undertakings listed above are those which, in our opinion, principally affected the results and assets of the Group. Companies of minor importance are omitted by virtue of section 410 of the Companies Act 2006.

All of our companies with the exception of Renold (Hangzhou) Company Limited, Renold Chain India Private Limited and Renold Transmission Technology (Jiangsu) Inc are direct or indirect subsidiaries of Renold plc, a company incorporated in England and Wales, which ultimately holds a 100% (except for those companies in which the Group does not hold all of the shares and voting rights as set out above) interest in the equity shares and voting rights. Renold Power Transmission Limited, Renold International Holdings Limited and Renold Europe Limited are registered in England and Wales.

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

|                                              | Equity shares | Voting rights |
|----------------------------------------------|---------------|---------------|
| <b>Subsidiary undertaking</b>                |               |               |
| Renold (Hangzhou) Company Limited            | 90%           | 90%           |
| Renold Chain India Private Limited           | 75%           | 75%           |
| <b>Jointly controlled entity</b>             |               |               |
| Renold Transmission Technology (Jiangsu) Inc | 50%           | 50%           |

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

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# Corporate information

## Corporate calendar

|                                           |                                               |
|-------------------------------------------|-----------------------------------------------|
| Annual General Meeting                    | 23 July 2013                                  |
| Interim management statement (first)      | Between 10 June 2013 and 18 August 2013       |
| Half year end 2013/14                     | 30 September 2013                             |
| Announcement of half year 2013/14 results | November 2013                                 |
| Interim management statement (second)     | Between 10 December 2013 and 17 February 2014 |
| Year end 2013/14                          | 31 March 2014                                 |
| Announcement of annual results 2013/14    | June 2014                                     |
| Payment of preference dividends           | 1 July 2013 and 1 January 2014                |

## Company details

|                   |                                                                  |
|-------------------|------------------------------------------------------------------|
| Registered office |                                                                  |
| Renold House      | Registered number 249688                                         |
| Styal Road        | Telephone +44 (0)161 498 4500                                    |
| Wythenshawe       | Fax +44 (0)161 437 7782                                          |
| Manchester        | Email <a href="mailto:enquiry@renold.com">enquiry@renold.com</a> |
| M22 5WL           | Website <a href="http://www.renold.com">www.renold.com</a>       |

Company Secretary  
Louise Brace

Auditor  
Ernst & Young LLP

Broker and financial adviser  
Arden Partners

Financial PR consultants  
College Hill Associates Limited

Registrars  
Capita Registrars  
The Registry  
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Registrars Share Portal [www.capitashareportal.com](http://www.capitashareportal.com)

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

## WARNING TO SHAREHOLDERS – BOILER ROOM SCAMS

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

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

- Make sure you get the correct name of the person and organisation.  
Check that they are properly authorised by the Financial Conduct Authority (FCA) before getting involved by visiting [www.fca.org.uk/firms/systems-reporting/register/](http://www.fca.org.uk/firms/systems-reporting/register/)
- Report the matter to the FCA by completing the Share fraud reporting form at [www.fca.org.uk](http://www.fca.org.uk) or call the FCA Consumer Helpline on 0800 1116768
- If the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FCA can be contacted on the above freephone number.

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

More detailed information on this or similar activity can be found on the CFEB website [www.moneyadvice.service.org.uk](http://www.moneyadvice.service.org.uk)

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