

**Renold plc**  
Renold House  
Styal Road  
Wythenshawe  
Manchester M22 5WL

Telephone: +44 (0)161 498 4500  
[www.renold.com](http://www.renold.com)



# ***RENOLD***

Renold plc Annual Report and Accounts  
for the year ended 31 March 2015

# Re-engineering our future.

Phase Two – Growth

---



# RENOLD

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

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



Read more about Our Strategy on pages 16 to 23

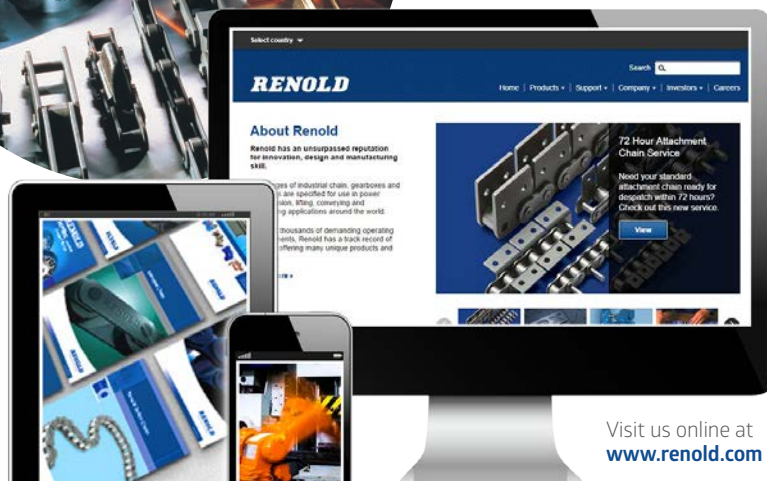
## Navigating the report



For further information within this document and relevant page numbers



Additional information available online



Visit us online at  
[www.renold.com](http://www.renold.com)





# Welcome to our Report

We present our Annual Report and Accounts for the year ended 31 March 2015.

An overview of who we are and what we do can be found in the introductory pages of our Annual Report, including our Chairman's letter.

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

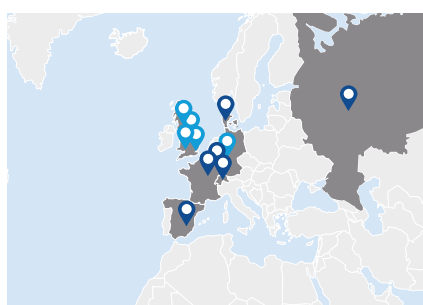
The Governance section follows the Strategic Report and includes our Corporate Governance Report, Audit and Nomination Committee Reports and our Directors' Remuneration Report. The Directors' Report provides other statutory and regulatory information.

The financial statements for the Group and the Company can be found at pages 94 to 148 towards the end of the Annual Report and Accounts.

We use a number of technical terms and abbreviations within this document. Please refer to the Glossary on page 150 for the definitions and other explanatory information.

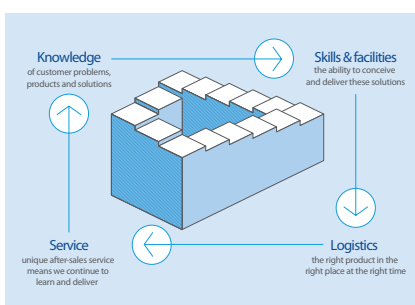
## Contents

Welcome to our Report	01
Who We Are: Group at a Glance	02
Our Customer Journey	04
Where We Are: Highlights	06
Chairman's Letter	08
<b>Strategic Report</b>	<b>10</b>
Our Business Model	12
Market Review	14
Our Strategy: Strategic Objectives	16
Our Strategy: Three-Phase Strategic Plan	17
Our Strategy: Progress Against Our Strategic Objectives	18
Our Strategy: Our Five 'Staircases'	22
Chief Executive's Review	24
Our Performance: Chain	26
Our Performance: Torque Transmission	30
Finance Director's Review	34
Corporate Social Responsibility	40
Risk	46
Principal Risks and Uncertainties	47
<b>Governance</b>	<b>50</b>
Corporate Governance Report: Chairman's Letter	52
Board of Directors	54
Governance Structure and Board Composition	56
Audit Committee Report	62
Nomination Committee Report	68
Directors' Remuneration Report: Annual Statement	70
Directors' Remuneration Report: Directors' Remuneration Policy	73
Directors' Remuneration Report: Directors' Remuneration Report: Annual Report on Remuneration	81
Directors' Report	88
Statement of Directors' Responsibilities	91
Shareholder Information	93
<b>Financial Statements</b>	<b>94</b>
Independent Auditor's Report to the Members of Renold plc	96
Accounting Policies	100
Consolidated Income Statement	108
Consolidated Statement of Comprehensive Income	109
Consolidated Balance Sheet	110
Consolidated Statement of Changes in Equity	111
Consolidated Statement of Cashflows	112
Notes to the Consolidated Financial Statements	113
Group Five Year Financial Review	139
Accounting Policies	140
Company Balance Sheet	142
Company Statement of Total Recognisable Gains and Losses	143
Notes to the Company Financial Statements	144
<b>Additional Information</b>	
Corporate Information	149
Glossary	150



For full details of Group at a Glance

 See page 02



For full details of Our Business Model

 See page 12



For full details of Our Strategy

 See page 16



For full details of Health and Safety

 See page 41

# Who We Are: Group at a Glance

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



## Chain

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

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

Our vast range of roller chains means that for most requirements there is a Renold solution. Our premier brand, Renold Synergy, offers unbeatable wear and fatigue performance, 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.

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



## Torque Transmission

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

We have manufacturing sites across the world including the USA, the UK, South Africa and China. We work closely alongside our customers to design and manufacture a solution to specific application needs. Our design capability and innovation is recognised by customers around the world and is utilised in customising our gearboxes and couplings to meet our customers' specific requirements. Our solutions deliver durability, reliability and long life for demanding industrial applications. Renold Torque Transmission also provides a range of freewheel clutches featuring both sprag and roller ramp technology. Sprag clutches are used in a wide range of safety-critical applications such as keeping riders safe on some of the world's most thrilling rollercoasters.

Adjusted operating profit	External revenue	Employees at 31 March 2015
---------------------------	------------------	----------------------------

£14.2m	£138.3m	1,747
--------	---------	-------

Adjusted operating profit	External revenue	Employees at 31 March 2015
---------------------------	------------------	----------------------------

£6.9m	£43.1m	463
-------	--------	-----



Read more about our performance on pages 26 to 29



Read more about our performance on pages 30 to 33

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

Renold employed an average of 2,277 people around the world in the last year, with 57% of our staff engaged in direct production activities. The divisional split of staff aligns closely with the split of sales with 78% of staff in Chain, 21% in Torque Transmission and 1% in our head office.

#### Map key

- Manufacturing and sales company
- Sales only location



#### North America



North America delivered 1.3% growth in underlying revenue with both the US and Canada ahead of the prior year.

Renold Jeffrey and Renold Ajax have been well known participants in the North American markets for many years with a focus on engineering chain and gear spindles and couplings.

#### Europe



Europe delivered a 4.5% rise in underlying revenue. Germany, the UK and France all showed modest growth with Switzerland well ahead.

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

#### Asia Pacific



Australasia delivered a flat result down 0.1%, with a continuing weak Australia market offset by South East Asia growth.

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

#### High growth economies

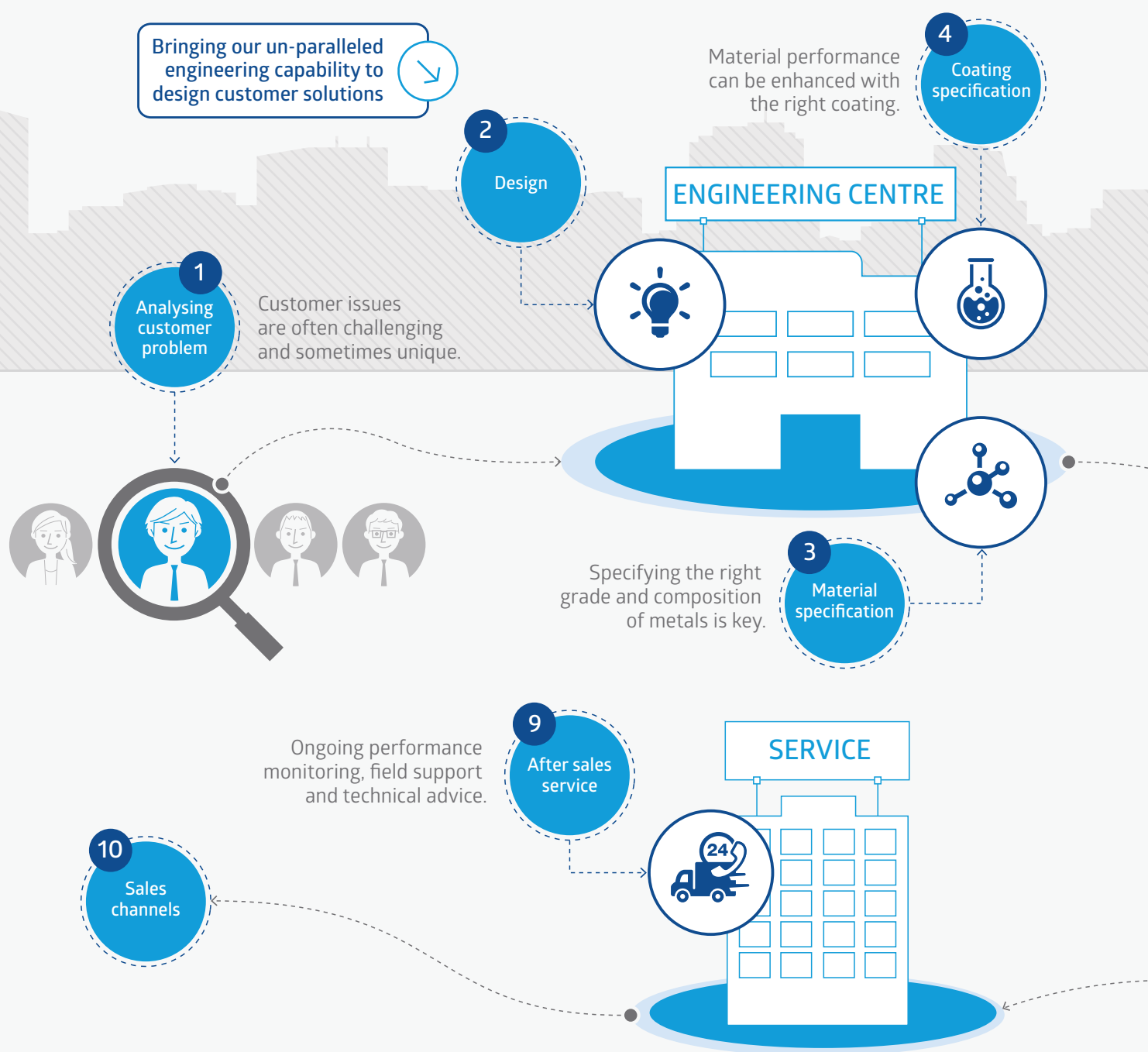


Our Indian business delivered growth in underlying revenue of 10.3%, while China grew 8.9% in underlying revenue.

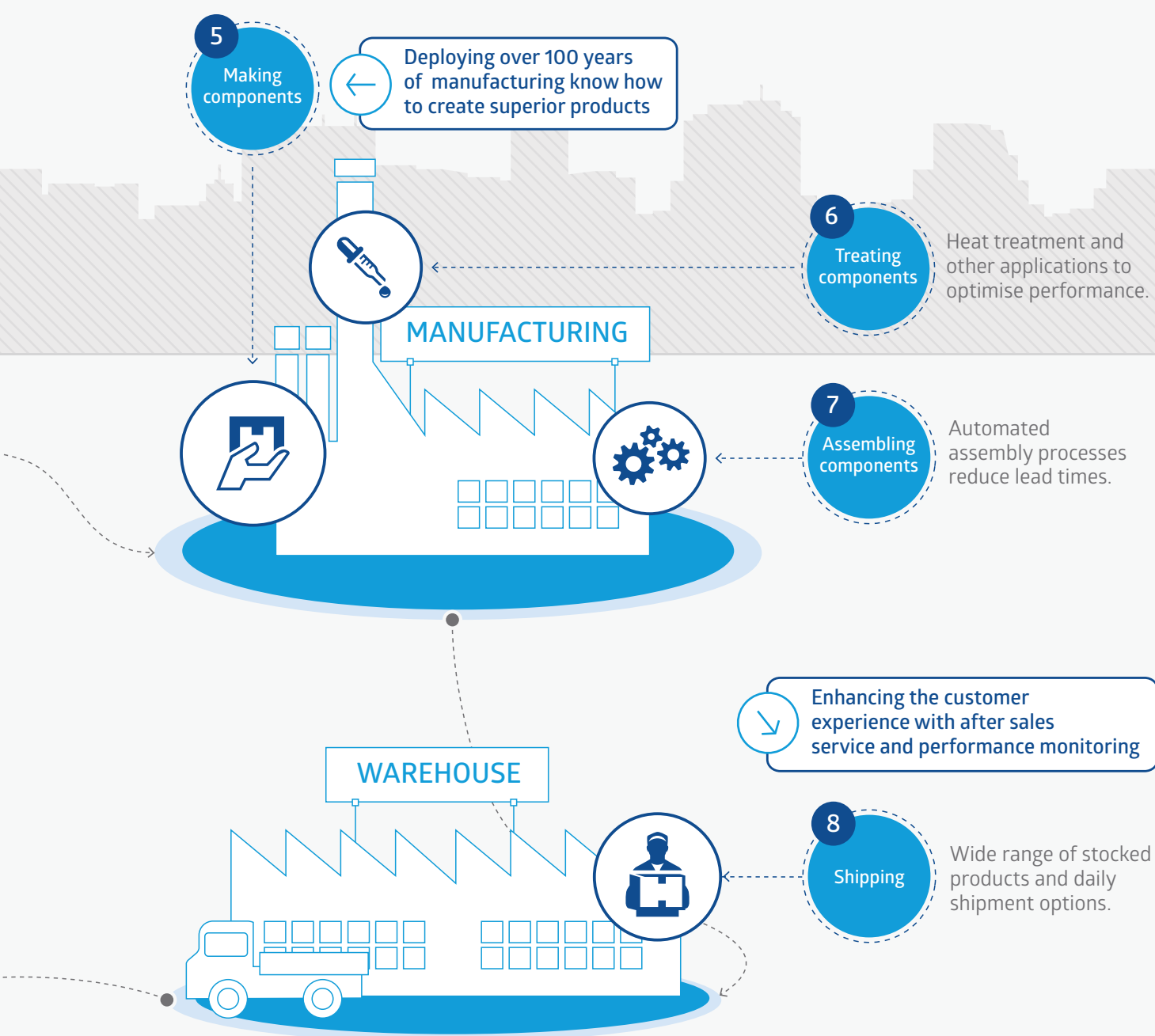
Our Chinese chain plant primarily serves sister companies and has a smaller local focus. Conversely, our Indian chain business focuses on the local market.

# Our Customer Journey

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



We add value during our customer journey from our unrivalled engineering capability, 100+ years of know how and enhanced after sales service. Our Business Model on pages 12 and 13 shows our value generation in more detail.

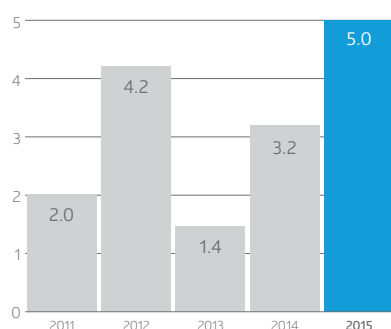


# Highlights

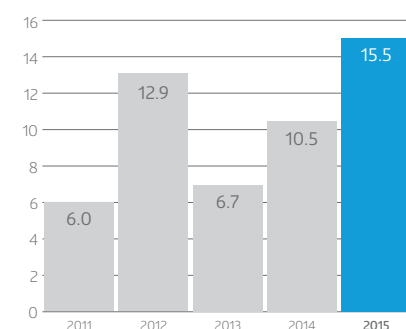
We continue to build sustainable momentum in driving the business forward. We delivered a 48% increase in underlying adjusted operating profit and a 56% increase in adjusted earnings per share underpinned by Chain achieving its 10% RoS threshold target. The generation of £5.3m of free cash flow from organic activities represents a significant step change from over a decade of organic cash consumption.

## Financial highlights

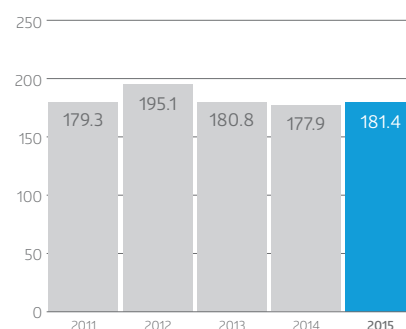
**Adjusted earnings per share**  
pence



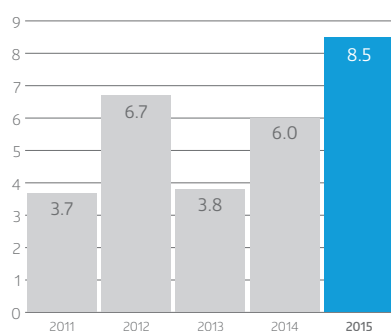
**Underlying adjusted operating profit<sup>1</sup>**  
£m



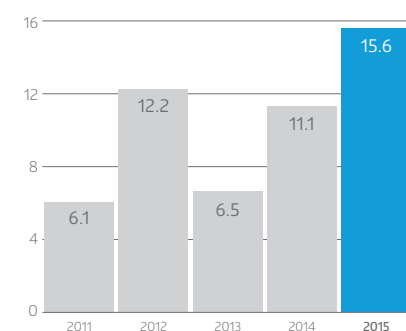
**Underlying revenue<sup>1</sup>**  
£m



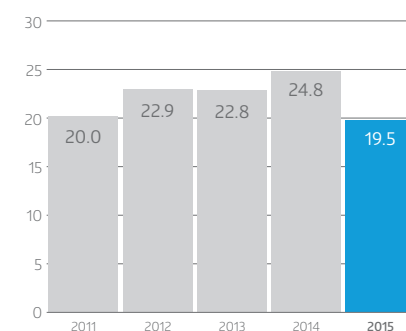
**Adjusted Return on Sales**  
%



**Return on capital employed**  
%



**Net debt**  
£m



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

Adjusted EBITDA up

26%

Cash generated  
from operations

£14.2m

Total operating assets

£75.8m

Average working capital  
% of sales

19.1%

## Operational highlights

- Delivery of Group wide health and safety training for managers, accompanied by the launch of the first Renold Health and Safety Awards.
- Successful completion of the Bredbury closure on budget and ahead of schedule to deliver £3.8m of annualised savings, a gain of £0.6m on our original estimate.
- Delivery of a revised and extended core Group banking facility underpinning our Strategic Plan and lowering our cost of finance.
- Contribution margin gains starting to be delivered by leveraging high quality product offering.
- Completion of a UK pension scheme de-risking project and termination of a US defined benefit pension scheme.
- Graduate recruitment programme launched and new sales skills training being rolled out.

## Executive summary

The year was marked by a number of further self-help successes building on the significant achievements of last year. As a result, we have delivered a 48% increase in underlying adjusted operating profit against a background of mixed macro-economic conditions in our operating geographies.

Underlying revenue increased by 2.0% for the Group as a whole. In Chain, Europe, the Americas, China and India all delivered growth while underlying Australasian revenues were marginally down by 0.1%. The weak commodity dependent Australian market was almost entirely offset by strong growth in South East Asia.

In Torque Transmission underlying revenue fell 1.1% although the second half was more encouraging with a small rise of 2.0%. Torque Transmission also contributed to lowering our breakeven point by cutting overheads by £0.8m.

The complex project to reduce excess capacity in our Chain division saw completion of the closure of the Bredbury facility soon after the end of the last financial year. We successfully moved the production with a minimum of disruption for our customers and exceeded our business retention target of 90%. Offsetting this gain were additional transitional costs incurred in recipient sites for Bredbury production. In order to minimise disruption to customers, we incurred excess labour and freight costs which more than offset the gains from retaining the majority of our revenue. The excess costs were managed out of the business in the second half of the year and so we expect the lasting annual gains from the closure project to be approximately £3.8m, some £0.6m better than our original estimate.

Our Strategic Plan, STEP 2020, has been developed to take us through the next five years. The origins and significance of STEP 2020 are discussed in more detail in the Q&A session with Robert Purcell, our Chief Executive, on pages 24 and 25.

In summary, adjusted operating profits are now 133% higher than two years ago when we started to implement our three-phase Plan. Adjusted earnings per share have more than trebled over the same period.

This clearly emphasises the value generation that is available through our self-help measures. STEP 2020 sets out detailed, unit specific self-help and growth initiatives which will deliver sustainable margin gains as we move to deliver our new medium term goal of mid-teens operating margins by 2020.

Pension deficit increase

£10.8m

Biggest customer  
% of sales

5%

Total employees  
at 31 March 2015

2,243

Adjusted EPS  
year on year increase

56%

# Chairman's Letter



## Overview

The past year has been marked by a number of notable successes. We delivered a significant reduction in our breakeven point when we completed the closure of the Bredbury chain facility under budget and ahead of schedule in the first quarter. During the first half we also developed a series of five year action plans in each unit to advance the first two phases of our Strategic Plan. That plan is now being further developed and communicated to all of our stakeholders under the banner 'STEP 2020'. These actions are the multiple individual steps that build to deliver our overall strategic goal of mid-teens operating margins by 2020.

## Re-engineering our future

The successful delivery of the project to close the Bredbury manufacturing facility and transfer the production to three other sister sites was only one aspect of the many self-help initiatives delivered by the Group during the year. Most recently we have also announced that we are moving our head office to new local premises in Manchester which are more suited to the size of our business today, are a better reflection of the culture that we are seeking, and also reduce our fixed overhead base.

Elsewhere, we continue to develop and enhance our senior management team with recruitment to a number of posts that will support the business as it makes the transition into the second phase of the Strategic Plan, the Growth phase. We continue to work hard to improve our health and safety culture and performance and while this year has seen some disappointment in the accident statistics, we are confident that the continued drive to embed a 'safety first' culture will pay dividends in the long term.

## Our balance sheet

The amendment and extension to our core banking facilities that was completed in May 2015, just after the end of the financial year, put in place an important foundation for the next phases of our Strategic Plan. The revised facilities give access to longer term financing that matures in 2020, a flexible £20.0m accordion facility that can be used for major investments or strategically aligned opportunistic bolt-on acquisitions, and also provide a lower cost of financing the Group's net debt.

De-risking our exposure to defined benefit pension schemes remains a key priority. During the year one scheme in the USA was terminated at minimal cost to the Group. Just after the year end we announced an insured buy in of 25% of the higher risk pension liabilities and cash flows in the UK.

The Group is currently evaluating the potential impact of the recent changes in UK legislation on flexible retirement planning which may allow for further de-risking while allowing the members of the UK scheme access to the flexibility introduced by the Government. De-risking projects continue to be assessed in various territories with open defined benefit pension schemes.

Positive outcomes were also delivered in net debt and working capital. As a result of strong operating cash flows, the Group finished the year with net debt £5.3m lower than the same time last year.

## The Board and our people

The Board continues to support the Executive team in reviewing and monitoring our continuous improvement initiatives. All Board members have given additional time and support on a wide range of issues during the year. The Board remains closely involved in the governance of the major projects and further evolution of the Strategic Plan.

*"The Group has delivered a second consecutive year of significantly improved margins and earnings growth. We continue to build and develop our three-phase Plan to deliver mid-teens operating margins by 2020. The new five year financing facility with access to additional funds positions us well for the next phases of our strategy."*

**Mark Harper**  
Chairman



**Pictured:** The use of robots at our Chain manufacturing facility in Germany is one element of our Manufacturing Efficiency programme. For further details see page 22: Our Strategy.

In parallel with developing the detailed five year plan, we are also working to develop and embed a new Group culture that will support our change initiatives. The 'Renold Values' have been rolled out across all of our business units this year, and aim to set standards of behaviour and expectations for all of our employees that will shape and inform the manner in which we implement our Strategic Plan.

I am grateful for the continued efforts and new ideas that our staff are bringing to the table in support of our Strategic Plan. The pace of change remains unremitting and it is truly heartening to see the commitment of all of our employees in making those changes a success. Through our Values and regular communication with employees we aim to ensure that all staff are able to contribute and remain fully engaged, motivated and inspired.

#### Dividend

The Group has an extensive series of planned capital investments in the new financial year and capital expenditure will increase significantly as a result. The new investments are aimed primarily at further improving our performance and supporting the delivery of our strategic objectives. Given these planned

investments, the Board has decided not to recommend the payment of a dividend in the current financial year. The Board does however recognise the importance of dividends to shareholders and this will remain under active review as performance improves further.

#### Outlook

Our efforts remain focused on self-help initiatives. We have identified a wealth of internal improvement and growth initiatives in our detailed strategic planning process. These serve as a reminder that there remains significant opportunity and scope for continuous improvement. We will continue our efforts to create and embed a continuous improvement philosophy in all aspects of our business, whether front line sales and service, manufacturing processes or support functions.

Externally, most of our end markets are more stable than would be suggested by the extreme volatility in the capital and foreign currency markets. The combination of these market conditions with our self-help initiatives gives confidence that, as we transition into the Growth phase of our Strategic Plan, we are well placed to continue to deliver sustainable longer term gains in adjusted operating profit and earnings per share.

Achievement of double digit operating margins is fast becoming a realistic short term opportunity as both operating divisions already achieve this level of profitability. Robust foundations for further improvements have already been put in place over the last year and we expect to accelerate our capital investment programme over the coming year. The STEP 2020 programme has a medium term goal of delivering mid-teens operating margins by 2020.

**Mark Harper**  
Chairman

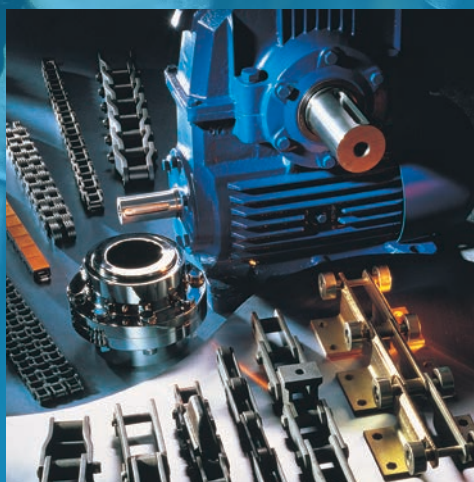
# Strategic Report





## Contents

Our Business Model	12
Market Review	14
Our Strategy: Strategic Objectives	16
Our Strategy: Three-Phase Strategic Plan	17
Our Strategy: Progress Against Our Strategic Objectives	18
Our Strategy: Our 'Staircases'	22
Chief Executive's Review	24
Our Performance: Chain	26
Our Performance: Torque Transmission	30
Finance Director's Review	34
Corporate Social Responsibility	40
Risk	46
Principal Risks and Uncertainties	47

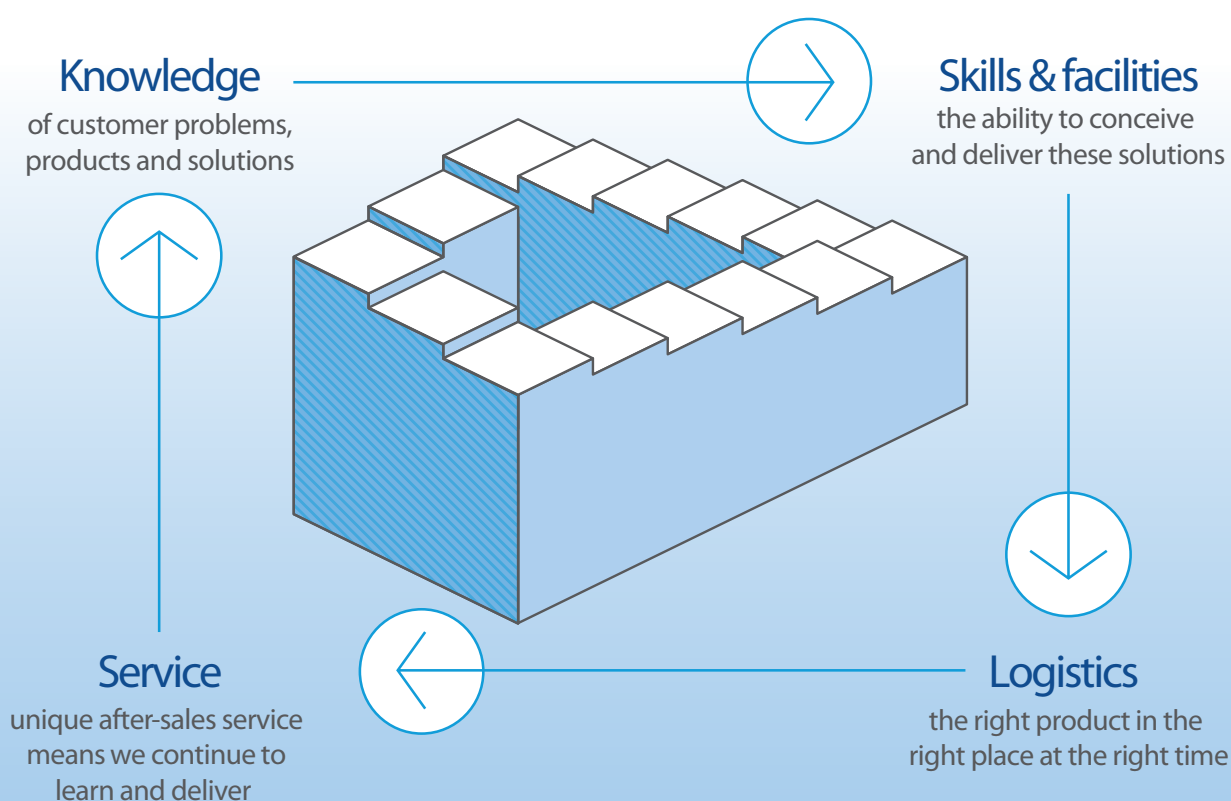


## Products

Our products may often play an invisible role in their operating environment. However, that role is usually critical in ensuring that the overall system performs and delivers as expected. That is one reason our customers keep coming back for more.

# Our Business Model

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



## Value generated for our customers:

### End users

- Expert knowledge
- Bespoke solutions
- Unique problems understood and solved

18% of sales

### OEMs

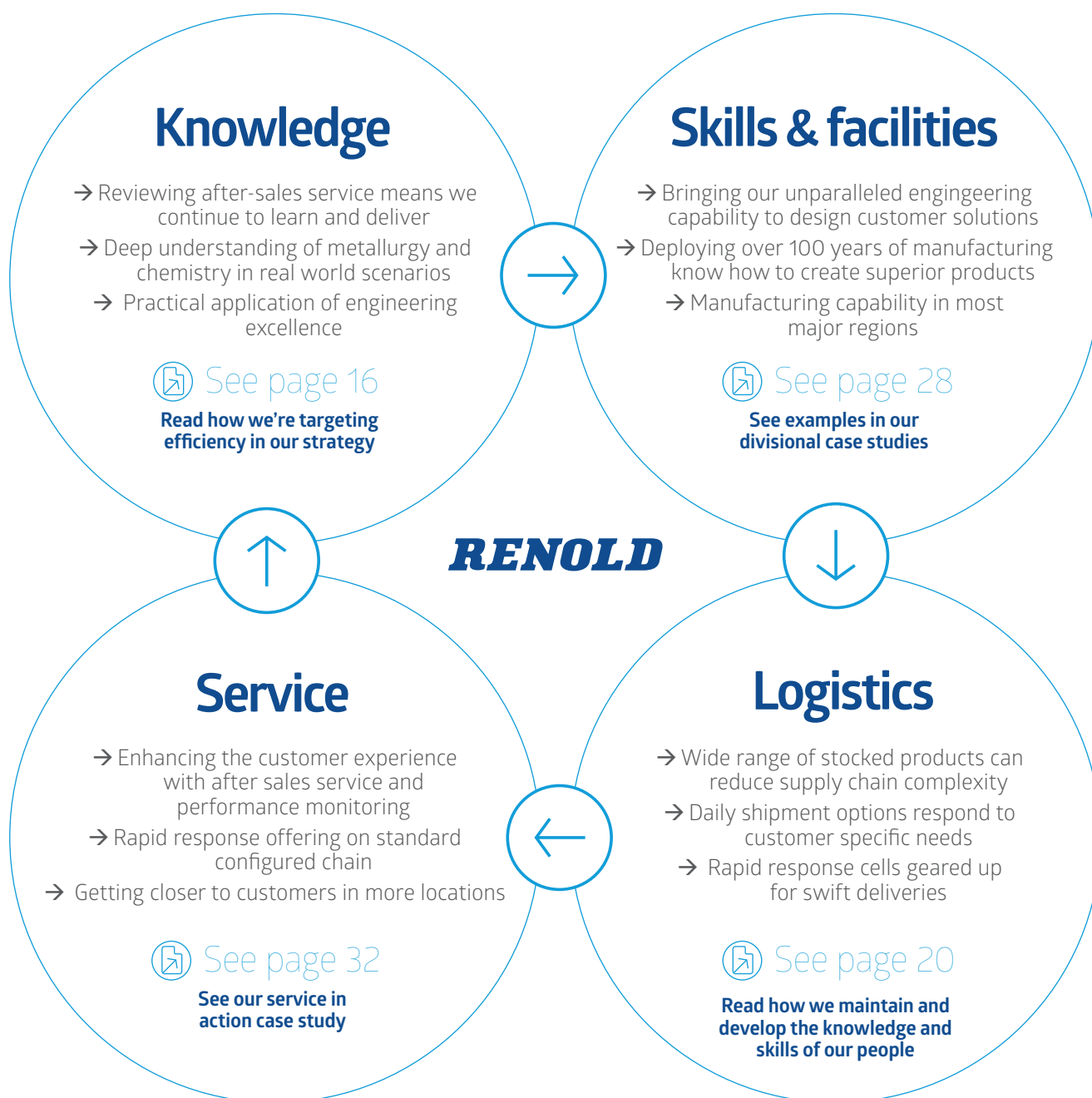
- Access to facilities and capabilities
- Bespoke components
- Meeting their own customer needs

43% of sales

### Distribution

- Trust
- Reliability
- Access to further products

39% of sales



## Underpinned by our:

### People

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

### Assets

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

### Partners

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

# Market Review

Renold manufactures and sells power transmission products and is configured as two separate operating divisions: Chain and Torque Transmission. We operate Chain production facilities in seven countries, strategically placed to serve large or growing local markets. In Torque Transmission we have a number of specialised niche businesses that produce a range of technical products in both the industrial couplings and industrial gear markets.

## Commercial overview

Renold benefits from its presence in a wide spread of geographic markets and even wider range of diverse end user applications across a myriad of industry sectors as illustrated in the charts opposite. Our global manufacturing and distribution footprint not only delivers operational economies of scale, but also the ability to meet our customers' exacting delivery expectations. Our extensive network of local commercial and engineering support teams ensures that we are able rapidly to understand and provide solutions for our customers' often technically challenging power transmission and conveying applications. When combined with our highly regarded ranges of industrial chains, gearboxes and couplings, this results in a compelling offering for our customers, whether they are looking for individual products or a fully integrated solution.

With a very diverse and numerically large customer base, reliance on any single customer is relatively low. Our biggest global customer represents 5% of sales. Of our five largest customers, three are themselves distributors of a wide range of industrial power transmission equipment and thus even this limited concentration of our sales is effectively sub-segmented into a huge range of end customers.

Similarly, the business enjoys little reliance on any one particular industry with sales spread across most general industrial markets such as construction machinery, material handling, transportation, mining and quarrying, food processing, energy production, agriculture, leisure and many more. The fact that our largest market sector is 'Other' further demonstrates the wide spread of customers that we supply. Around 60% of sales are to OEMs and other end users, with the remainder channelled through an established distributor network, again covering a wide range of end industries. Marketing initiatives can therefore be tailored towards growth territories and industries in order to offset the impact of any adverse market conditions.

As a recent example, the continued downturn within the Australian commodity market is being actively countered with a commercial focus in more buoyant areas such as agriculture and food processing.

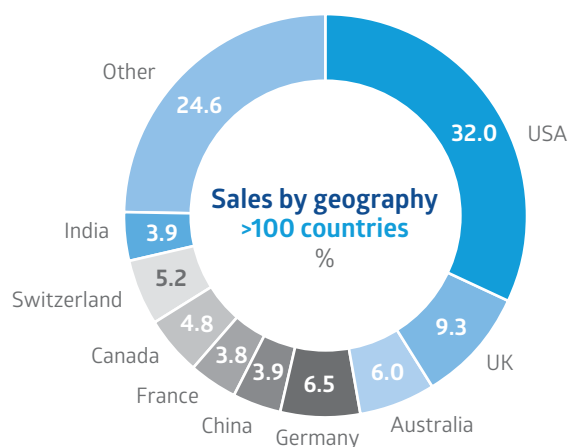
Delivering exceptional service to our customers is a key and growing element of our go to market strategy. Whether it is in a drive system or a conveying application, reducing downtime and thus cost is vital to our customers. We continue to drive internal process improvements and investment in the right component and finished goods inventory in order to support our customers on a global basis with more rapid response times.

In re-engineering the Chain business, and with the appointment of a Chain Manufacturing Director, we are aiming to create an integrated production base that serves our customers around the globe in an efficient and effective way.

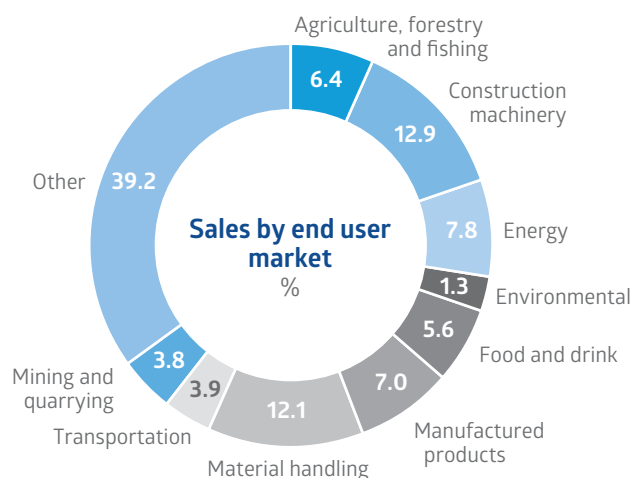
The competitive landscapes in our markets are highly fragmented with a large number of small and medium sized manufacturers and specialist distributors. However, few, if any, have the capability to match Renold on a global scale and this represents a significant opportunity for growth.

## Market outlook

Performance in the year was against a backdrop of mixed macroeconomic conditions within our core geographic markets. The macroeconomic outlook for the coming year remains somewhat uncertain but with moderately strengthening economic growth predicted in many of our core geographic markets, the business is well placed as we move into the Growth phase of our Strategic Plan. With a potential addressable market estimated in excess of £1.5 billion in industrial chain applications alone, the business has ample scope to deliver GDP plus levels of growth. This applies equally to the more mature markets like Europe, the US and Australasia where we have an established market position, in addition to the major growth opportunities in developing markets such as Asia and Central/South America. The addressable market in Torque Transmission is many



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



This chart shows the extremely diverse markets for the approximate (61%) of our sales where we serve end users and OEMs directly. Distribution sales are excluded from this analysis as visibility of the final market is somewhat limited.

times larger than the Chain market and the capability of our core products can be leveraged to deliver growth in their markets too.

A number of recent key managerial appointments have significantly strengthened the commercial team across all areas of the business. Within Europe, our sales teams have been re-organised with dedicated teams now in place adopting a more market focused approach. Coordinated commercial campaigns will be targeted at specific industrial applications where we have historically been under represented. Significant investment in additional sales resource is being made within higher growth Asian markets in order to leverage our existing positions and grow market share. Our local manufacturing in India and China, coupled with an excellent assembly operation in Malaysia, means that we are well placed to capitalise on these efforts and opportunities.

### Products

Renold has built a strong reputation for its product range, in terms of design, quality and reliability.

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

The range of Renold transmission chains comprises a wide range of off the shelf brands to suit individual customer requirements, combined with specific solution based ranges for applications requiring anti-corrosion, low maintenance or abrasion resistant properties.

Our products are often used in harsh and demanding environments where reliability and performance are key attributes for customers. Conveyor chain solutions can be readily tailored to individual requirements with enhancements to our capabilities during the year, designed to further improve response times and service levels. Our couplings range includes fluid based systems, rubber-in-shear and rubber-in-compression products and, in gears, we provide a complete range of speciality worm and helical gears and drives.

The breadth of the overall product offering enables us, where appropriate, to take a more solution based approach.

### Summary

The business has long been at the forefront of engineering and technological developments and this is set to continue. Current developments are utilising our expert knowledge of metallurgy and chemical coatings to deliver the next generations of our products. These added value ranges are designed to offer our customers reduced overall cost of ownership, with potential benefits including increased service intervals and reduced downtime.

The product management and marketing teams have also been strengthened in the year and are tasked with providing better tools to the customer facing commercial teams, re-energising the new product introduction process and supporting the Growth phase of the business on our STEP 2020 journey.

# Our Strategy

## Strategic Objectives

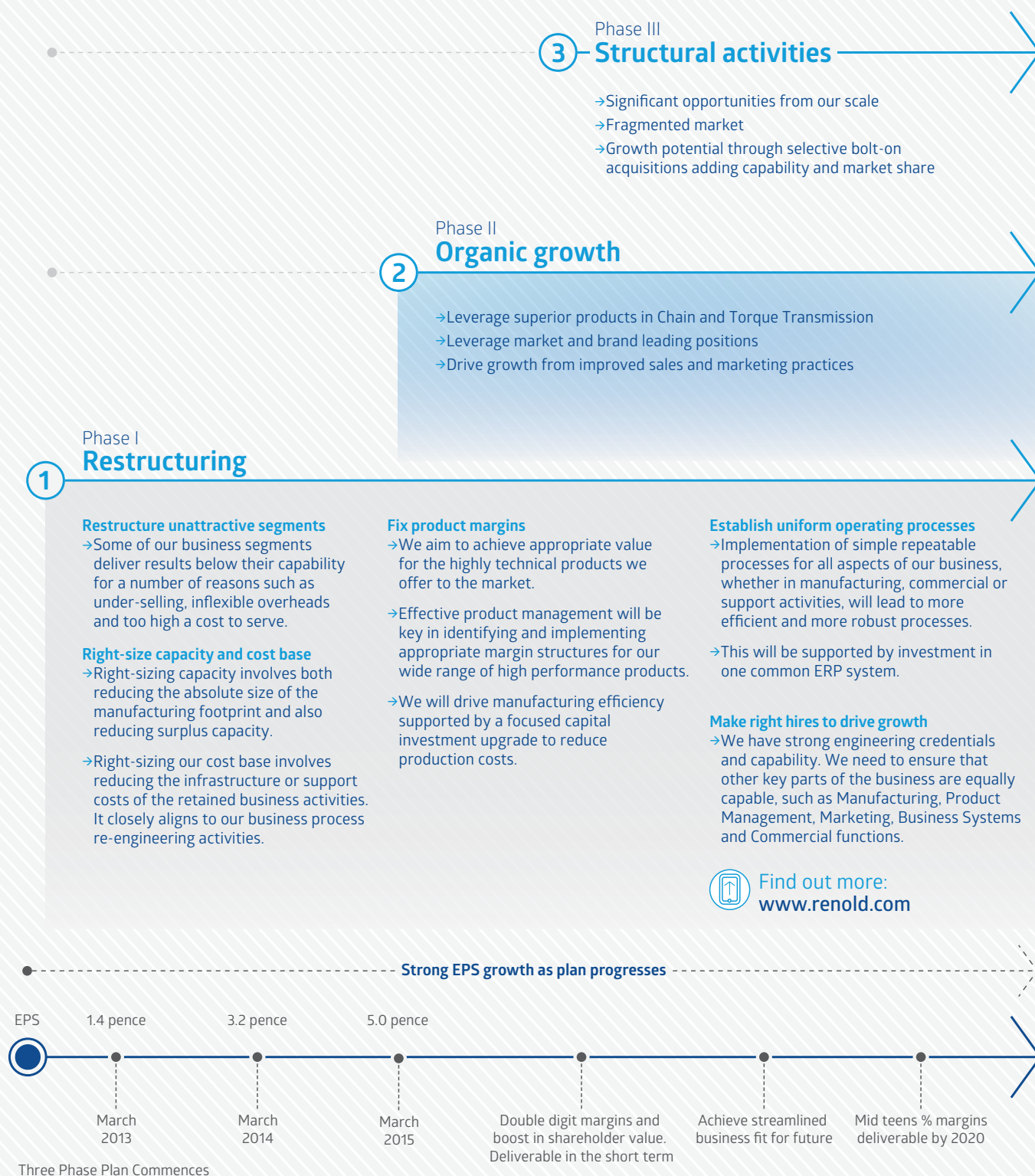
We aim to deliver consistently improving returns to shareholders by re-engineering everything we do to generate enhanced operating profits and margins. We will achieve this through delivery of a number of strategic objectives as set out below.

① <b>Significantly improving our health and safety performance</b>	We firmly believe that a safe business is a well run and profitable business. By changing our health and safety culture and developing enhanced working practices and policies we aim to ensure everyone associated with our business goes home each day in the same condition as when they came to work.
② <b>Generating margin enhancing growth from our superior product capability</b>	In the markets we serve, our products are among the best in the world. We are emphasising the value proposition in their superior performance, longevity and total cost of ownership. We aim to ensure that the value generated by these characteristics stays within the business to support re-investment, and earns a return for shareholders. As we enter the Growth phase of our Strategic Plan, we will selectively target those sectors and geographies where our high performance products can earn an appropriate return.
③ <b>Enhancing customer service</b>	By streamlining our business processes and making Renold easier to do business with we aim to offer a seamless route to market with shorter lead times and improved service levels. Rapid response configured chain cells aim to bring a compelling new service proposition to the market. An enhanced level of customer service will support repeat revenues and growth in profitability.
④ <b>Optimising business processes</b>	A Group wide programme is underway aimed at implementing standardised, efficient and seamless business processes. These will cover the full range of commercial, operational and support activities and will be underpinned by one global IT system. Our ultimate aim is to significantly reduce our cost to serve whilst also improving service levels.
⑤ <b>Lowering our breakeven point</b>	The same streamlined business processes that enhance customer service will also reduce our installed fixed cost base in all of our locations. This will reduce the volatility of our profits in relation to changes in sales values and also serve to enhance our operating margins in times of stable or growing revenues.
⑥ <b>Developing our people</b>	We are leveraging and enhancing the knowledge and experience of our existing staff with training to see that they are equipped with the knowledge necessary to do their jobs well. We are also adding new hires who bring different, incremental skills and experience to Renold. This will include new graduate recruitment programmes in many locations. Proportionate to the scale of our business, we will ensure succession plans exist to develop resilience and strength in depth.
⑦ <b>Strengthening and de-risking our balance sheet</b>	We will improve working capital management to support business development through stock availability while minimising the cash tied up.  We aim to reduce the annual cash burden of legacy pension liabilities in the medium term while also seeking to de-risk them. We plan to realise value from significant tax assets and any surplus properties.  The overall aim of these activities is to significantly enhance the cash generation capability of the Group.

# Our Strategy

## Three-Phase Strategic Plan

### Three-phase Strategic Plan delivering value



# Our Strategy

## Progress Against Our Strategic Objectives

The second year of our Strategic Plan has built on the successes of last year. Completing the Bredbury closure project on budget and ahead of schedule was a major achievement. By incurring additional operating costs to protect our customers from teething problems in the recipient sites for products formerly made in Bredbury, we were able to maintain our revenue. This has allowed us to revise upwards the annual benefits of the closure project from £3.2m to £3.8m. During the year, we have also created detailed action plans for each of our operating units that will deliver significant continuous improvements in performance. These improvements will span the full range of health and safety, customer service, business processes and operating margins. We have also identified initiatives that align to our transition to the second Growth phase of our Strategic Plan. STEP 2020 has been launched to embody all of these detailed projects in the context of our Strategic Plan. By the effective implementation of STEP 2020 we will continue to re-engineer everything that we do.

Strategic objective	Progress in 2014/15
<b>① Significantly improving our health and safety performance</b>	<p>A huge amount of work has been done over the last 12 months and our determination to significantly improve our health and safety performance is undiminished. It is undoubtedly disappointing that a number of accident statistics have shown a negative trend over the last year. We remain committed to following best practice in our goals and activities and believe that by constantly doing the right things our overall performance as measured by the KPIs will improve. Beneath the surface, accidents involving almost all major body parts have reduced during the year with the exception being hands and fingers. To address this latter point we have taken a number of actions including a major initiative to review and improve guarding and install 'best of breed' control systems.</p>
<b>② Generating margin enhancing growth from our superior product capability</b>	<p>Customers continue to seek us out for our high value added technical products. In Torque Transmission in particular we have delivered a second year of margin improvement as sales have fallen. This reflects a churn of business and a shift in mix towards higher value added products. In the Chain division, more limited progress was made on margins as the business focused on completing the Bredbury closure and assimilating production in the new sites. This focus of management time and effort led to a decision to defer the appointment of a Product Management Director to the second half.</p>
<b>③ Enhancing customer service</b>	<p>During the year we launched our service centre concept on a pilot basis. Initially focused on the UK market we aimed to ensure a smooth transition of Bredbury production without inconveniencing customers. Within the centre sits our configured cell that allows customers to choose any chain that could be configured from a range of standard components and have it delivered in 24, 48 or 72 hours. While relatively modest in scale, it has proven an attractive proposition for customers and we are reviewing options to expand the model in other geographies. Efforts to improve service are also being supported by investments in new production capabilities in our factories that will, among other things, help to reduce lead times.</p>

**Key:**

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

KPIs <sup>1</sup>	Future aims	Risks and mitigations
<p>Average Lost Time Accident Frequency Rates 15.6 ✗</p> <p>Reportable Injury Rates 2,060 ✓</p> <p>Lost Time Days 806 ✗</p> <p>Safety Improvements 1,723 ✓</p>	<p>Our overarching objective is to achieve zero accidents every year. As well as targeting improvements in each KPI, we have tasked all manufacturing sites with achieving OHSAS 18001 by the end of the year.</p> <p>We hope to see an increase in the number of sites achieving one of our new Health and Safety Awards.</p>	<p>Organisational change increases the risk of accidents, particularly when the change is on a large scale and in production environments. The Group is mitigating this risk by considering in advance of any change, full risk assessments and new safe operating procedures.</p>
<p>RoS% 8.5% ✓</p> <p>Adjusted EPS 5.0p ✓</p> <p>ROCE% 15.6% ✓</p>	<p>We are aiming to deliver steady improvements in RoS % each year. These will feed directly into growth in adjusted EPS. Our medium term goal, as part of our STEP 2020 programme, is to deliver mid-teens operating margins by 2020, implying around 1.0% annual average gains in RoS%.</p>	<p>Our mid-teens operating margin target is based on a GDP plus growth environment. A significant fall in sales or a rapid appreciation of input costs could jeopardise this outcome if we were not able to respond quickly and effectively. Our order books give reasonable visibility on sales in Chain (3 months) and Torque Transmission (6 months).</p>
<p>Improvement in:</p> <ul style="list-style-type: none"> <li>— Customer contact response times</li> <li>— Quotation lead times</li> <li>— On Time Delivery In Full ('OTDIF')</li> </ul>	<p>Our aim is to show a steady and regular improvement in all metrics.</p> <p>A number of consistent quantitative metrics will be capable of measurement when the new ERP system is implemented.</p>	<p>Excellent customer service requires efficient business processes and systems that deliver replicable, predictable and timely outcomes. As the Group is changing and improving many of our business processes and systems, this creates a risk to current service levels. This risk is being mitigated by a newly created Steering Committee with responsibility for oversight and approval of all business system change requests.</p>

<sup>1</sup> Refer to Glossary on page 150 for definitions of KPIs.

# Our Strategy

## Progress Against Our Strategic Objectives

continued

Strategic objective	Progress in 2014/15
<p>④ <b>Optimising business processes</b></p>	<p>A number of improvement initiatives have been launched or implemented in the current year. The single biggest was the selection of the single ERP system that will become the Group's standard. Accompanying the selection of the system was the creation of a document known as 'The Template' which aims to set out the detailed requirements and functioning of all of our key business processes. The core team are now in place and are configuring the underlying software system. In parallel, we are putting in place a robust infrastructure platform which includes an improved WAN service and outsourcing the hosting of our critical servers. Other processes being piloted for implementation include warehouse management by barcoding over wireless, a new simplified planning tool and a number of improved reporting tools.</p>
<p>⑤ <b>Lowering our breakeven point</b></p>	<p>The Bredbury closure project was clearly a significant contributor to the reduction in our overheads during the year with annual cost savings being revised upwards from £3.2m to £3.8m. However, it was not the only cost reduction initiative. Overheads in our Torque Transmission division were also reduced by £0.8m year on year. In all cases we aim to re-engineer our processes and organisation to deliver sustainable efficiencies and cost reductions. This will reduce the risk of simplistic cost cutting that could lead to costs coming back into the business when business activity changes.</p>
<p>⑥ <b>Developing our people</b></p>	<p>We are working hard to deliver new skills and capabilities to existing staff but also to ensure that new employees bring the right mix of skills and experience. A key focus in the last year has been on filling a number of senior and other management roles with an emphasis on preparedness to challenge the status quo and to be willing to bring new and fresh ideas as well as energy to each role. We launched a graduate recruitment programme at the end of the year and have already had almost 400 applications for the seven roles advertised across a number of disciplines which include engineering, finance, business systems and operations. We believe that this level of interest reflects well on what Renold has to offer as an employer and will allow us to ensure that the successful candidates are of a very high calibre. We have also devoted time and energy to creating a new Group wide set of values. These values will sit alongside our STEP 2020 programme and will inform how we will behave as we make the journey towards our strategic goals.</p>
<p>⑦ <b>Strengthening our balance sheet</b></p>	<p>During the year we started a process to put in place a five year financing structure that would match the needs of our Strategic Plan. That process completed in early May 2015 and delivered a facility closely aligned to our current and future business needs. Our cost of debt is reduced to reflect current market conditions and we have an accordion facility available that will support us in the third 'Acquisitions' phase of our Strategic Plan but also in the short term should any bolt-on acquisition opportunities arise.</p> <p>During the year we started a project to de-risk £25m of our highest risk pensioner liabilities. These were in respect of individuals with higher annual pensions and therefore a concentration of longevity risk. We were able to secure the liabilities at a discount to their funding value and at a broadly neutral value from an accounting valuation perspective in a transaction which completed just after the year end (see Note 27). During the year we also terminated one of three US defined benefit plans and the excess funding now available is being used to accelerate deficit funding in a second closed scheme in the US.</p>

**Key:**

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

KPIs <sup>1</sup>	Future aims	Risks and mitigations
<p>Beneath this global KPI, each of our business processes will have its own set of detailed KPIs</p> <p>Sales per employee      £79.7k ✓</p>	<p>Our intention is to create one global, integrated, ERP system. Our cost to serve will be reduced and this work will also feed into the KPIs for customer service.</p>	<p>Changes to systems and processes may in the short term reduce performance as users learn new skills. If changes are not managed properly, the performance reduction and its duration can grow.</p>
<p>Total overheads    £66.5m ✓</p>	<p>As we re-engineer our business processes we aim to reduce the cost to serve of all of our activities. Our medium term goal is to deliver meaningful annual reductions in our overheads to support the delivery of enhanced margins and shareholder value.</p>	<p>Overhead structures tend to be inflexible and can be a major financial burden in a downturn. Our new processes are being designed with more flexibility in mind to reduce this risk.</p>
<p>Under development</p>	<p>Performance management processes and systems in the business are currently somewhat ad-hoc and inefficient. We aim to deliver a performance management system that assesses performance but that also both identifies training and development needs and supports delivery of them.</p>	<p>Change can be unsettling for all staff creating a risk of some staff leaving due to feelings of uncertainty.</p> <p>To counter some of this we are increasing the regularity and content of communication to give all staff a clearer sense of direction.</p>
<p>Cash cost of servicing legacy pensions    £4.4m ⊖</p> <p>Average working capital ratio      19.1% ✗</p> <p>Leverage ratio      0.9x ✓</p> <p>Net Debt            £19.5m ✓</p>	<p>Ultimately, we aim to de-risk the Group from all defined benefit pension liabilities. The short term focus is on managing down the larger exposures in the UK and Germany. We aim to have stable annual cash costs to enhance predictability.</p> <p>We want to optimise working capital to support the business while minimising the cash tied up.</p>	<p>Pension liabilities fluctuate with factors outside the Group's control (interest rates, inflation expectations, longevity and returns on assets). The key is to be ready to de-risk when the market opportunity arises. Legislative changes can also lead to changes in liabilities and opportunities for de-risking.</p> <p>Working capital can take time to unwind and in the event of a sudden downturn in activity the Group could be left with excess stock.</p> <p>To mitigate this risk we have deployed working capital management tools and WC % is a monthly monitored KPI.</p>

## Our Strategy Our 'Staircases'

STEP 2020 is fundamentally concerned with continuous improvement. Each initiative, no matter how small, is a step in a series of commonly themed staircases aimed at re-engineering everything we do.



**Pictured:** Renold's new head office location, Trident, where we will be moving in August 2015.

### Business process efficiency



#### Overview

We operate a varied and wide ranging set of business processes which differ in almost all locations. All of them inter-link in different ways with multiple different users and computer systems. The Business Process Efficiency staircase of projects is aimed at delivering our strategic goals of Optimising business processes and Lowering our breakeven point.

#### Objectives

Our aim is to implement one global standard operating model. This will unify our people, processes and systems. Each of our business processes is being designed to be simple and effective while being robust and as automated as possible. That will free up management time to focus on value added activities. It will also reduce the cost and simplify support for our information systems.

### Manufacturing efficiency



#### Overview

Our manufacturing facilities have been under invested in previous years. This has led to inefficient manufacturing processes, long lead times, excess waste and waiting time as products pass between multiple work centres. The Manufacturing Efficiency staircase of projects is aimed at supporting delivery of a number of our strategic goals such as Lowering our breakeven point.

#### Objectives

Our aim is to modernise our manufacturing capability to match our leading edge engineering and production know how. Better equipped facilities will shorten lead times to enhance customer service, reduce stock holdings to improve the balance sheet, and contribute strongly towards our goal of mid-teens operating margins by 2020.



## Commercial positioning



### Overview

Our commercial business processes are focused on improving customer service and enhancing our service offering. Like many of our diverse business processes, there is much scope for us to standardise and simplify. The Commercial Positioning staircase of projects is primarily aimed at supporting delivery of our strategic goal of Enhancing customer service.

### Objectives

We are working hard to improve our customer service. We know we have a long way to go as this is an area that has been weak in the past. Through improved management of our commercial teams and resources and by re-connecting with customers in their own local markets we aim to make our reputation for service as strong as that for our superior products.

## Corporate efficiency



### Overview

Much of our operating footprint has been accumulated over a long period of time and in many cases either falls short of modern standards, is too big, or over-priced for our needs. The Corporate Efficiency staircase of projects is aimed at supporting delivery of a number of our strategic goals such as Strengthening our Balance Sheet and Improving Financial performance.

### Objectives

Put simply, we want to make the best use of the spaces we occupy. Where we have too much space will aim to reduce it. Where we overpay for space we will renegotiate lower rents or move to better priced premises. Where we have surplus assets or facilities we will aim to realise value and avoid unnecessary costs.

## Growth activities



### Overview

Our diversity of markets is a major opportunity for the Group. By bringing greater focus to our sales activities, we can deliver steady and sustainable growth and eliminate much of our historical cyclical. The Growth Activities staircase of projects is aimed at supporting delivery of our strategic goal of Generating margin enhancing growth.

### Objectives

Our markets typically grow in line with GDP. Because we are under represented in a number of geographies markets and industry sectors, we are aiming to deliver annual growth of GDP plus in the period to 2020. At the same time, we will leverage superior product capability to enhance our operating margins and retain value for our shareholders.

# Chief Executive's Review

Robert Purcell discusses the strategy and development of the business



*"Self-help will continue to be a major source of value generation supported by the benefits of growth as we transition into the second phase of our STEP 2020 Strategic Plan."*

**Robert Purcell**  
Chief Executive



## Tell us about the thinking behind STEP 2020?

**Robert:** When we first started to describe our three-phase Strategic Plan, we said that the different phases were not about one or two major projects that would solve all of our problems or immediately transform the business. Instead we have described, in increasing levels of detail, that our improvement journey will be made up of a significant number of individual continuous improvement activities. In some ways this is similar to the roadmap for success of the British Cycling Team with whom we have been working for a number of years. The idea is that if you look at all the different parts of an organisation and improve each part of it, when you add it all up, you get a major improvement in the business as a whole.

We have been describing those individual initiatives in terms of a series of steps that we have then grouped into staircases, which share a common theme. These themes, or staircases, we refer to are: Business Process Efficiency; Manufacturing Efficiency; Commercial Positioning; Corporate Efficiency and Growth Activities. Over the last year we have pushed the business to develop detailed action plans that cover those five staircases that run through to the year 2020. It seemed a natural extension to christen the overall Strategic Plan STEP 2020. Lastly, because of its importance for the business, the number one priority, Health and Safety, has a staircase of its own.

## What changes will we see as the business moves into the Growth phase of the Strategic Plan?

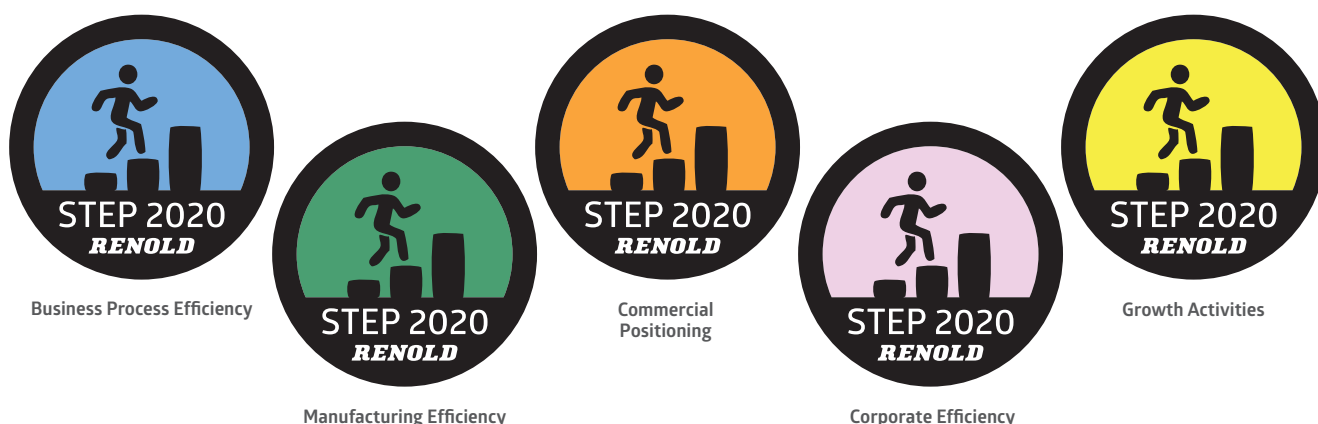
**Robert:** The first thing to say is that the Growth phase activities will be in parallel with our restructuring activity. We have always said there are large numbers of internal, self-help initiatives that we can deliver for a number of years to come that will all add value to the business. Some of those will be about cost reduction but some will be about process

efficiency, lead time reductions and other service improvements. So the Growth phase activities will be additional to our continuous improvement initiatives and not as a replacement for them.

The Growth phase will bring in to play a number of changes for us with focus being a key objective. This change will include product focus, channel focus and also geographical focus. For example, in France, we have separated our Chain and Torque Transmission businesses to give clearer and more accountable ownership for delivery of growth in both distinct product groups. We believe in being local and convenient for our customers so you will see us continually move to be closer to their locations. For example, we have re-established local sales offices in Belgium and Denmark. In other parts of the world, we are opening new sales offices with local staff in markets where we have already developed enough critical mass to support the cost base, and which will in turn lead to further opportunities for growth.

## Are the markets helping or hindering you at the moment?

**Robert:** In general terms things feel a little better than last year, though the picture is actually quite mixed across the different geographies. With the exception of Australasia, all of our Chain regions posted year on year growth in underlying external sales with China and India at or around double digit levels of sales growth while the larger territories of Europe and the Americas showed low single digit growth. In Australasia, the region showed a very small decline in sales, a 0.1% fall this year compared to a decline of 7.4% in the prior year. South East Asia saw particularly strong growth and in the larger Australian market the year on year decline more than halved from 15.2% to 7.3% and actually showed signs of levelling off in the second half of the year. The small 1.1% decline in Torque Transmission was a major improvement on the prior year fall of 5.8%, again showing some signs of levelling off.



In summary, the current market conditions create a relatively benign environment in which to be entering the second 'Growth' phase of our Strategic Plan. We won't get much help from the markets but equally there do not appear to be many headwinds that will hinder our self-help initiatives aimed at growing the business.

### Why did you decide to re-finance the business 18 months early?

**Robert:** A number of reasons really. While we were setting out the STEP 2020 detailed action plan, our thoughts turned naturally to medium term issues such as how we would finance our progressive capital investment programme. We also wanted to build in some future proofing. We would expect to be in the third 'Acquisitions' phase of the Strategic Plan before we get to 2020 but the revised financing also allows us to take advantage of any opportunistic acquisitions that arise in the short term. Finally, current market conditions for company financing are quite favourable with lower costs and also longer terms available. The combination of these factors created a clear and simple value adding imperative to put in place a five year financing structure that is closely aligned to our five year STEP 2020 programme.

### Pension deficits seem to be growing. What can the business do about it?

**Robert:** The key thing to remember in any discussion of pension deficits is that the real issue is the predictability and affordability of the cash flows for the pension scheme and for Renold, the sponsoring employer. While volatility in market interest rates for gilts and corporate bonds is undoubtedly having an impact on balance sheet liabilities, the picture for cash flows is much more stable. Because we have in place a long term plan for funding the UK deficit, which sets contributions at £2.6m per annum rising by inflation plus 1.5%, we have wholly predictable cash flows for Renold for a number of years. The UK scheme represents over half of all of our annual pension cash flows. From a pension scheme perspective, this predictability of cash flow income is a major strength. In addition, because the principal UK and German schemes are mature in nature, their cash outflows in the form of pension payments are also very stable and predictable.

In terms of 'What can be done?', the business has been actively managing our legacy defined benefit schemes for a number of years. Most recently, we completed a medically underwritten insured buy-in that fully de-risked 25% of our highest risk UK pensioner members. We also completed the termination of one of our three legacy schemes in the USA. In the previous year we merged three UK schemes and 1,316 members had their benefits paid

out in full. The merger and reduction in member numbers significantly reduced the administrative burden on the scheme. We will continue to consider other liability management and de-risking projects.

### So where do you think STEP 2020 will take the business?

**Robert:** In the early days of Phase One of our Strategic Plan, the Restructuring or Turnaround phase, we set the goal of delivering double digit operating margins. Given the history of the business since the turn of the millennium, it is not hard to see why this was seen as a repeat of the aspiration to deliver 10% operating margins or, in more sceptical circles, was simply seen as undeliverable. As we have progressed, belief inside and outside the business has grown that 10% is a realistic target. Of course, I have never tired of saying that double digit includes 10% but is not limited to that figure. By delivering the initiatives underpinning STEP 2020, accompanied by organic growth in the range of GDP+, we believe the business can achieve operating margins in the mid-teens and hence deliver further major improvements in our adjusted earnings per share thereby delivering significant increases in shareholder value.

**Robert Purcell**  
Chief Executive  
26 May 2015

# Our Performance: Chain

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

## Chain performance review

Underlying external revenue of £138.3m was 3% ahead of the prior year. The regional picture was more mixed and reflected differences in local macro-economic conditions. Our largest region of Europe delivered growth of 4.5% with the three major territories of Germany, the UK and France all being up on the prior year while Switzerland had a particularly strong year on the back of a one-off major project win. The Americas and India delivered good growth of 1.3% and 10.3% respectively. Underlying revenue in Australasia was broadly flat (down 0.1%) with the 7.3% fall in Australia almost being offset by growth in South East Asia. The regional result was a significant improvement on the 7.4% fall in the prior year though Australia itself remains challenging (down 7.3% compared to 15.2% in the prior year). Our Chinese Chain business focuses on supporting other Group companies and its own direct external sales saw small but positive growth of 8.9%.

Underlying order intake grew by 2.7% almost matching the growth in sales. At a regional level, European underlying order intake was up 1.5%

and in the Americas it was up 3.1%. Overall order intake in Australasia was up 3.5% though again Australia itself was weaker, down by 6.7%. The smaller regions of China and India, in terms of externally focused activity, both delivered order intake growth. The profile of our order intake (and hence our revenue profile) continues to be more stable with less reliance being placed on large one off orders which can have an adverse impact by disrupting our production processes.

Contribution margins, the margin after all variable production costs, improved during the year. Direct labour costs were favourable to the prior year by 0.4% of revenue. This figure would have been better still had it not been for additional temporary activity undertaken during the transfer of production from the Bredbury facility to sister sites where extra labour and labour inefficiencies were treated as normal operating costs. Now that the recipient sites have fully absorbed the Bredbury production load, a key task will be to deliver a second phase of operational efficiencies that will flow from the operating leverage at those sites.

## CHAIN FACTS

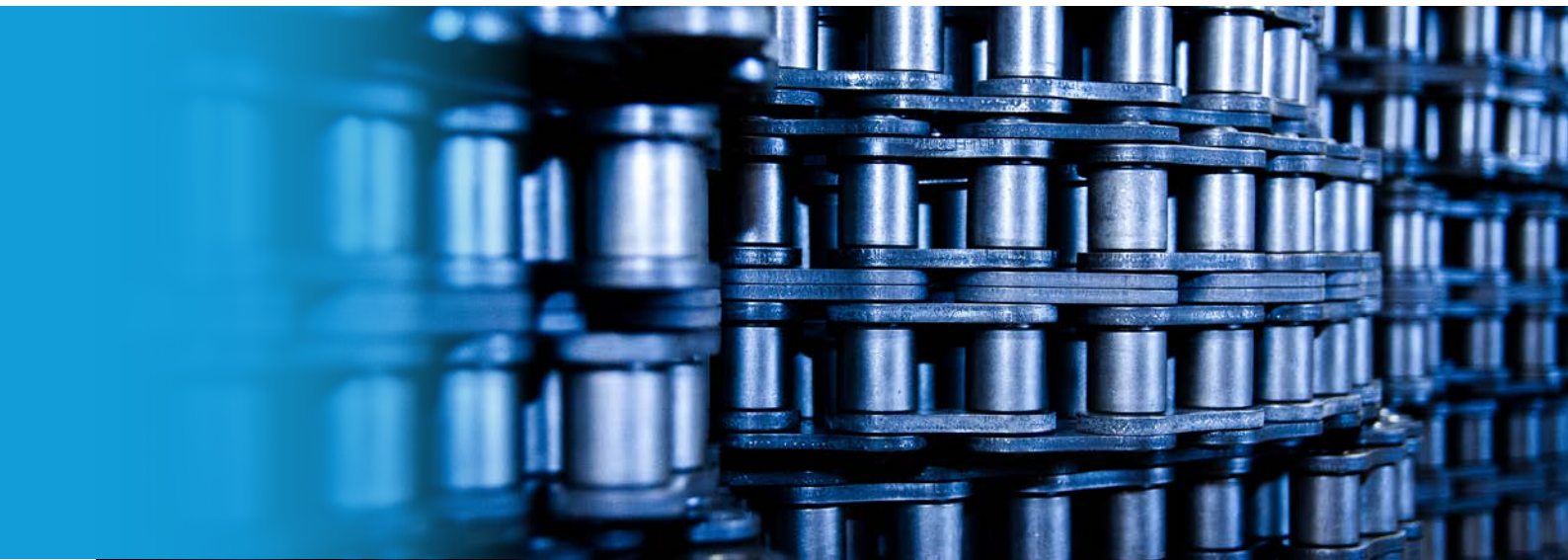


The Chain division is exemplified by an extensive product range reaching into a wide number of geographies:

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

Underlying net overheads were reduced by £2.3m in the year. The overall gains in the year were part of the global effort to streamline our processes and structures and are part of our continuous improvement effort.

As a result of continuing reductions in overheads and measures to improve our contribution margins, underlying adjusted operating profit rose 53% to £14.2m (2014: £9.3m), delivering a Return on Sales of 10.3% (2014: 6.9%). With the exception of Australasia, three of the five Chain regions delivered a double digit Return on Sales with Europe seeing significant benefit from the Bredbury closure. Margins in the Americas suffered slightly, though still double digit, due to the excess operating costs incurred in absorbing Bredbury production transfers. Australia continued to face the additional challenge of continuing weakness in the foreign exchange rate for the Australian dollar which made Chinese imports 18% more expensive by the year end. This currency change is inevitably having an inflationary impact on input costs which we have taken action to recover with a combination of price rises and overhead reductions.



### Performance improvement projects

We reported last year on the closure of the Bredbury Chain manufacturing facility and transfer of production to sister facilities around the world, which was completed ahead of target in May 2014. The first half of this financial year involved considerable work to embed the new production capabilities into routine operations at the recipient sites, and normalise the manufacture of their extended product ranges. Inevitably this brought a number of challenges and there was some disruption to supply from the Einbeck and Morristown sites, resulting in additional overtime and freight charges. These issues were fully resolved before the year end and we are seeing initial progress in the second phase of the project, targeting efficiency gains in the production of the transferred products.

Rationalisation of the manufacturing sites has been followed by a series of projects targeting improvements in Customer Service. A successful pilot programme in the UK that has been delivering configured transmission chain in market-leading response times has been expanded to other parts of Europe and is expected to roll out across all

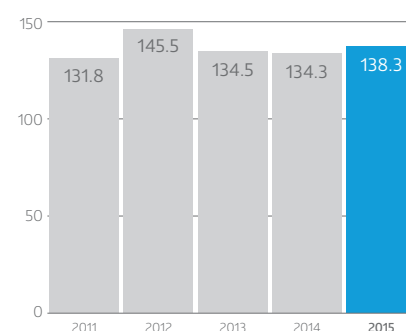
EU territories towards the end of this year. The service will also be expanded to cover a wider product range in the second half of the new year.

### Preparing for growth

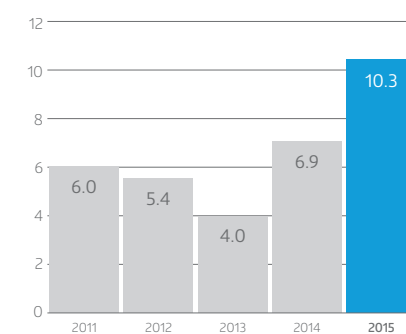
In Europe, new sales offices have been opened in Denmark and Belgium to improve support to the local markets, with a very positive response from local customers. Further locations are due to be opened during the next 18 months. In France we have separated the activities of the Chain and TT divisions, to provide clearer focus on each sector.

These are a few of the initiatives already delivered or underway to support the Group's transition to Phase 2 of our Strategic Plan, the Growth phase.

### Underlying revenue £m



### Underlying adjusted operating margin<sup>1</sup> %



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

# Our Performance: Chain continued

Our products  
*in action*

## Renold escalator chains first in India

Renold's chain manufacturing facility in India is the first chain company in the country to develop and supply escalator chains within India.

To meet the demands of major escalator users, Renold's significant experience in providing value engineered design solutions for public service escalators utilises modern materials and the very latest lubrication techniques. Renold has designed and manufactured high performance escalator systems for more than 50 years. Renold supplies escalator manufacturers and end users with roller chain, step chain, individual drive units and drive packages that surpass the high standards required for this safety conscious industry.



Read more online at [www.renold.com](http://www.renold.com)



The picture above shows the assembly of an escalator chain at Renold's manufacturing facility in India.

## Reputation

Internationally, Renold has established an unrivalled expertise for supplying products for escalators made by many of the world's leading manufacturers.

## Renold chain for US food processing company

Renold offers the most comprehensive range of chain products designed for the food industry and works with many international brand names.

Renold supplies Sovereign chain to a US grocery manufacturing and processing company. Renold Sovereign includes a particular surface treatment that ensures greatly increased wear resistance. On the assembly section of the production line, two conveyors, each run with six pairs of chains in series. Renold's Sovereign chains run in a tandem configuration where each pair of pins, along the conveyor, push against the bottom half of the cookie. It is critical that chain wears evenly and that the production process is accurate. The chains operate in an abrasive and humid environment.



Read more online at [www.renold.com](http://www.renold.com)



Renold Sovereign chain

# Our Performance: Torque Transmission

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

## Torque Transmission performance

Underlying external revenue of £43.1m was 1.1% below the prior year which itself had seen a fall of 5.8%. Underlying revenue, after excluding a low margin mass transit contract that ended in Q1 of the prior year, grew by 1.3%.


Order intake was weak and down 7.8%, primarily as a result of lower demand for gear products sourced from the UK. This was in part due to the Chinese business, primarily in the coal fired power station sector, being slower than the prior year. Work is ongoing to better understand the power generation sector to identify other uses to which our products are well suited. Successful contract wins for escalator drives in Europe and USA partly offset the reduced Chinese orders.

Recent divisional restructuring activity has brought more product focus through the appointment of leaders responsible for the Couplings and the Gears product ranges. This has in turn, started to deliver new products such as a new high precision adjustable gear mechanism shown in the picture opposite. We are also delivering new services such as same day despatch for industrial coupling products. This will translate into further revenue growth next year.

Contribution margins, the margin after all variable production costs, improved during the year. In part this was the result of the lower margin mass transit contract previously mentioned, that came to an end during the previous year, but it was also supported by focusing more sales effort on the higher performance products in the portfolio. Continuous improvement activities in the factories also contributed to the margin gains with labour and material cost ratios positive compared to the prior year. Further benefits will be achieved as we implement more efficient manufacturing processes using new plant and equipment.

The businesses that make up Torque Transmission are continually challenging themselves to find better ways of working by simplifying processes and cutting out waste in every form. This has resulted in underlying net overheads in the division reducing for the second consecutive year with £0.8m savings as a result of a number of initiatives in each location rather than one major restructuring project.

The combination of the gains in contribution margins and ongoing overhead reductions led to an increase in the adjusted operating profit from 13.3% to 16.0%. The absolute level of adjusted operating profit also rose



## TORQUE FACTS

Torque Transmission operates successfully in a number of attractive niches with:

- Sales presence in over 12 countries worldwide
- Bespoke design solutions for the most demanding applications
- Coupling products with unique characteristics

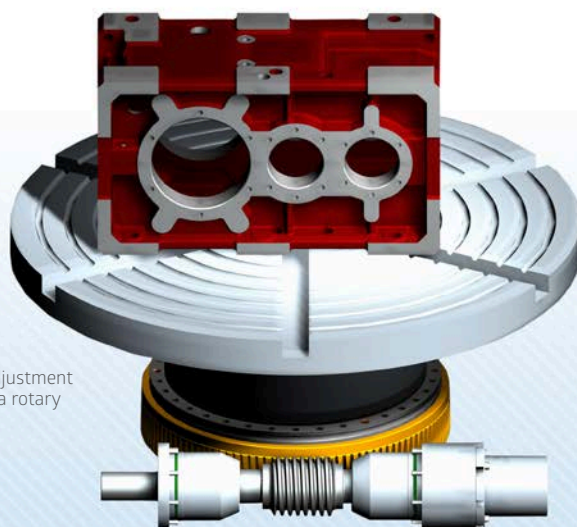
by £1.1m to £6.9m. This was achieved despite the fall in underlying external revenue. Operating margin gains were delivered in five of the seven units, with only the UK gear business being down year on year.

At the start of the year only one business unit in the division had implemented the Health and Safety standard OHSAS 18001. During the year a further five units implemented the standard with the last remaining business expected to complete next year.

The divisional management team continued to be enhanced during the year. Key changes included a new divisional Finance Director and, as previously mentioned, new leaders for the Couplings and Gears businesses. Both businesses are engaged in change programmes which will impact positively on every part of their operation. The new leadership is tasked with continuing to improve business efficiency and deliver growth within the framework of STEP 2020. Our ongoing commitment to invest in development of new products and processes using the latest manufacturing technology in all of Torque Transmission's facilities will continue to provide solutions with lasting benefits for Renold and our customers.



**Pictured:** Adjustment device with a rotary table.



### New product launch – dual lead adjustment mechanism

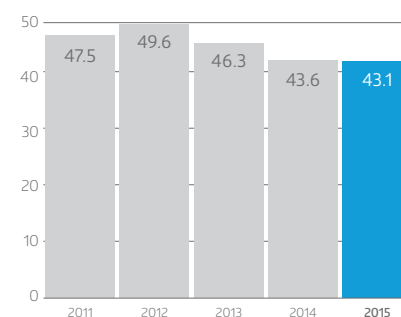
Renold Gears has launched a new high precision adjustment mechanism, 'Ren-Adjust' (pictured above) for its DL Series dual lead worm gears. These are used on positional machinery requiring a high degree of accuracy, such as rotary tables and machine tools.

This new market leading system for precisely adjusting backlash without the need to remove the wormshaft or drain the oil, is quick and simple to operate, thereby reducing downtime whenever an adjustment needs to be made.

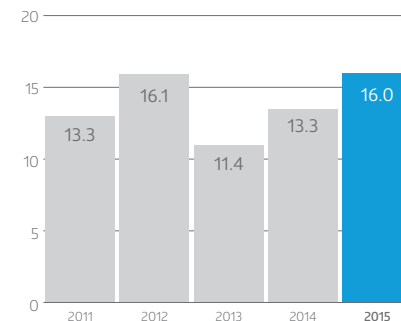
The design can be used as a replacement on existing machinery and can replace that of most other manufacturers without any redesign or modifications.

The size range of the Ren-Adjust covers centre distances from 67 to 500mm.

### Underlying revenue £m



### Underlying adjusted operating margin<sup>1</sup> %



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

## Our Performance: Torque Transmission continued

Our products  
*in action*

### Renold gear box for Bühler pasta machine

Renold has designed a bespoke gearbox for Swiss food processing equipment manufacturer, Bühler.

The custom gearbox for a new pasta making machine was a multiple input bevel-helical unit that had to fit within very tight space constraints and meet demanding weight limits. To achieve this, Renold's engineers had to use the latest finite element analysis and 3D modelling software to reduce the thickness of the gearbox casing without compromising its structural integrity.

Renold was selected because of our ability to design a custom solution that met the customer's requirements. Also with gearbox design and manufacture at one location, the gearbox was designed in record time with just 3 online meetings (using TeamViewer) between the customer's engineers and Renold's engineers in both Switzerland and the UK.



Read more online at [www.renold.com](http://www.renold.com)



Renold HC11 8 multi input bevel helical unit

## Renold gear box for coal power station

Renold is supplying an air preheater gearbox to a coal powered thermal power station located in New South Wales, Australia.

Air Preheaters are very large fan drives that pre-heat the combustion air before it enters the boiler to improve thermal efficiency.

Renold designs and manufactures a complete range of specialist drive solutions for the huge air preheaters found at gas, oil and coal fired power stations. In this case, Renold supplied a twin input helical bevel gear unit, designed as a 'drop-in' replacement for an obsolete air preheater. Taking the original dimensions and speed and power requirements, a fabricated version was designed and manufactured, including an updated lubrication system, as an improvement to the original design.



Read more online at [www.renold.com](http://www.renold.com)



Renold twin input helical bevel gear unit

# Finance Director's Review



*“A fourth consecutive half year of incremental profit growth underpinned the new five year financing structure completed with our current banking partners. This immediately lowers our interest costs and includes new flexibility to support the Group’s investment goals in the Growth phase of the Strategic Plan as well as providing the capacity to fund potential acquisitions.”*

**Brian Tenner**  
Finance Director

## Overview

We continue to deliver steady incremental improvements in profitability, margins and earnings per share. This has been achieved in parallel with the successful delivery of a number of the key projects and continuous improvement initiatives that underpin our Strategic Plan. At the same time, work continues to strengthen our balance sheet and improve cash generation that will fund our investment programme and in turn support further margin growth.

## Orders and revenue

Order intake during the year in the Chain division grew at a similar rate to the growth in revenue with the underlying ratio of orders to revenue (book to bill) being 100.1% (2014: 100.4%). Four out of five Chain regions showed growth in underlying external order intake with only China showing a small £0.3m decline. In Torque Transmission, weaker demand for gear boxes in the Chinese domestic power generation sector, was the key driver for a year on year fall in order intake of £3.4m. This resulted in a book to bill ratio of 91.5%. The results for the Chain and Torque Transmission divisions are set out in more detail on pages 26 to 29 and 30 to 33.

Group revenue for the year decreased by 1.4% to £181.4m (2014: 3.3% decrease). On an underlying basis, excluding the impact of foreign exchange, revenue actually grew by 2.0% or £3.6m in absolute terms (2014: 1.6% decrease, £2.9m in absolute terms).

The business uses underlying measures of orders and sales in its daily reporting activities by retranslating the prior year figures to the current year foreign exchange rates to give a more meaningful comparison of performance. The same is also true for operating profit and earnings measures which are stated on an adjusted basis that strips out the impact of exceptional items and costs of closed legacy pension schemes to better reflect the underlying performance of the ongoing business.

	2015			2014		
	Order intake	Revenue	Operating profit	Order intake	Revenue	Operating (loss)/ profit
As reported	177.9	181.4	12.1	183.7	184.0	(1.3)
Impact of foreign exchange	–	–	–	(6.0)	(6.1)	(0.6)
Exceptional items	–	–	2.9	–	–	11.8
Pension administration costs	–	–	0.5	–	–	0.6
Underlying/adjusted	177.9	181.4	15.5	177.7	177.9	10.5

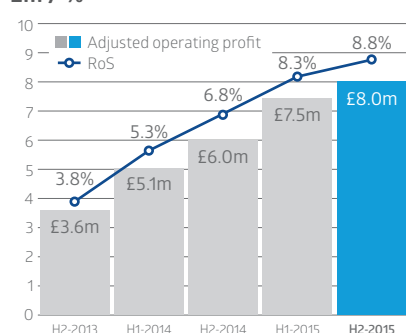
Some momentum built in the second half with the period being up 2.4% compared to the prior year and a first half increase of 1.6%.

The Chain division was responsible for the overall growth in Group revenue with the division delivering underlying growth of 3.0%. Torque Transmission saw a modest fall in underlying revenue of 1.1%, representing an improvement on the previous year's decrease of 5.8%.

### Operating result

The Group generated £7.5m of adjusted operating profit in the first half (2014: £5.1m) and £8.0m in the second half (2014: £6.0m) with a full year result of £15.5m (2014: £11.1m). The second half result was achieved on 1.7% (£1.6m) lower underlying revenue than the first half. This reflects our continuing drive to improve margins and reduce our costs as we continue to lower our breakeven point. It also reflects certain excess operating costs incurred in the first half following the closure of the Bredbury facility. These costs were reduced in the second half and largely eliminated by the end of the year.

### Trends in adjusted operating profit and RoS



The chart above shows the positive trend in half-yearly adjusted operating profit and Return on Sales. Our aim is to continue this trend.

Foreign exchange rates have been extremely volatile during the year as shown in the table above which shows the movements in the Group's three primary operating currencies versus Sterling. The Group's diverse operating territories and currencies provided a

FX rates	March 2014	March 2015	Variation
GBP/Euro	1.210	1.382	(14.2%)
GBP/US\$	1.667	1.485	10.9%
GBP/A\$	1.799	1.943	(8.0%)

natural hedge during the year with Euro weakness almost fully offset by US\$ strength. The net impact of this volatility was an operating income of £0.2m in the year (2014: £0.4m charge). All else being equal, there would be an estimated increase of £0.5m operating profit if the year end exchange rates applied throughout the year.

### Exceptional items

The exceptional charges of £2.9m were much reduced on the prior year (2014: £11.8m). A £1.2m impairment charge has been booked against a surplus property in Calais where a depressed local economy and weak property market are hampering the Group's ability to realise value from the site. It has therefore been written down to a nil net book value, which reflects potential clean up costs in the event of a sale. A £0.5m charge arose to increase the Bredbury factory onerous lease provision as a result of a change in the interest rate assumption used when discounting future obligations. The remaining charges are detailed further in Note 2(c) to the Group financial statements.

### Financing costs

External net interest costs in the year were £1.7m (2014: £1.8m). The annual charge includes £0.3m in respect of amortisation of the refinancing costs paid in 2012 which were being expensed over the four year term of the facility. Financing costs also include £0.2m of the impact of unwinding discounts on onerous lease provisions established in the prior year (the Bredbury factory onerous lease provision and the provision for onerous software license costs).

The new facility terms that were agreed in May 2015, just after the end of the current financial year (see Note 27), include lower interest rates and were delivered at a lower one off cost of re-financing than previously. The annual amortisation charge is therefore also

expected to fall by £0.1m to £0.2m p.a. as the costs are amortised over the remaining five year term of the facility.

Net IAS 19 finance charges (which are a non-cash item) were £2.5m (2014: £2.8m), the net movement being due to lower interest rates on a higher opening liability figure. In the current year, the actual return on assets was £13.7m higher than the return used in the interest calculation as specified in IAS 19. The difference appears as a remeasurement gain in the asset section of Note 18.

### Result before tax

Profit before tax was £7.7m (2014: loss of £5.9m). The profit before tax and exceptional items was £10.6m (2014: £5.9m).

### Taxation

The current year tax charge of £2.1m (2014: tax charge of £4.8m) is made up of a current tax charge of £1.4m (2014: charge of £1.2m) and a deferred tax charge of £0.7m (2014: charge of £3.6m). The Group cash tax paid was much lower at £1.4m (2014: £0.9m) and the difference is due to the utilisation of tax losses and other tax assets in various parts of the Group.

### Group results for the financial period

Profit for the financial year ended 31 March 2015 was £5.6m (2014: loss of £10.7m) and the basic and diluted earnings per share was 2.5p for both (2014: loss 4.9p for both). The basic and diluted adjusted earnings per share was 5.0p for both (2014: earnings 3.2p for both).

### Balance sheet

Net assets at 31 March 2015 were £11.6m (2014: £13.9m restated). The fall was driven by the increase in the present value of pension liabilities as a result of falling yields on government and corporate bonds.

# Finance Director's Review

## continued

The net liability for pension benefit obligations was £61.2m (2014: £53.5m restated) after allowing for a net deferred tax asset of £14.5m (2014: £11.4m). Overseas schemes now account for £25.3m (41%) of the post tax pension deficits and £21.5m of this is in respect of the German scheme which is not required to be prefunded (see Pensions section on pages 37 to 39).

Following the year end review of deferred tax in respect of the German pension deficit, it was identified that the prior year asset was overstated by £4.2m. The Balance Sheet and Statement of Other Comprehensive Income have been restated with the correct balance. The restatement has had no impact on the prior year or current year profitability or earnings per share. Further detail is set out on page 107 in the Accounting Policies.

### Cash flow and borrowings

Cash generated from operations was £12.8m (2014: £6.1m). Capital expenditure was marginally down in the year at £5.5m (2014: £7.1m). Following the closure of the Bredbury facility and the transfer of production to sister plants, those recipient plants were focused on absorbing the transferred production into their day to day operations. As a result, capital expenditure in the year was lower than previously anticipated. Capital expenditure in the new financial year is expected to exceed £10.0m with a number of major projects already committed as at the date of this report. Further gains were made in working capital management with reductions equivalent to £1.4m.

Group net borrowings at 31 March 2015 of £19.5m were £5.3m lower than the opening position of £24.8m comprising cash and cash equivalents of £12.6m (2014: £6.7m) and borrowings (which include £0.5m of preference stock) of £32.1m (2014: £31.5m).

### Debt facility and capital structure

Towards the end of the current financial year the Group decided to ask our current banking partners, Lloyds Bank plc and Svenska Handelsbanken AB, to amend and extend the terms of the Group's primary banking facility which was due to mature in October 2016. The decision to offer the financing to our current banks only was based on our desire to build a long-term relationship with our banking partners who have been very supportive during the first two years of our Strategic Plan. We maintained a firm view on market pricing through independent advice from Rothschilds. The process to amend and extend the facility completed in May 2015.

The amended facility comprises an unchanged committed £41m Multi-Currency Revolving Credit Facility (MRCF), but now also includes a £20.0m accordion feature. This can be used in the event of a significant investment or acquisition opportunity. In the short term, any such acquisition would be likely to be opportunistic in nature. However, given that the amended facility has a five year term (matures in May 2020), the facility will also be available at a time when the Group is likely to enter the third phase of our Strategic Plan, the Acquisition phase.

The amended facility has also taken advantage of lower interest rates in the corporate banking market which will have an immediate positive impact on our financing costs in the first half of the new financial year. The process to amend and extend the existing facility was significantly faster, cheaper and less demanding on management time than a full scale competitive banking re-financing exercise. The Group saved approximately £0.7m in one off costs compared to the re-financing exercise in 2012.

The principal covenants remain unchanged, being the Net Debt/Adjusted EBITDA ratio (calculated on a rolling 12 months basis), which remains at a maximum of 2.5 times until maturity, and minimum Adjusted EBITDA/Interest cover which is also unchanged at 4.0 times until maturity. The Net Debt/Adjusted EBITDA ratio as at 31 March 2015 is 0.9 times (2014: 1.5 times), based on the period end net debt of £19.5m (2014: net debt £24.8m). The Adjusted EBITDA/interest cover as at 31 March 2015 is 12.1 times (2014: 8.7 times).

At 31 March 2015 the Group had unused credit facilities totalling £10.6m and cash balances of £12.6m. Total Group credit facilities amounted to £42.6m with £41.0m being committed.

### Treasury and financial instruments

The Group's treasury policy, approved by the Directors, is to manage its funding requirements and treasury risks without undertaking any speculative risks. Treasury and financing matters are assessed further in the section on Principal risks and uncertainties on pages 47 to 49. 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 US 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 2015 this hedge was fully effective. The carrying value of these borrowings at 31 March 2015 was £5.8m (2014: £5.2m).

At 31 March 2015, the Group had 2% (2014: 2%) of its gross debt at fixed interest rates. Cash deposits are placed short term with banks where security and liquidity are the primary objectives. The Group has no significant concentrations of credit risk with sales made to a wide spread of customers, industries and geographies. Policies are in place to ensure that credit risk on individual customers is kept to a minimum.

## Pensions assets and liabilities

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

	Assets £m	2015 Liabilities £m	Deficit £m	Assets £m	2014 Liabilities £m	Deficit £m
<b>Defined benefit schemes</b>						
UK funded	156.6	(201.5)	(44.9)	144.9	(183.0)	(38.1)
Overseas funded	14.7	(19.5)	(4.8)	14.1	(17.3)	(3.2)
Overseas unfunded	–	(26.0)	(26.0)	–	(23.6)	(23.6)
	171.3	(247.0)	(75.7)	159.0	(223.9)	(64.9)
Deferred tax asset (2014: restated – see page 107)			14.5			11.4
Net deficit			(61.2)			(53.5)

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 valuation.

The Group's retirement benefit obligations increased from £64.9m (£53.5m net of deferred tax) at 31 March 2014 to £75.7m (£61.2m net of deferred tax) at 31 March 2015. The drivers of change are shown on the waterfall chart below. The main reason for the change was the sharp decline in UK corporate bond yields. This was accompanied by a sharp decline in European interest rates following the launch of Quantitative Easing by the European Central Bank. It is important to note that the change in discount rates used to value the schemes' liabilities balance has no impact on the cash contributions paid to the schemes and these remain stable.

One of the Group's US pension schemes had all of its members benefits paid out and the scheme is now in wind up having moved into surplus during the prior year.

The aggregate expense of administering the pension schemes was £0.5m (2014: £0.6m) and is now included in operating costs but is excluded in arriving at adjusted operating profit.

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

The previous three UK defined benefit pension schemes were merged into the Renold Supplementary Pensions Scheme (subsequently renamed the Renold Pension Scheme 'RPS') on 26 June 2013. At that time, 1,316 members took wind-up lump sums to the value of £10.4m and, as a result, a small settlement gain of £0.5m was recognised. The remaining assets of the Renold Group Pension Scheme and J&S Retirement Benefit Plan were transferred into the RPS and full wind-up of those schemes was triggered on 27 June 2014. The merged scheme had 3,502 members as at 31 March 2015 compared to 3,635 at the start of the year.

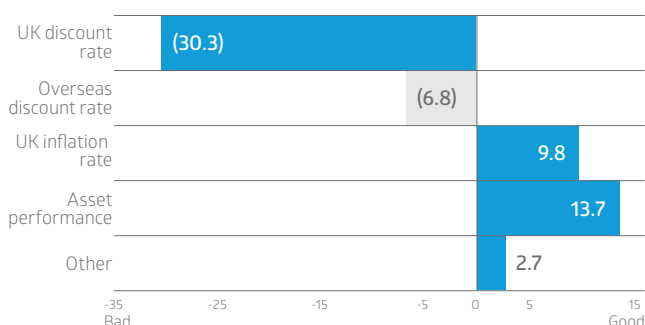
The detailed structure and mechanics of the merger and underpinning asset backed funding structure are set out in Note 18 to the accounts. The most recent triennial actuarial valuation of the

RPS was completed with an effective date of 5 April 2013 and no additional contributions in excess of those generated by the asset backed funding structure were deemed necessary. The next triennial valuation will take place with an effective date of 5 April 2016.

### Summary

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

**Brian Tenner**  
Finance Director



→ The chart shows the key drivers of change for the Group's defined benefit pension schemes over the last year.

→ UK discount rates decreased by 1.2% increasing the deficit by £30.3m.

→ UK discount rates are now around 2% below their long term historical average of around 5.6%.

→ German and American discount rates fell by 1.9% and 0.5% respectively increasing the deficit by £6.1m and £0.7m in each case.

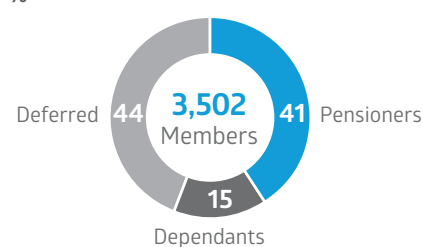
→ Net asset out performance compared to the IAS 19 discount rate reduced the deficit by £13.7m.

# Finance Director's Review

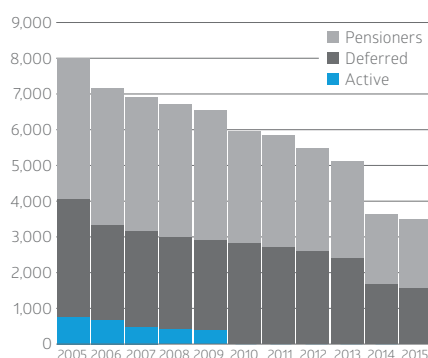
continued

## Pensions

### UK membership today

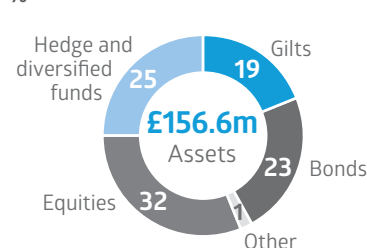


### Trends in UK scheme membership



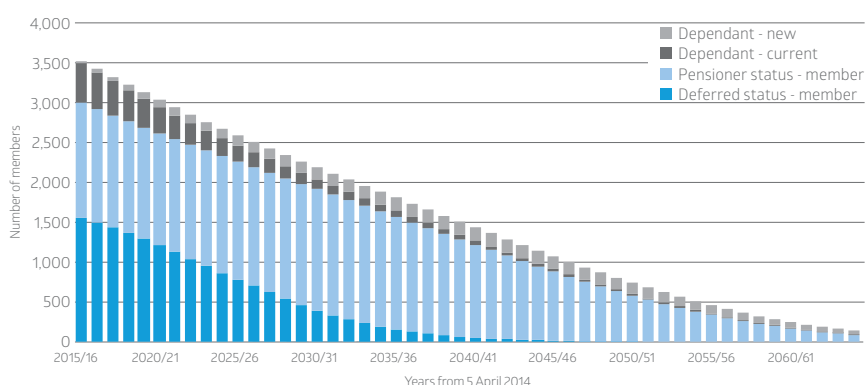
- The pie chart shows the current make up of the UK pension scheme membership as at 31 March 2015.
- The membership profile has changed over the last decade with 56% of members being either pensioners or dependants today compared to 49% in 2005.
- The bar chart shows the evolution of the number of total members of the UK defined benefit scheme over the last ten years and the numbers in each category.
- The total number of scheme members has fallen by 56% since 2005 from 8,030 to 3,502 today due to a combination of net mortality and leavers from the scheme (whether through trivial commutation exercises, scheme merger or members simply opting to transfer their entitlements elsewhere).
- All three UK defined benefit schemes were closed to new members and future accrual by March 2010 and hence membership of the active category fell to zero.
- The significant step down in total membership in 2014 followed the scheme merger in June 2013. At that time 1,316 members opted to have their small pension entitlements paid out as a lump sum.
- The Group and Trustees are currently reviewing the potential impact of the recent changes in legislation. That allows more members to take their pension pots as a lump sum benefit which may have implications for the future membership of the UK scheme and on its administration costs.

### UK assets



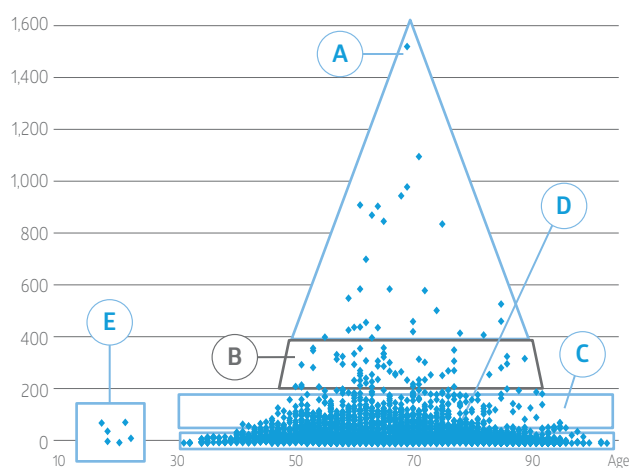
- Given the relative maturity of the scheme, 42% of assets are now invested in gilts and corporate bonds. they are held primarily to generate an income stream that supports the ongoing annual pension payments (currently circa £10.0m including cash lump sums on retirement).
- The overall target for UK portfolio returns is 5.5%.
- The actual UK return in the year was 13.6% compared to the return (based on the discount rate on the scheme liabilities) used in the IAS 19 financing charge calculation of 4.5%.
- It should be noted that the hedge and diversified funds have characteristics of both protection assets (returns are lower and less volatile than equities) and growth assets (return targets higher than simple gilts and bonds).

### Projected future membership change



The chart to the left shows the projected change in scheme membership using the current mortality assumptions. It makes no allowances for trivial commutation of small pots (over 1,000 eligible members) or transfers out of the scheme which may increase significantly with the new flexible retirement options in recent legislation.

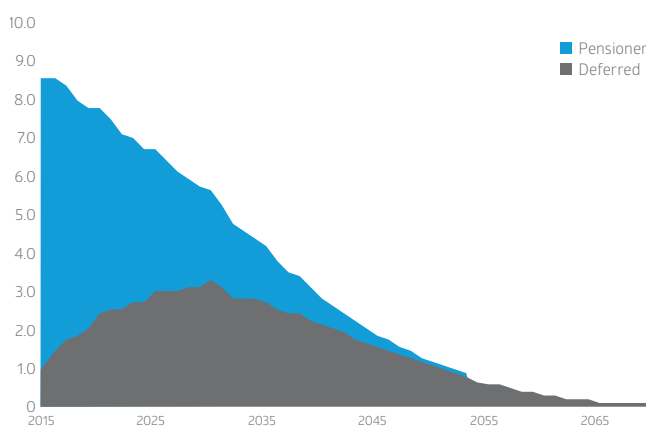
### Targeted UK pensions strategy £'000



In the chart to the left, each dot represents one UK scheme member plotted by age and pension pot. Liabilities and risks are concentrated in the small number of members with the large pots whereas administrative and governance costs are concentrated in the large number of members with small pots. A number of liability management options exist for the different groupings shown and discussed below:

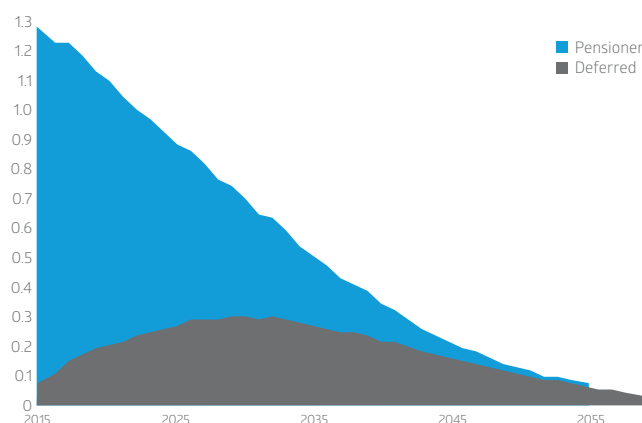
- **A** De-risked after the year end with an insured buy-in of approximately £25m of liabilities;
- **B** The next tier of larger pension pots. If market opportunities exist, the Scheme could de-risk these in future as in A;
- **C** Members able to take advantage of the new retirement flexibilities offered by recent changes in legislation. The Scheme will ensure that all members are aware of their new options;
- **D** Over 1,000 members eligible for the new trivial commutation allowance limit of £10,000; and
- **E** Young dependent pensioners whose liability will cease when they reach the age of majority.

### Discounted cash flows – UK £m



- The upper chart shows the future cash outflows expected for the UK pension scheme, split between deferred and pensioner members. The cash flow profile has been discounted at 3.3%, the discount rate used to value the total liabilities of the scheme.
- The chart for the UK scheme shows that the scheme has already passed peak funding and therefore, all else being equal, future cash flows will reduce in line with the profile above.
- It should be noted, however, that the profile assumes that all members draw their pension in regular payments rather than transferring out of the scheme. Any transfer out would accelerate the reductions in annual cash flows.

### Discounted cash flows – Germany £m



- The lower chart shows a similar analysis for the unfunded German scheme, discounted at 1.4%.
- The German chart also shows that peak funding has been passed and also the maturity of the scheme as evidenced by the relatively steep decline in annual cash flows in the medium term.
- The German scheme closed to new members in 1992 and the current average age of members is 69 years old.
- The Group has initiated action to close the scheme to future accrual and the outcome of the court mediation process is expected to be known in the new financial year. If successful, the future annual cash costs of the scheme would reduce.

# Corporate Social Responsibility



## Our Values

We believe that our commitment to 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 with the Chief Executive taking direct leadership responsibility supported by the regional and business unit Executive teams.

We recognise our duty to behave responsibly towards all stakeholders in our business, including shareholders, employees, customers, suppliers and communities in which we operate. This includes a commitment to:

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

Aligned to this is our continuous commitment to uphold good corporate governance principles, in respect of which further details are set out in our Corporate Governance Report at pages 52 to 61.

## Values

During the year ended 31 March 2015 we have engaged with all employees across all regions in which we operate in order to facilitate the development of a statement of Renold's Values and Behaviours ('Values').

The Values describe the Group as we want it to be. Our decisions and actions will reflect the Values and we believe that putting these values into practice will create long term benefits for all stakeholders, including employees, customers, shareholders and suppliers.

The Values are set out above and represent a key element of the progress we have made in our strategic objective 'Developing our people'. Further information in relation to "Developing our people" can be found on pages 20 and 21.

There is clear recognition that in the end our values are defined by what we do and not just what we say, in other words it is how we behave that is important. We have also identified a number of desirable behaviours that support the Values.

The Values have been launched across the Group and there are ongoing plans to deepen understanding of them and embed them into the business.

## Business integrity and ethics

We operate the business in an ethical and responsible manner and we expect our employees and business operations to conduct themselves ethically, and to be honest, fair and courteous in their dealings.

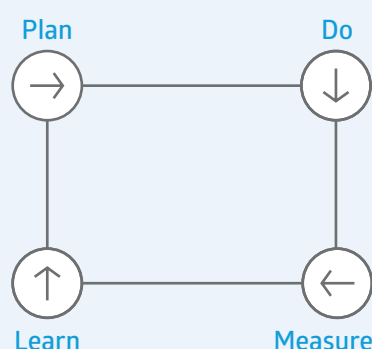
The highest standards of ethical business conduct are required of our employees in the performance of their duties. Employees may not engage in conduct or activity that may raise questions as to Renold's honesty, impartiality, reputation or otherwise cause embarrassment to the Group. Our employees are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

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

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

## The Group 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

### Measure

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

### Learn

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

The Group is also committed to compliance with anti-corruption laws in all countries and operates a zero tolerance policy. The Group Anti-Corruption policy forms part of that commitment, together with the Gifts and Hospitality policy, both of which are designed to assist Renold employees in meeting corporate and individual obligations under anti-corruption laws. Implementation of these policies followed the coming into force of the UK Bribery Act in 2011. Other control processes and updates to formal contractual arrangements with agents and distributors have been put in place to ensure compliance with the requirements of the UK Bribery Act. In addition, an annual training programme is in place for all members of staff whose roles involve working in environments or activities where there is a perceived risk. The training is also undertaken by external parties, such as agents.

These principles are reflected in the statement of Values.

## Health and safety

As a core objective Renold remains 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. Safety at Renold is paramount.

Governance structures are clearly defined. These include a Group Health and Safety policy which is reviewed annually. Cascading from this is the Group Health and Safety Management Framework (the 'Framework') which defines the Board's expectations regarding health and safety control and performance. Management across all material locations are required to adhere to the Framework.

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

The Framework consists of eight core components, which include setting a supportive leadership tone, with sub processes, covering for example, hazard

assessment, incident management and the management of third parties. The internationally adopted model of Plan-Do-Measure-Learn cycle is a key aspect of the Framework.

The web based Integrated Risk Management System provides aligned processes and data mining functionality. This allows sites to manage accident reporting, opportunities for improvement, hazard assessment and all action tracking. Performance data for the Board and to support site reviews is derived from the system.

The hazard assessment reporting feature provides both a consistent and transparent view of the ongoing health and safety risks at both site and Group level. The online hazard assessment module, launched last year, supports our drive to deliver improvements to our health and safety risk management processes.

An independent programme of audits is in place, which requires all material sites to be audited within a twelve month period. This assesses compliance and performance against the Framework. The assurance results along with other typical KPIs are reported each month to the Group Board and reviewed under a standing agenda item.

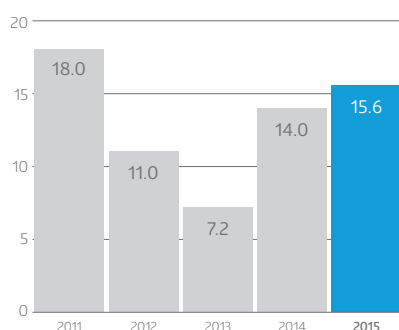
# Corporate Social Responsibility

## continued

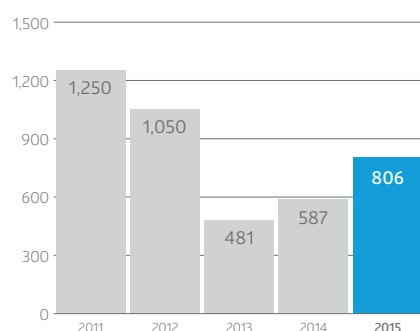
### Groupwide performance and improvement initiatives

The Group uses a number of KPIs to monitor performance. Examples are provided below, showing performance for the four years to 31 March 2015.

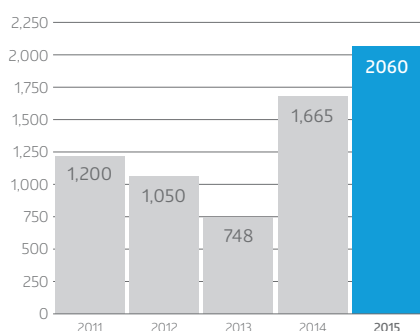
#### Average lost time accident frequency rates<sup>1</sup>



#### Working days lost



#### Average trend of Reportable injury rates



<sup>1</sup> The lost time accident frequency rate is calculated using the rolling lost time accident figure for the year to date divided by the number of hours worked in the year and multiplied by 1,000,000 thus providing the lost time accident rate per 1,000,000 hours worked.

The need to improve performance is recognised. A number of targeted initiatives have been completed and others are planned at both a Group and site level. Momentum is being built. By way of example, during the year ended 31 March 2015, sites have implemented 1,700 general improvements emanating from accident investigations, near misses, hazard assessments and the internal assurance programme.

The Group has launched a new visual identity logo (right) to reinforce a simple message; Be safe, Act safe and Think safe – BAT. Over a relatively short period this has become recognised by all parts of Renold as being illustrative of the basis of safety management.

During the year a global manager training programme was completed, attended by 158 delegates at 16 venues throughout the Group including all Group Board members. This focused on the Framework and related management processes, ensuring clarity of personal management accountabilities.

A Group wide exercise has commenced to critically review all site hazard assessments, to ensure that risks are managed within acceptable levels, as set by the Group Board with the Group Risk Management policy.

An additional six production facilities have achieved certification, to OHSAS 18001, the internationally recognised management system for Occupational Health and Safety. The remaining production facilities are scheduled to achieve certification during 2015.

Whilst it is important to recognise and address known areas where improvement is required, it is equally important to acknowledge and celebrate success. The annual Health and Safety Awards Scheme was launched during 2014. The awards support and deliver benefits by gaining prestige for the site/team and the staff who contribute to a positive health and safety culture. A number of awards have been granted in the first year of the scheme.



### Community

We aim to be a part of the communities in which we work and seek to assist local projects with support where possible. This year, the Group acquired new defibrillators through a scheme run by a charitable organisation. As a result, a further defibrillator was provided free of charge to a local high school close to the Group's UK Head Office: pictured opposite on page 43.

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

Whilst the Group is not currently in a position to provide financial support to local projects, it is our aim to review this in future with a view to improving our contribution to local communities.

### Employees

The motivation and commitment of our employees are 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 2015 the following activities were carried out across the Group:

### Engaging our people

We place a strong emphasis on employee communications and two way feedback. The Group's intranet site enables access to the latest Group information as well as Group policies. We also undertake regular presentations to employees throughout the Group where the half year and year-end financial results are presented and explained by senior management. This helps to achieve a common awareness amongst employees of the financial and economic factors affecting the performance of the Group.

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

### Talent acquisition and development

Building a strong talent pool to deliver the current business needs whilst establishing the foundation for longer term sustainable employee development is crucial to the Group strategy.

The past year has seen the Group continue to strengthen the senior management team in both Chain and Torque Transmission with key appointments in commercial, operational and leadership roles, including the appointment of key new roles in Torque Transmission (Managing Director Couplings and Managing Director Gears) and a new Commercial Director for Chain Europe. We will continue to review and optimise the Group's organisational structures.

The Group's apprentice programme both in the UK and Germany continues to operate. Apprentices in the UK at the Renold Gears facility spend their first year learning basic engineering skills, before transferring to the shop floor and other areas of the business such as planning, quality, purchasing and distribution so that they also gain an appreciation and awareness of the wider business operations and how



A new defibrillator is presented to Newall Green High School in Wythenshawe, Manchester by Group Head of Risk and Assurance, Andrew Monkhouse.

these work together. We currently have 13 apprentices at various stages of development within the UK.

The apprentices themselves value this mix of formal learning and the 'hands on' experience they gain from working alongside their colleagues.

Our German Chain facility currently employs 21 apprentices and two students for bachelors degrees. There are a number of different types of apprenticeship in Germany for school leavers, the various roles including bachelor of engineering, bachelor of business administration, industrial clerk, industrial mechanic and toolmaker. In addition to role specific training, wider education and experience is also offered from exchange programmes with other local companies, participation in simulated business competitions, training and attendance at business exhibitions.

This year the Group has also launched a Graduate Programme under which between six and eight university leavers will be recruited into the business in the autumn of 2015. Graduates will be sought to join the Group's manufacturing

operations and its commercial, business systems, finance and engineering functions. New graduates will have real roles, with real responsibility in the business from day one. They will also participate in a structured two year training programme which will develop their skills in key management and leadership areas, be involved in critical business projects and have regular exposure to the senior leadership team. We expect this programme to be one of the key processes through which the business ensures that we internally develop our leaders of the future.

The financial year ending 31 March 2016 will also see the implementation of a more rigorous performance and development review process, with a particular focus on the leadership and management teams. This will enable the Group to more effectively set objectives and targets, manage employee performance against the delivery of these targets and identify employee development requirements. We plan to meet these development requirements through a range of approaches. These will include a modular Leadership and

# Corporate Social Responsibility

## continued

Management Programme for high potential employees, supported and delivered by an external third party and the provision of internal, online and off the shelf training interventions to allow us to address critical gaps in management skills and knowledge quickly and cost effectively.

### Employment policies

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

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

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

### Diversity

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

As at 31 March 2015, the Group employed 2,243 people including 380 in the UK. Of the total number of employees, 385 (being 17%) are female. The Company recognises the need to encourage and support more gender diversity throughout the

employee population as well as at Board level: details of the Board's Diversity policy are set out in the Nomination Committee report at pages 68 and 69.

We set out in the table below, a breakdown of the gender of our Board members, and, in accordance with new reporting requirements introduced last year, the number of 'senior managers' (including directors of the Company's subsidiary companies) and employees as at 31 March 2015. A senior manager is defined in the legislation as an employee who has responsibility for planning, directing or controlling the activities of the company or a strategically significant part of the company. Whilst falling within the definition of 'senior manager', the most senior leadership population (below the Board), the Group Executive, is shown separately in the table below.

Board and employees	Male	Female
Board*	5	0
Group Executive	6	1
Senior managers, including those on Renold's subsidiary boards	26	7
Other employees	1,824	377

\* The Non-Executive Directors are not employees.

### Human rights

The Group is required to make a disclosure in relation to human rights. The Board has overall responsibility for ensuring the Group upholds and promotes respect for human rights and has adopted the definition of human rights within the European Convention on Human Rights: the concept of human beings as having universal rights, or status, regardless of legal jurisdiction or other localising factors, such as ethnicity, nationality, and sex.

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

and procedures reflect principles of equal treatment. Respect for the individual is also enshrined in Renold's statement of Values and Behaviours.

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

### Greenhouse gas ('GHG') emissions

As a part of the Group's commitment to minimising the impacts of its business operations on the environment, our policy is to co-operate with regulators, suppliers and customers to develop and achieve improved standards of environmental protection.

We continue to use the boundaries and methodology established during the previous year for the reporting of our GHG emissions. After setting the organisational boundary (adopting a financial approach) all Scope 1 and 2 emissions, as defined below, arising from the assets and operations within this control boundary are reported for the period 1 April 2014 to 31 March 2015. We report 100% of operational boundary emissions for entities within the organisational boundary. Using the selected 12-month period avoids the need to include consumption estimations when calculating the Scope 1 and Scope 2 emissions.

**Note:** The organisational boundary determines the operations owned or controlled by the reporting company. The operational boundary determines the direct and indirect emissions associated with operations owned or controlled by the reporting company. Both are as defined by the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard issued in May 2013 ('GHG Protocol').

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

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

The third party consultancy (EEF: The Manufacturers' Association) engaged last year continues to provide advice and review the ongoing data collection process. In addition, EEF undertakes an assurance audit on the 12 months reported data.

### Greenhouse gas emission sources

**Scope 1** emissions are from those direct sources that are owned by the Group (e.g. from direct combustion of natural gas within our facilities' boilers and heaters); fugitive gases are not included.

**Scope 2** emissions are those emissions for which the Group is indirectly responsible, excluding transmission and distribution losses (e.g. from the electricity we purchase to operate machinery or equipment).

Our reported Scope 2 emissions are limited to those associated with purchased electricity as no location within the business purchases steam, heating or cooling from a third party.

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

The emissions are expressed as CO<sub>2</sub>-e which is the unit of measurement used to indicate the global warming potential ('GWP') of each of the six greenhouse gases. GWP provides a basis to evaluate the effects of releasing (or avoiding release) of different greenhouse gases. To do so it compares the warming effect of a mass of a GHG compared to a similar mass of carbon dioxide (CO<sub>2</sub>).

The main contributors to GHG emissions arising from our energy use are electricity consumption, which accounts for 67.9% of our emissions, and fuels, such as natural gas and fuel oil, burnt on our premises which, combined, account for 31.7% of the Group's emissions. The combined CO<sub>2</sub>-e emissions arising from owned transport and fugitive refrigerant gases were calculated to be 0.4% of the total emissions and considered to be immaterial and have therefore been excluded.

In line with UK Government guidance and to ensure we have the ability to compare future years to our base year we established an intensity measure in which we express the combined Scope 1 and 2 GHG emissions (as tonnes of CO<sub>2</sub>-e) per £m external revenue for the financial year ending 31 March 2015.

### Global GHG emissions data for period 1 April 2013 to 31 March 2015

Tonnes CO <sub>2</sub> -e	1 April 2013 to 31 March 2014	1 April 2014 to 31 March 2015
Scope 1 emissions	11,175	9,570
Scope 2 emissions	21,353	20,503
Intensity Measure	176.8	165.8

The reduction in emissions for the year ended 31 March 2015 in contrast to the prior year is primarily as a result of the closure of the UK chain manufacturing facility in Bredbury and the transfer of production to other non-UK sites. Other site specific improvement initiatives have also contributed to the overall measured reduction.

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

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

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

# Risk

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

## How we assess risk

Over the last three years, throughout the world, the Group has deployed an online Integrated Risk Management System (IRMS). Before the IRMS is deployed or populated in a region, the Group Head of Risk and Assurance facilitates a work shop with the local management team to explain the guiding principles of risk management, the functionality of the IRMS and also the consistent approach and standards expected by the Group.

The Group has built up a risk library of common risks and these are used to identify which of these applies to the local site before drilling down to a more detailed analysis of site specific risks.

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

## How we manage risk

The IRMS was initially used to identify and capture risk assessments in the health and safety arena. That functionality has now been extended to all aspects of risk.

The IRMS automatically links risks to associated actions that are designed to reduce either the probability or the impact of a risk crystallising. The IRMS therefore operates as a live management tool that assists staff in actions management and also in the production of live reports.

The 'heat map' shows three bandings in the different shades of risks that are within appetite (green), out of appetite (red) and risks that are somewhere in between. Management actions are focused on those risks deemed not yet within appetite. It should be noted that there is no level of acceptable health and safety risk, that topic will always be under active management

## Risk management framework IRMS

### Board oversight

- Sets the 'Tone at the Top' – the culture adopted in respect of risk
- Responsible for Risk Management and Internal Control Processes
- Sets direction for key focus areas (e.g. Health and Safety)
- Defines acceptable levels of risk (referred to as our 'Risk Appetite')
- Monitors compliance with our Risk Appetite and completion of action plans

### Executive Risk Management and Monitoring Committee

- Critique of local risk registers
- Challenge and review of completed actions
- Shares best practice risks and solutions across the Group

### Audit Committee

- Supports the Board in review of risk management process
- Particular emphasis on monitoring completion of risk mitigation actions
- Oversight of Executive Risk Management and Monitoring Committee

### Internal audit

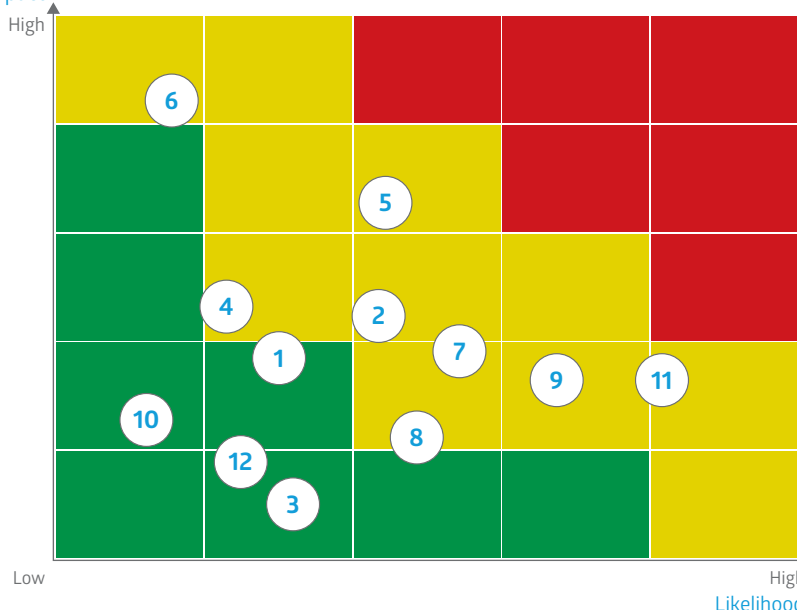
- Reviews local risk management process
- Reviews status of risk management actions

### Business units

- Detailed local risk registers and action plans
- Ongoing action management and tracking
- Embedding Group culture and risk appetite at a local level
- Process for global alerts to share emerging risks and best practice

## Risk heat map




Impact







# Principal Risks and Uncertainties

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. The numbers correspond to the risk identified on the heat map and the arrows indicate whether or not the probability or impact of the risk materialising is increasing, reducing or constant. Additional risks not currently known or which are currently regarded as immaterial could also affect future performance.

## Key:




-  Risk trending downwards
-  Risk trend unchanged
-  Risk trending upwards

Risk	Potential impact	Mitigation								
Strategic risks										
<div>1</div> <div>Business strategy </div> <div>A strategy which does not match the Group's circumstances, capabilities or potential will fail to create shareholder value.</div>	<div>The Group is developing a new strategy to deliver a turnaround in performance and to make that performance more stable and less exposed to revenue volatility. Unless successfully implemented the Group will continue to experience volatile results and weak levels of cash generation. These are basic requirements to allow the delivery of sustainable and consistent growth in shareholder value.</div>	<div>A three phase strategic plan was developed in the prior year (refer to page 17). In parallel, a new and detailed operating model has also been specified and is now in the process of being implemented.</div> <div>During the year a detailed five year unit level action plans have been developed.</div> <div>These combine to form STEP 2020.</div>								
<div>2</div> <div>Macro-economic and political </div> <div>We operate in 18 countries and sell to customers in over 100 and therefore we are necessarily exposed to economic and political risks in these territories such as recession or the imposition of trade barriers.</div> <div>The continuing fragile macro-economic climate in the Eurozone and Australia is a specific source of risk.</div>	<div>Key territory sales profile is shown below:</div> <table><tr><td>USA</td><td>32.0% (of Group sales)</td></tr><tr><td>UK</td><td>9.3%</td></tr><tr><td>Germany</td><td>6.5%</td></tr><tr><td>Australia</td><td>6.0%</td></tr></table> <div>Adverse macro-economic or political changes in any of these territories could have a material negative effect on the Group's financial performance and condition and is a key driver for the objective to lower our breakeven point.</div>	USA	32.0% (of Group sales)	UK	9.3%	Germany	6.5%	Australia	6.0%	<div>Our diversified geographic footprint inherently exposes us to more countries where risks arise but conversely mitigates the risk of over-exposure in any one country.</div> <div>Actions to lower the Group's overall breakeven point also serve to reduce the impact of a global economic slowdown.</div> <div>Continuous monitoring of macro-economic trends, industry specific and internal leading indicators.</div> <div>Strong core banking group with multi-currency debt facility supported by matching cash flows plus improving EBITDA.</div>
USA	32.0% (of Group sales)									
UK	9.3%									
Germany	6.5%									
Australia	6.0%									
<div>3</div> <div>Raw material price volatility </div> <div>Increases in the cost of raw materials may not always be recoverable or have delays in recovery due to weakness in demand or competitor actions.</div> <div>If raw material costs fall, the Group may face customer pressure to reduce prices or experience a fall in demand.</div>	<div>Approximately 35% of the Group's sales value is spent on raw materials with steel being the primary purchase.</div> <div>Steel prices experienced by the Group have been relatively stable recently following previous periods of considerable volatility. Unrecovered cost increases would have a material effect on the Group's financial performance.</div>	<div>Continuous monitoring of different international steel price indices to give early warning of negative trends. The Group is partially insulated from movements in raw commodity prices because of intermediary processing steps in the supply chain.</div> <div>Where contractually possible, we pass on price increases.</div>								
<div>4</div> <div>Competitive markets and technology advancements </div> <div>Renold operates in highly competitive markets with customer decisions based typically on quality, technology, service and price. New entrants or consolidation of existing competitors could restrict our ability to deliver our strategic objectives.</div>	<div>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.</div>	<div>Highly fragmented market may reduce risk of significant competitive pressure.</div> <div>Strategic objective to improve service and enhance customer relationships will deliver a more loyal customer base.</div> <div>Investment in new technology and engineering capabilities.</div>								

# Principal Risks and Uncertainties

continued

Risk	Potential impact	Mitigation
<b>Operational risks</b>		
<p><b>5 Health and safety in the workplace</b> ↔</p> <p>A lack of robust safety processes and procedures could result in accidents involving Renold employees and others on Renold premises.</p> <p>The risk assessment reflects the fact that increased focus and auditing is part of the rising rate trends seen on page 42.</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>→ Business interruption;</li> <li>→ Significant fines and penalties; and</li> <li>→ Reputational damage.</li> </ul>	<p>Revised group wide health and safety policies contained within a documented management system, 'the Framework', have been rolled out during the year. Health and safety audits and enhanced reporting have been implemented at all sites and a new Group HSE Assurance Manager has been appointed.</p> <p>Continual risk assessments to ensure awareness of risks.</p> <p>Live tracking of accident rates and root cause analysis via the Integrated Risk Management System.</p>
<p><b>6 Manufacturing disruption</b> ↔</p> <p>A catastrophic loss of the use of all or a portion of any of Renold's manufacturing or distribution facilities, due to accident, labour issues, fire, weather, terrorism, natural disaster or otherwise, which in the short or long term could adversely affect the Group's ability to meet the demands of its customers.</p>	<p>A material disruption to operational facilities or the loss of critical assets may negatively affect the Group's:</p> <ul style="list-style-type: none"> <li>→ Production capability and asset base;</li> <li>→ Supply chain management;</li> <li>→ Customer relationships and reputation; and</li> <li>→ Financial performance.</li> </ul>	<p>Dedicated production teams focused on demand fulfilment.</p> <p>Preventative maintenance programmes.</p> <p>Alternate manufacturing capacity exists for a substantial portion of the Group's product range.</p> <p>Inventory maintained to absorb and flatten out raw material supply and production volatility.</p> <p>The Group has insurance cover to mitigate the impact of a number of these risks.</p>
<p><b>7 ERP systems</b> ↔</p> <p>The Group is presently implementing a global ERP system to replace numerous legacy systems.</p> <p>Legacy systems are less robust and less efficient than new systems.</p>	<p>The risk continues that an unsuccessful implementation at an individual site could seriously impact the Group's performance.</p> <ul style="list-style-type: none"> <li>→ Risks have reduced by virtue of the experience gained and lessons learned from previous implementations.</li> <li>→ Old systems may not support delivery of business objectives.</li> </ul>	<p>Short term stabilisation of existing hardware and legacy software platforms.</p> <p>Use of specialist external consultants on the global ERP project and recruitment of experienced personnel.</p> <p>Phased implementation rather than 'big bang'.</p> <p>Project assurance and lessons learned reviews to continuously improve the quality of successive roll outs.</p>
<p><b>8 Compliance risks – laws and regulations</b> ↔</p> <p>Risks related to regulatory and legislative changes include the inability of the Group to comply with current, changing or new requirements.</p> <p>Many of the Group's business activities are subject to increasing regulation and enforcement by relevant authorities.</p>	<p>Failure by the Group or its representatives to abide by applicable laws and regulations could result in:</p> <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; and</li> <li>→ Reputational damage.</li> </ul>	<p>Communication of a clear compliance culture.</p> <p>Risk assessments and ongoing compliance reviews.</p> <p>Published up to date policies and procedures.</p> <p>Monitoring of compliance with nominated accountable managers in each business unit.</p> <p>Clear guidance and training issued to all employees.</p>
<p><b>9 A lack of technical expertise or management skills</b> ↓</p> <p>The Group's international operations are dependent upon existing key executives and certain other employees in order to sustain and grow its business and there can be no assurances that these employees will remain with the Group. The success of the Group will depend upon its ability to attract, retain and motivate highly qualified and trained employees.</p>	<p>If the Group fails to retain, attract or motivate the required calibre of employees then its operational and financial performance may be negatively impacted.</p>	<p>Competitive reward programmes, focused training and development.</p> <p>Ongoing reviews of succession plans based on business needs.</p> <p>Personal development reviews and training programmes.</p> <p>Management team strengthened with new capability from external hires and internal promotions.</p>

Risk	Potential impact	Mitigation												
Financial risks														
<b>10 Liquidity</b> 	<p>If the Group fails to obtain the required funding then this could negatively impact:</p> <p>→ Ongoing business operations; and</p> <p>→ Going concern.</p>	<p>The Group's primary banking facility expires May 2020 and is fully available given current levels of profitability.</p> <p>The facility includes additional draw down capability, accessible as long as financial covenants are complied with</p> <p>Constant management focus to enhance working capital management processes.</p>												
<b>11 Foreign exchange rate volatility</b> 	<p>Shown below are the Groups principal trading currencies, weighted by revenue:</p> <table><tr><td>US\$</td><td>34% (of Group sales)</td></tr><tr><td>Euro</td><td>14%</td></tr><tr><td>£GBP</td><td>20%</td></tr><tr><td>A\$</td><td>6%</td></tr><tr><td>C\$</td><td>4%</td></tr><tr><td>Other</td><td>22%</td></tr></table>	US\$	34% (of Group sales)	Euro	14%	£GBP	20%	A\$	6%	C\$	4%	Other	22%	<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. Transactions are covered primarily by simple forward foreign exchange contracts.</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>
US\$	34% (of Group sales)													
Euro	14%													
£GBP	20%													
A\$	6%													
C\$	4%													
Other	22%													
<b>12 Pensions deficit volatility</b> 	<p>Changes in these assumptions can materially impact the financial condition of the Group, reported in the balance sheet and could, in the longer term, lead to changes in cash contributions to the schemes.</p>	<p>The major UK pension cash flows (50% of all defined benefit pension cash costs) are fixed under the 25 year asset backed funding scheme put in place during 2013. A further 25% of the annual cash flows are pensions in payment in Germany in a mature scheme that has passed its peak funding requirement.</p> <p>All pension risks are actively managed in line with the Group's risk management system covering investment and liability management issues.</p>												

### Strategic Report approval

The Strategic Report, on pages 10 to 49, incorporates: Our Business Model, Market Review, Our Strategy, Chief Executive's Review, Our Performance, Finance Director's Review, Corporate Social Responsibility, Risk and Principal Risks and Uncertainties, and was approved by the Board on 26 May 2015.

For and on behalf of the Board

#### Louise Brace

Company Secretary  
26 May 2015




# Governance

## Contents

Corporate Governance Report:	
Chairman's Letter	52
Board of Directors	54
Governance Structure and Board Composition	56
Audit Committee Report	62
Nomination Committee Report	68
Directors' Remuneration Report: Annual Statement	70
Directors' Remuneration Report: Directors' Remuneration Policy	73
Directors' Remuneration Report: Annual report on remuneration	81
Directors' Report	88
Statement of Directors' Responsibilities	91
Shareholder Information	93

## Our Values



 Read more about our Values on page 40

## Process

"Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate structure is in place."

Cadbury Committee 1992

# Corporate Governance Report

## Chairman's Letter



*"The Group continues to be committed to and recognise the importance of high standards of corporate governance and behaviour. Aligned to this is the Group's commitment to maintaining the highest standards of ethics and integrity in the way in which we conduct business around the world."*

**Mark Harper**  
Chairman

### Introduction

I am pleased to present the Corporate Governance report for the year ended 31 March 2015 on behalf of the Board.

In this report, we explain the Group's approach to corporate governance and provide the information required of us by the UK Corporate Governance Code 2012 ('2012 Code'). The detailed list of contents of the Corporate Governance report can be found on page 51. The Statement of Corporate Governance covers these areas. In addition, the Group's principal risks and uncertainties are described in the Strategic Report and this section forms part of the Corporate Governance report. We also include a section in this report addressing how the Company communicates with shareholders.

The Financial Reporting Council ('FRC') revised the UK Corporate Governance Code in September 2014 ('2014 Code'). The Board continues to review the requirements of corporate governance, this year considering the revisions made by the FRC in the 2014 Code. The 2014 Code applies to reporting periods beginning on or after 1 October 2014. As a result, the 2014 Code does not apply to the Company's reporting period ended 31 March 2015. However, the Board has, where appropriate, adopted some of the new provisions in the 2014 Code earlier than required. Where it has done so, disclosure is provided against these requirements in the 2015 Annual Report and Accounts.

In addition to the changes in the 2014 Code relating to remuneration and accountability/financial reporting, the Board considers a key development to be the emphasis on the importance of establishing 'tone from the top'. This has been set in particular by the policies and procedures put in place by the Board in relation to anti-corruption and whistleblowing. The Group rightly operates with a zero tolerance approach to all forms of bribery and corruption.

In addition, the Board was also pleased to approve the issue of Renold's Values and Behaviours this year, which are described in more detail on page 40. Renold's first referenced Value is to 'Operate with integrity'. This means "We will conduct ourselves with uncompromising integrity, honesty and fairness as individuals, as teams and as a company, holding ourselves accountable to the highest ethical and relevant legal standards and fulfilling our commitments as responsible citizens and employees."

Turning to matters outside corporate governance and ethics, the key priority for every Board is the delivery of business strategy. The Strategic Plan has been uppermost on the Board's agenda again this year as is reflected in my opening Chairman's Letter on pages 8 and 9.



## Operate with integrity

**Pictured:** An employee working in the test centre in Renold's manufacturing facility in Germany.

In terms of the function of the Board itself, the annual effectiveness review this year again proved a worthwhile and constructive process. In its second full financial year since being constituted, following the appointment of Robert Purcell as Chief Executive in January 2013, the Board continues to work effectively together with a real culture of openness and constructive debate. Given the position of the Company as it enters Phase 2 of the Strategic Plan, this is by no means a complacent Board and the collective view is that it continues to perform well.

### Annual General Meeting

Our Annual General Meeting will be held at 11am on Tuesday 21 July 2015 at Renold House, Styal Road, Wythenshawe, Manchester, M22 5WL. We are pleased to receive feedback from shareholders at all times and I would encourage our shareholders to attend the AGM.

### Compliance with the 2012 Code

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

The 2012 Code sets out guidance for companies with a premium listing in the form of main principles and specific provisions of good governance.

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

The obligation of all listed companies is to comply with the provisions of the UK Corporate Governance Code, or to explain why it has not done so. The Board's compliance statement is therefore made with reference to the 2012 Code which applies to the Company's reporting period. The Board reviews its compliance with the Governance Code regularly and considers that the Company has complied with all provisions set out in the 2012 Governance Code that are applicable to it throughout the year ended 31 March 2015, except where highlighted in this report.

The 2012 Code is available to view on the FRC's website at [www.frc.org.uk](http://www.frc.org.uk).

# Board of Directors

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

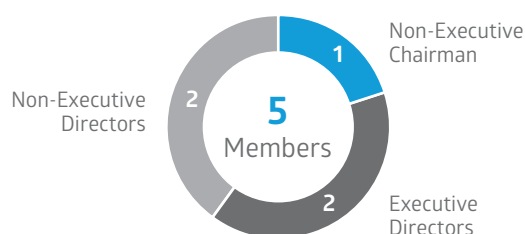
On these pages, we set out the age, tenure and biographical details of each Board member and the Company Secretary.

For details of how our governance structure works, including how the Board and its Committees are composed and how they work, see pages 56 and 57.

Committee memberships key:

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

## Membership of the Board



The above graphic shows the balance of Non-Executive Directors and Executive Directors.

## Experience of the Board



The above graphic shows the number of directors with significant experience in the areas listed. The Board recognises that it would be beneficial to have a member with a background in HR and will be mindful of this when further recruitment to the Board next arises.



**Mark Harper, Chairman**

### Committee memberships

(N)

### Appointment to the Board

May 2012

### Experience

Mark, aged 59, was appointed to the Board as a Non-Executive Director and Chairman-elect on 1 May 2012. He took on the role of Chairman at the close of the Annual General Meeting on 12 July 2012. His appointment was extended on 1 May 2015 to May 2018. Prior to joining Renold, Mark became the Chief Executive of Filtrona plc at the time of its demerger from Bunzl plc in June 2005 and led a successful period of growth until his retirement in May 2011. He also held a number of senior operational management positions within Bunzl plc, being appointed to the Bunzl plc Board in September 2004 and has previously acted as a Non-Executive Director of BBA Aviation plc.



**Robert Purcell, Chief Executive**

### Committee memberships

(E)

### Appointment to the Board

January 2013

### Experience

Robert, aged 53, joined the Group on 21 January 2013 as Chief Executive. Prior to joining Renold, Robert was Managing Director of Filtrona plc's Protection and Finishing Products Division. He has also held a Managing Director role at Low and Bonar plc within its technical textiles business. His early career was in operational management within Courtaulds plc, during which time he gained an MBA from the Cranfield School of Management.

**Brian Tenner**, Finance Director**Committee memberships**

(E)

**Appointment to the Board**

September 2010

**Experience**

Brian, aged 46, 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.

**Ian Griffiths**, Non-Executive Director**Committee memberships**

(A) (N) (R)

**Appointment to the Board**

January 2010

**Experience**

Ian, aged 64, 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. Ian was appointed as Non-Executive Director of Hydro International plc, a Company admitted to trading on the AIM Market of the London Stock Exchange, in October 2014. 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.

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

(A) (N) (R)

**Appointment to the Board**

April 2008

**Experience**

John, aged 65, was appointed to the Board and to the chair of the Audit Committee in April 2008 and became the Senior Independent Non-Executive Director on 21 January 2013. John brings strong relevant technical experience to the role having served as the finance director of the publicly quoted companies MyTravel Group plc and Equant NV. Since 2007, he has served as a Non-Executive Director on a number of boards of public and private companies and is currently a Non-Executive Director of Fairpoint Group plc, Punch Taverns plc and Nobina AB. John is a fellow of the Chartered Institute of Management Accountants.

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

November 2012

**Experience**

Louise, aged 42, 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 until 2003. She then held senior roles in private practice at Addleshaw Goddard LLP and Pannone LLP, advising in relation to commercial litigation and dispute resolution.

# Governance

## Governance Structure and Board Composition

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

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

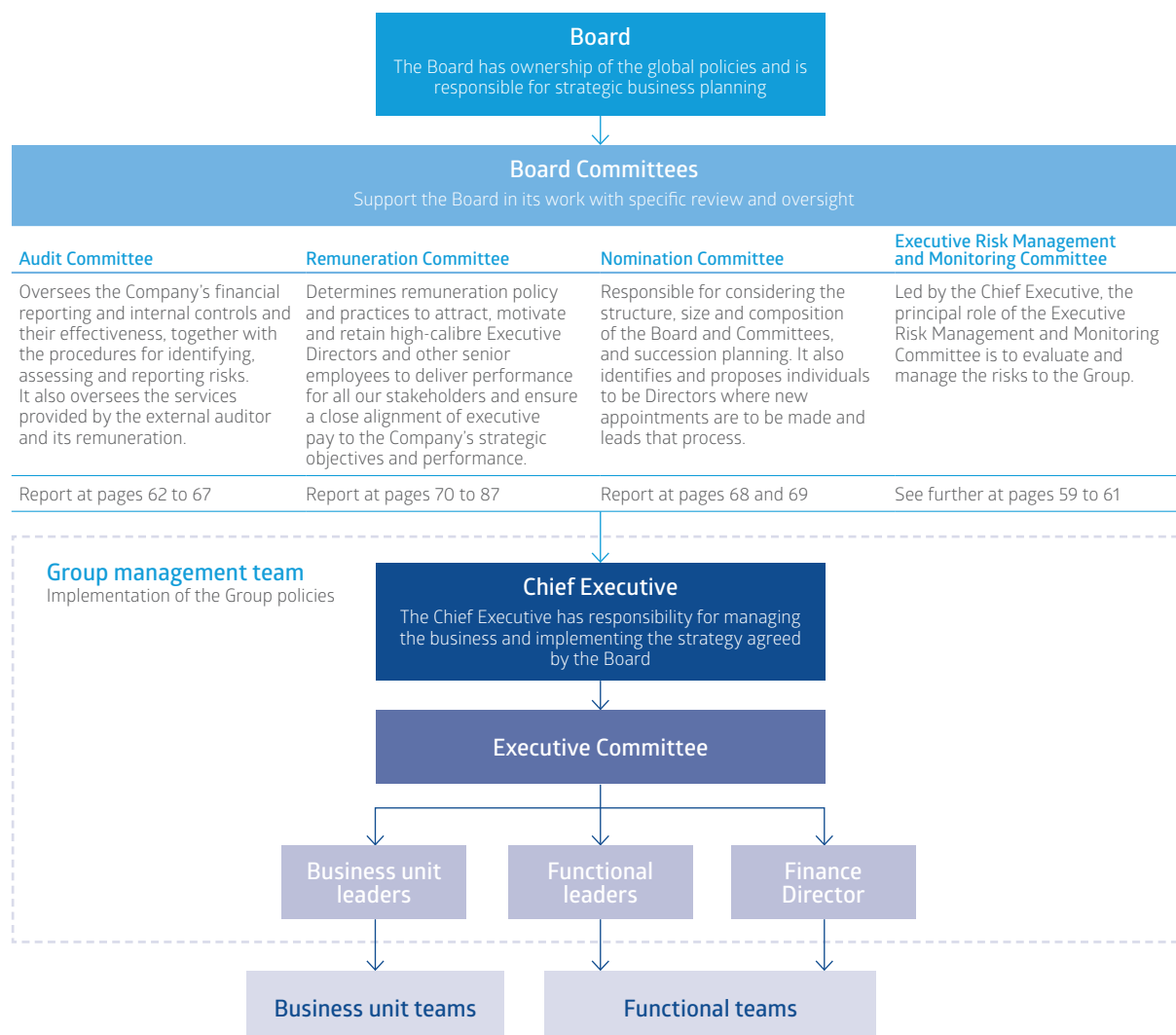
Feedback is provided to the Board following presentations to investors and meetings with shareholders in order to ensure that its members, and in particular Non-Executive Directors, develop an understanding of the views of major shareholders about their Company.

The Board has approved a schedule of matters reserved for decision by it to ensure that it takes all major strategy, policy and investment decisions affecting the Group. As part of the Board's oversight of operations, it must ensure maintenance of a sound system of internal control and risk management.

There have been no changes to the composition of the Board during the year ended 31 March 2015, there being a balance of Executive and Non-Executive Directors. Currently, the Board comprises a Non-Executive Chairman, two Non-Executive Directors and two Executive Directors.

The Board's consideration of its composition in the context of its diversity is more fully detailed in the Nomination Committee Report on pages 68 and 69, together with a statement on the Board's diversity policy.

### Governance structure



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

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

Biographical and experience details of the current Directors appear on pages 54 and 55. Details of Board and Committee membership and attendance during the year are set out on page 59. Further details of the Directors' service contracts and letters of appointment are set out in the Directors' Remuneration Report.

### The Board and its Committees

The Board delegates authority to a number of Committees to deal with specific aspects of the management and control of the Group. These Committees are summarised on page 56 and details about the structure and activities of each are set out in the separate Committee reports. The Committees communicate and work together where required.

Committee membership may not be refreshed as frequently as would be the case for a company with a larger board. However, the Board is satisfied that no undue reliance is placed on particular individuals.

Terms of reference for each Committee together with the schedule of matters reserved for the Board, are available on the Company's website at [www.renold.com](http://www.renold.com).

Louise Brace, the Company Secretary, has acted as secretary to the Committees during the year ended 31 March 2015.

### Board focus during the year

During the year ended 31 March 2015, the Board has provided its main focus on the following matters:

- Continued review of Group strategy and supporting the Chief Executive in developing the Group's Strategic Plan;
- Completion of the project to review manufacturing capacity in the Chain Division;
- Health and safety performance;
- Renold's statement of Values and Behaviours;
- Organic growth opportunities;
- Customer service enhancement;
- ERP effectiveness and commencement of new ERP implementation;
- Pension liabilities;
- Capital investment programme;
- Margins and profitability;
- Cashflow;
- Organisational development; and
- Consideration of the new 2014 Code.

### Expected Board focus for next year

The Board will continue to review the matters listed above other than the Chain Division manufacturing capacity review which has been completed. In addition, it is anticipated that the following areas will form areas of focus for the Board for the year ended 31 March 2016:

- Preparation for the new 'viability statement' requirements in the 2014 Code, which will apply to the Company's reporting period ending 31 March 2016;
- Financial performance;
- Succession planning.

### Director induction and development

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

The training needs of the Board are discussed as part of the Board performance evaluation process. Updates are provided to the Board at regular intervals in order to refresh the Directors' knowledge. Training is arranged primarily by the Company Secretary in consultation with the Chairman. During the period, the Board has received an update from EY in relation to the 2014 Code. Remuneration advisers, PwC, have also presented updates to the Remuneration Committee, including in relation to market trends in executive remuneration.

# Governance

## Governance Structure and Board Composition

continued

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. Throughout the year ended 31 March 2015 the Executive Directors have continued to visit Renold sites around the world including: United States of America, India, Germany, Australia, New Zealand, Malaysia and China. The Board itself also met during the year at Renold's manufacturing site in Germany and at manufacturing sites in the UK.

### Non-Executive Director independence

The Non-Executive Directors throughout the year are considered to be independent in character and judgement. The Board is of the opinion that all of the Directors take decisions objectively and in the best interests of the Company and that no individual or small group of individuals can dominate the Board's decision taking. The balance between Non-Executive and Executive Directors allows independent challenge to the Executive Directors and senior management.

### Board evaluation and effectiveness

The Board is supportive of the principle of evaluation of the Board, as set out in paragraph B.6 of the 2012 Code, and recognises that evaluation of its performance is important in enabling it to realise its maximum potential. A formal process for evaluating the performance of the Board, its members and its Committees is planned and is conducted annually. This process gives the Directors the opportunity to identify areas for improvement both jointly and individually through the use of questionnaires and/or open discussion. An evaluation of the Chairman is also carried out annually, led by the Senior Independent Non-Executive Director.

Evaluations of the Board (including of the Chairman), the Audit Committee, the Nomination Committee and the Remuneration Committee were carried out during the year ended 31 March 2015.

The evaluation process commences with the completion of a written questionnaire for each separate review, compilation of a summary of the results and feedback obtained and then discussion between the participants. The Board's discussion of the results of the review highlighted a number of areas where objectives might be set by the Board and practical issues for consideration. As a result, the Board has implemented a number of changes including allocating additional time for Board and Audit Committee meetings at key points in the financial year, these being review of interim and annual financial results. The Board has also continued to allocate separate time for review and consideration of the Strategic Plan.

In accordance with the 2012 Code, the evaluation process also included a number of discussions during the year between the Chairman and the Non-Executive Directors, without the Executive Directors present, to discuss feedback arising from the process and the performance of each Executive Director. The Senior Independent Director also met with the other Directors as part of the Chairman's performance evaluation process.

### Election of Directors






The 2012 Code recommends that all Directors of FTSE 350 companies should be subject to annual election by shareholders. This provision is not applicable to the Company. However, with a view to complying voluntarily with all terms of the Governance Code where possible, the Board considered this provision during the year ended 31 March 2014 and agreed that all Non-Executive Directors will be subject to annual election. Given the size of the Company, it would not be practicable for the two Executive Directors to be subject to annual election.

### Board and Committee membership and attendance

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

The table on page 59 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. All Directors attended all scheduled Board meetings, as can be seen in the table of attendance.

## Table of attendance

		Brian Tenner*	John Allkins	Ian Griffiths	Mark Harper*	Robert Purcell*
8 meetings						
Board		8	8	8	8	8
4 meetings						
Audit Committee		4	4	4	4	4
3 meetings						
Nomination Committee		–	3	3	3	–
8 meetings						
Remuneration Committee		4	8	8	7	6
4 meetings						
ERMM Committee		4	–	–	–	4

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

## Risk monitoring and internal control

The Board has overall responsibility for the Group's system of internal control including financial, operational and compliance controls and risk management systems, and for reviewing internal control effectiveness.

The ongoing process, in accordance with the FRC's 'Internal Control: Revised Guidance for Directors on the Combined Code (October 2005)', for review of the system of internal controls by the Directors, to identify, evaluate and manage the significant risks faced by the Group, has been in place for the year ended 31 March 2015 and up to the date of approval of this report and the financial statements.

Internal controls and the risk management processes are reviewed on a regular basis by the Audit Committee, which reports directly to the Board. This review includes a report from the Executive Risk Management and Monitoring Committee ('ERMMC') after each meeting to the Audit Committee. Further details of the Group's risk management framework can be found on page 46 of the Strategic Report and of the Audit Committee's oversight of the ERMMC can be found in the Audit Committee Report on page 62.

During the year ended 31 March 2015, 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.

# Governance

## Governance Structure and Board Composition

continued

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

- the ERMMC which oversees, on behalf of the Audit Committee and, ultimately, the Board, that appropriate policies are implemented to identify and evaluate risks.
- access for all Group employees to a free of charge, independent whistle blowing hotline enabling them to report any concerns about theft, fraud or other malpractice in the workplace;
- an internal audit function which assists management and the Audit Committee in the fulfilment of the Board's responsibility for ensuring that the Group's financial and accounting systems provide accurate and up-to-date information about its current financial position whilst also permitting the accurate preparation of financial statements;
- an organisational structure which supports clear lines of communication and tiered levels of authority;
- a schedule of matters reserved for the Board's approval to ensure it maintains control over appropriate strategic, financial, organisational and compliance issues;
- the preparation of detailed annual financial plans covering profit and cash flow, which are approved by the Board;
- the review of detailed regular reports comparing actual performance with plans and of updated financial forecasts;
- procedures for the appraisal, approval and control of capital investment proposals;
- procedures for the appraisal, approval and control of acquisitions and disposals; and
- monitoring procedures which include a system of key financial controls self-assessment questionnaires.

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 an ethics policy to ensure that all Group employees conduct business on behalf of the Group on the same basis and in accordance with approved policies and procedures. This has been approved by the Board and has been fully rolled out across the Group. Separate Group policies also address anti-corruption and gifts and hospitality.

### Control over financial reporting

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

### Executive Risk Management and Monitoring Committee

The principal role of the ERMMC is to evaluate and manage the risks to the Group.

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

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

The ERMMC meets quarterly and reports to the Audit Committee after each meeting (at least twice each year). During the year ended 31 March 2015, the ERMMC met four times. Details of the attendance by the Executive Directors can be found at page 59.

The Executive Risk Management and Monitoring Committee considers the principal risks to the Group and the appropriate actions to be taken to minimise such risks. It is also provided with information in the form of reports on health and safety, treasury, insurance and material litigation. The Chairman of the Executive Risk Management and Monitoring Committee reports to the Audit Committee.

### Communications with shareholders

Communications with shareholders are given high priority and are made in a number of ways. The Board is accountable to shareholders and therefore it is important for the Board to appreciate the requirements of shareholders and equally that shareholders understand how the actions of the Board and short term financial performance relate to the achievement of longer term goals. The Non-Executive Directors make themselves available to meet shareholders on request, attend shareholder visits at Company sites and are available for discussions with analysts and the Company's broker.

The reporting calendar is driven by the publication of interim and final results each year, in which the Board reports to shareholders on its management of the Company. Formal regulatory news service announcements are also made in accordance with the Company's reporting obligations. Comments on Group financial performance in the context of the business risks faced and objectives and plans for the future are set out in the Strategic Report on pages 10 to 49.

The Company continues to keep shareholders informed of its strategy and progress at other times during the year, presentations being 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). The Board receives feedback from the Company's brokers throughout the year. In addition, the Chairman, Chief Executive and Finance Director meet with major shareholders to discuss governance and Group strategy and update the Board as a whole accordingly at each meeting. The Board also receives reports prior to each Board meeting which set out the main changes to the composition of the Company's share register.

The Senior Independent Non-Executive Director does not generally attend meetings with shareholders although he makes himself available to attend such meetings if and when required. Whilst the Company is not in compliance with paragraph E1.1 of the 2012 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.

### Annual General Meeting

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 two Non-Executive Directors who respectively chair the Audit and Remuneration Committees, together with the Executive Directors, will be available to answer questions. The Chairman of the Board is also chairman of the Nomination Committee and the Chief Executive chairs the Executive Risk Management and Monitoring Committee.

Notice of the 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.

**The Annual General Meeting will be held at 11.00 am on Tuesday 21 July 2015 at Renold House, Styal Road, Wythenshawe, Manchester, M22 5WL.**

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

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

# Audit Committee Report



*"We continue to ensure that the major change projects being delivered in the business are appropriately controlled and monitored. The key goal is to support the Group in identifying and capturing the benefits of those projects and maintaining financial control during a period of significant change."*

**John Allkins**

Audit Committee Chairman

## Audit Committee members and meetings attended

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

In addition to monitoring effective project control and benefits delivery from major change initiatives, we also support the efforts of the Executive team to continuously improve the financial control and risk monitoring environment. Our approach is to ensure that embedded and responsive financial controls operate in the vanguard of our activities rather than run the risk of a loss of control by operating in the rearguard.

## Key objective

In support of the Board's duty of stewardship, the Committee aims to ensure appropriate corporate governance is applied to the Group's systems of internal control, risk management, internal audit and other compliance matters such as UK anti-bribery legislation. We monitor the integrity of financial information published externally for use by shareholders. We also ensure that the integrity of the financial statements is supported by an effective external audit.

## Governance

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

## Responsibilities

- Reviewing the Group's financial results, announcements and financial statements;
- Reporting to the Board on the appropriateness of existing accounting policies and their application across the Group;
- As a matter of course, confirming that the Going Concern basis remains appropriate for the financial statements;
- Advising the Board on the application of any new or modified accounting and reporting standards;
- Advising the Board on the adequacy of the processes required to confirm that the Annual Report and Accounts, when taken as a whole, are fair, balanced and understandable and include the information necessary to allow shareholders to assess the Group's performance, business model and strategy;
- Overseeing the Internal Audit function. This includes reviewing the annual internal audit plan, identifying specific areas of focus for new or emerging business risks and receiving internal audit reports;
- Oversight of the relationship with the external auditor, including the appointment and, where appropriate, re-appointment of the external auditor;
- Assessing and making recommendations to the Board on the activities and performance of the Group's Executive Risk Management and Monitoring Committee ('ERMMC') including reviewing the Integrated Risk Management System ('IRMS');

- Reviewing and reporting to the Board on the Group's internal control and compliance processes;
- Reviewing the procedures for responding to whistle blowing, fraud or potential breaches of anti-bribery legislation. This includes oversight of any and all reports summarising the concerns raised, how they were investigated and the response to the same;
- Reporting to the Board at regular intervals on how the Committee is discharging its responsibilities.

### Composition

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

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

Biographical details and experience of members are set out on pages 54 and 55.

### Expertise

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

### Committee meetings

The Committee meets at least four times each year. During the year ended 31 March 2015 the Committee met four times. The meetings are attended by the independent Non-Executive Directors (the members), the Company Secretary and, by invitation, the Chairman, the Chief Executive, the Group Finance Director and the Group Head of Risk and Assurance. Full details of Director attendance during the year are set out in the table of all Committee meetings on page 59.

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

### Main activities of the Committee during the year

#### *Significant issues considered in relation to the financial statements*

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

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

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

Summarised below are some of the significant issues the Committee considered during the year in relation to the financial statements. These are separated into items of particular focus this year and recurring items that the Committee regularly addresses.

#### *Reporting of exceptional items (current year focus item: See Note 2(c) to the financial statements on page 116)*

Following two years of significant exceptional restructuring charges and asset impairments, the Committee continued its focus on this area to ensure that the lower charges in the current year genuinely need to be excluded to allow a user of the accounts to form an accurate assessment of the performance of the underlying business. The Committee concluded that the charges were sufficiently material and unrelated to underlying business activities to require separate disclosure as exceptional charges. In two cases, the charges for the revaluation of the Bredbury onerous lease provision (£0.5m) and the further write down of surplus Bredbury assets (£0.2m), were directly related to the significant restructuring project which started in the prior year and concluded in the first quarter of the current year. The direct relation to that project was a firm basis for classifying both of these items as exceptional charges. In the third case, the impairment charge of £1.2m against a surplus French property was sufficiently material and potentially distorting of the underlying operating results to also require disclosure as an exceptional item.

Other restructuring and redundancy costs include an impairment of software licences (£0.2m) following the decision to change the Group's global ERP system and costs associated with the agreed re-location of our head office and ongoing restructuring of senior management teams (£0.8m).

# Audit Committee Report

## continued

### Defined benefit pension accounting

*(recurring annual item: See Note 18 to the financial statements on pages 126 to 130)*

Defined benefit pension scheme accounting is a complex matter. The values disclosed can fluctuate, particularly in a period of significant changes in gilt yields and interest rates. The values disclosed are also sensitive to a range of assumptions where judgement is required. The Committee therefore devoted a significant amount of time to assessing the basis of the actuarial assumptions used to derive the values shown in the financial statements.

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

The Committee has also encouraged additional disclosure of forward looking financial information in respect of defined benefit pension schemes. Typically graphical in nature, this is designed to give greater clarity of the risks, issues and opportunities in what is a complex area of accounting: see pages 38 to 39 of the Finance Director's Review.

The Committee continues to conclude that the financing charges and administration costs of the closed defined benefit pension schemes should, for the purposes of assessing underlying performance as reported in adjusted operating profit and adjusted EPS, be excluded from these calculations. The costs involved relate to closed legacy pension schemes that have no bearing or relevance to understanding the underlying performance of the ongoing business: see Note 18 to the financial statements on pages 126 to 130.

### Review of carrying value of intangible assets, deferred tax assets and investments in subsidiary undertakings

*(recurring annual item: see Note 7 to the financial statements on pages 119 and 120 and Note 17 on pages 125 and 126)*

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

These are areas where management estimates play a key role in supporting the carrying values reported in the balance sheet. The Committee reviews the assumptions underlying the discounted cash flow calculations and the likelihood of long term recovery of the asset values. The details of the impairment reviews and the sensitivities performed are in Note 7 on pages 119 and 120. Short term cash flows are confirmed by reference to the Board approved budget for the following year and sense checked against the longer term plan and this is also a key area of focus for the external auditor.

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

During the year end review of the carrying value of deferred tax assets in respect of pension liabilities in Germany, it was identified that the asset recognised in the prior year was overstated. The Committee has reviewed the circumstances that led to the over statement as well as management actions to improve the controls and processes to ensure that a similar issue does not recur. The Committee has also critically reviewed the disclosures and accounting treatment of the prior year adjustment and restatement contained in this Annual Report, in the Finance Director's Review on pages 34 to 39 and in the Accounting Policies to the accounts on page 107.

### Review of inventory valuation and provisioning

*(recurring annual item: see Note 11 to the financial statements on page 122)*

As a manufacturer, the Group adds value to raw materials as part of its normal production processes. In order to provide shorter lead times and better customer service the Group also holds a significant amount of stock. Inventory therefore represents a material component of the Group's balance sheet. The basis of valuation always includes the allocation of amounts for labour and overhead costs which require the exercise of management judgement.

The Committee therefore reviews in some detail both the valuation bases and the application of the Group's policy on providing for slow moving and obsolete stock. The Committee is satisfied that the net book value shown in Note 11 on page 122 is appropriate and that any management judgements formed in arriving at those values are reasonable.

Other matters reviewed by the Committee:

- corporate risk reporting processes and action plans;
- the annual process for control self-assurance and reporting;
- reviewing medium term financial planning assumptions;
- the ongoing programme to improve the efficiency of financial control processes in the business; and
- commissioning an independent review of the Group's processes for complying with UK anti-bribery legislation and following up the best practice action plan.

### Internal control, risk and compliance

We evaluate regularly the integrity of financial reporting and the robustness of internal controls to ensure compliance with applicable legal and internal requirements. We also review the Group's policies and procedures for identifying material business risks and action plans aimed at reducing the likelihood of risks crystallising and mitigating the impact if they do.

During the year, detailed risk management processes and reviews were pushed deeper into the organisation with a focus on operational risks in manufacturing facilities in particular.

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

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

Further details of our internal control and risk management systems, including the financial reporting process, can be found on pages 59 to 61 in the Corporate Governance report. Our primary risk factors are shown in the Strategic Report on pages 46 to 49.

### Confidential reporting procedures and whistle blowing

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

The Committee was satisfied that all whistle blowing reports received during the year were properly investigated. In all cases, no material issues were identified at a Group or subsidiary level and were, in the main, related to local employee relations matters. The Committee considers the number and nature of reports received in the year to be small in number and risk in comparison to businesses of a similar size and geographical distribution.

### Internal audit

The Committee receives and considers reports on the control environment from the Group Head of Risk and Assurance. These reports highlight key improvement themes and recommend areas for business focus, with additional observations provided around root cause analysis and cultural and behavioural themes. In addition, the Committee has visibility of management responses and action tracking via the Group's IRMS. The audit plan, which contains mandatory, risk-based and cyclical reviews, was approved by the Committee in February 2014, and was built around focus areas such as organisational change, major projects, security, business resilience and capital spend.

The annual Internal Audit plan is built on a risk-based approach for the majority of work, but also includes an element to ensure coverage of key operations and processes over a defined period. The inherent risk of each process is assessed and in turn is used to inform audit frequency, with elements of higher risk processes being audited on a more frequent basis. The Committee supports this approach and comments on particular areas of focus or concern that we wish to see addressed. In the new financial year, the plan will include site financial control audits, site Health and Safety audits and project assurance associated with the M3 ERP implementation.

### External audit

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

Details of total remuneration for the auditors for the year, including audit services, audit related services and other non-audit services, can be found in Note 2(b) of the consolidated financial statements on page 115.

# Audit Committee Report

## continued

### Auditor independence and objectivity

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

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

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

To safeguard the independence and objectivity of the auditor, the Committee has approved a policy on non-audit services provided by the auditor in line with professional practice and in accordance with ethical standards published by the Audit Practices Board. Control of non-audit services is exercised by ensuring that all non-audit services where fees exceed an agreed limit are subject to the prior approval of the Committee. The policy is available on the website at [www.renold.com](http://www.renold.com).

During the year ended 31 March 2015, the Committee continued with the appointment of other accountancy firms to provide non-audit services to the Group and anticipates that this will continue during the year ending 31 March 2016.

Total non-audit services provided by EY during the year ended 31 March 2015 were £0.2m (2014: £0.2m) which comprised 25% (2014: 46%) of total audit and audit related fees. Total audit and audit related fees include the statutory audit fee and fees paid to EY for other services which the external auditor is required to perform. Examples include reporting to banking partners in territories where no statutory accounts are required to be prepared. Non-audit fees represent all other services provided by EY not included in the above. Significant non-audit services provided by EY in the year included tax advisory and compliance services (£0.1m) that were provided in territories where it would be prohibitive for the Group to employ its own full time tax manager.

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

The Committee also discussed the overall level of fees and considered them appropriate given the current size of the Group. The Committee is satisfied that the level and scope of non-audit services undertaken by the external auditor does not impair its independence or objectivity and considers that the Company receives particular benefit from the advice provided by its external auditor, given its wide and detailed knowledge of the Group and its international operations.

The Committee is also mindful of impending changes in regulations relating to the provision of non-audit services by the external audit firm. New European regulations due to take effect in 2016 will restrict the level of non-audit fees that can be charged by a company's external auditor and will forbid the provision of certain specific services, a number of which are tax services currently provided by the external audit firm. The Committee has decided to early adopt some of the proposed restrictions on non-audit services and, specifically, will make all tax services non-permitted services with effect from the next tender of the external audit.

The objective is to achieve a smooth transition to the proposed new limits on non-audit services provided by the external auditor and thereby avoid a disruptive major step change.

### Audit focus

To ensure appropriate focus on key risk areas identified by the Committee, the proposed external audit plan is challenged before the audit commences to ensure that EY have developed appropriately targeted audit procedures. These are closely aligned with the current year focus items noted above in the section Main activities of the Committee during the year. They also reflect the relative changes in profitability and materiality of each of the Group's operating units during the year (in some cases as a result of the ongoing restructuring activities).

### Assessment of effectiveness of external audit

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

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

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

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

Following this year's annual review, the Committee was satisfied with the effectiveness, independence and objectivity of the external auditor. As noted below, the Committee has made a recommendation to the Board to re-tender the contract for audit services. The Committee believes that the tender would add value at this time. There are no contractual obligations restricting the choice of external auditor, nor entered into any auditor liability agreements.

### Audit tender

EY were first appointed as the Company's external auditor in 2006 for the year end audit in 2006/07 following a tender process where assessment criteria included quality of service, qualifications, expertise, independence, effectiveness and scale of international network to service the Company.

The Governance Code requires FTSE 350 companies to put the contract for audit services out to tender at least once every ten years which, in the case of Renold, would be for the year ended 31 March 2017. While the Company is not covered by this requirement, as part of the Company's internal governance the Board is generally minded to match the requirements for FTSE 350 companies, even when not strictly required.

The Committee has reviewed the timeframe for an audit tender that would comply with the Governance Code. The Committee has decided that the best interests of the Group would be better served by accelerating the tender process for the external audit by one year. A process is therefore underway to appoint the external auditor for the year ended March 2016. The tender process will include the assessment criteria of quality of service, qualifications, expertise, independence, effectiveness and scale of international network to support the Group. A resolution to appoint the external auditor will be included in the Ordinary Business of the Annual General Meeting scheduled for 21 July 2015.

In the interests of efficiency and minimising disruption, and being conscious of the impending changes in non-audit service regulations noted above, the Committee has also decided to run a parallel selection process to appoint the Group's global tax advisers at the same time as the external auditor. The firms participating in the two tenders are aware that the Group will appoint a separate auditor and tax advisers.

### Audit information

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

### Fair, Balanced and Understandable: the role of the Disclosure Committee

As part of the process of ensuring that all disclosures made by the Company are timely, accurate and importantly meet the 'Fair, Balanced and Understandable' requirements arising under the FCA's Listing and Disclosure and Transparency Rules, the Group maintains a Disclosure Committee whose membership includes the Chairman of the Audit Committee (as Chair), Group Finance Director, Group Chief Accountant and the Company Secretary.

The following activities were carried out by the Disclosure Committee:

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

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

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

### John Allkins

On behalf of the Audit Committee  
26 May 2015

# Nomination Committee Report



*“The Nomination Committee acknowledges a key requirement of the UK Corporate Governance Code placing responsibility on the Board for succession planning. As a result, the Nomination Committee will ensure a full review of the Company’s succession plans is begun during the forthcoming financial year.”*

**Mark Harper**  
Committee Chairman

## Nomination Committee members and meetings attended

Names	Position	Meetings attended
Mark Harper	Chairman	3 of 3
John Allkin	Non-Executive Director	3 of 3
Ian Griffiths	Non-Executive Director	3 of 3

## Role of the Nomination Committee

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

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

## Composition of the Nomination Committee

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

## Policy on appointments to the Board

In accordance with the provisions of the 2012 Code, when reviewing the Board’s structure, the Committee’s primary objective is to ensure that the Executive and Non-Executive Directors have the relevant skills, knowledge and experience to create a balanced and effective Board and to support the Group in delivering its overall strategic objectives. This is in parallel with ensuring that the costs and composition of the Board reflect the size of business and also the current stage of development of the business. Our policy extends to ensuring that the various sub-committees of the Board also have an appropriate range of skills and experience to deliver their terms of reference.

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

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

The Board is already aware of the need to consider the benefits of diversity on the Board in all its aspects. The Board recognises that gender is one important aspect of diversity and while all current members of the Board are male, the Company Secretary, who is also the Group's most senior legal professional, is female. An analysis of the gender of all employees is set out in the Strategic Report on page 44. Other than in relation to gender, the current Board is diverse in terms of the different skill sets of each member. These include professional qualifications and career work experience but also wider experience relevant to our global business, most of the Board members having worked and lived overseas for significant periods for example. For further information, see the charts set out on page 54.

Both the Board and the Committee continue to be mindful of the issue of diversity, a formal Board diversity policy having been discussed and adopted last year. In any future changes to its composition, the Board will continue to be mindful of the issues of diversity, including gender, and these factors will be taken into account alongside the over-riding objective of appointing the best possible candidate for the role.

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

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

The process for making appointments to the Board commences with the evaluation described earlier in this report. The Committee will then seek to identify suitable candidates usually with the use of external recruitment consultants or, where appropriate, the use of open advertising. The Board supports the engagement of executive search firms who have signed up to the Voluntary Code of Conduct on gender diversity and best practice. Recruitment consultancy services have been provided by Korn Ferry Whitehead Mann and Odgers Berndtson, who themselves are signatories to the Voluntary Code of Conduct. None of these firms has any other connection to the Company.

### Activities during the year

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

#### *Effectiveness review*

The Nomination Committee carried out its annual evaluation during the year.

#### *Succession planning*

As a result of the Committee's Effectiveness review and the Board's evaluation process, a key discussion point arising was that of succession planning for the Board. A review of succession planning for the Board will commence during the forthcoming financial year and will form part of a Company wide review of succession planning. An update will be provided to shareholders accordingly in the next Annual Report and Accounts.

### Board composition

As stated in its report for the year ended 31 March 2014, the Committee continues to review the composition of the Board. Conscious of the fact that the Company is continuing in the Turnaround Phase of the Group's Strategic Plan and entering Phase 2, the Committee notes that reductions in staffing levels and pay restraint throughout the Group continue. The current capability and cost of the Board has therefore been appropriate in the Committee's view during the current reporting period. In the view of the Committee, the Group and Board have continued to benefit from the stability and continuity of membership of the current Board. However, this issue will continue to be monitored and discussed.

#### **Mark Harper**

On behalf of the Nomination Committee  
26 May 2015

# Directors' Remuneration Report

## Annual Statement



*"Further to the changes in remuneration reporting last year, the Directors' Remuneration Policy was approved by shareholders at the AGM which took place on 22 July 2014 and took effect on that date. A key aim of the policy is to ensure a close alignment of executive pay to the Company's strategic objectives and performance."*

**Ian Griffiths**

Chairman of the Remuneration Committee

As Chairman of the Remuneration Committee I present the Directors' Remuneration Report for the year ended 31 March 2015. This year's remuneration report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This amended Schedule 8 was introduced by the Department for Business, Innovation and Skills, for financial years ending on or after 30 September 2013 in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('the Regulations').

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

- Directors' Remuneration Policy (pages 73 to 80) which sets out the Company's policy on Directors' remuneration for three years from the 2014 AGM. The Directors' Remuneration Policy is subject to a binding shareholder vote and was approved by shareholders at the AGM on 22 July 2014. It is expected that the Company will next propose a resolution to approve the Directors' remuneration policy at the 2017 AGM, or earlier should any revisions to the policy be proposed. There are no proposals to amend the policy at this time.
- Annual Report on Remuneration (pages 81 to 87) which shows the implementation of the Directors' Remuneration Policy in 2014 and how it is proposed to be applied in 2015. The Annual Report on Remuneration together with this letter is subject to an advisory shareholder vote at the 2015 AGM.

### Key responsibilities of the Committee

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

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

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

### Key decisions and changes in remuneration policy

The Committee undertook an extensive review of the Directors' Remuneration Policy last year and decided to leave all fixed elements of salary and benefits unchanged for both of the Company's Executive Directors. This aligns directly to the key strategic goal of lowering the Group's breakeven point. It also reflects the pay restraint that is in force in all Renold locations. The next review by the Committee of the Executive Directors' salaries will be in July 2015. The Directors' Remuneration Policy received support from shareholders both through an informal consultation with major shareholders and approval being given by 98% of those voting at the 2014 AGM. Outside of fixed elements of salary, the key elements of remuneration policy comprise:

- Annual bonus: The maximum achievable annual bonus remains unchanged. The targets reflect the continuing need to improve operating margins and reduce average levels of net debt, structured as a matrix to ensure that one goal cannot be pursued at the expense of the other. The Committee assessed performance against EBITDA and Net Debt targets set at the beginning of the year. The adjusted EBITDA for the year ended 31 March 2015 of £20.8m was a 26% increase on the prior year and the Average Net Debt during the year was £25.9m, lower than in the year ended 31 March 2014. As such, annual bonus payments to Executive Directors equal to 67% of salary were determined. The Committee believes this result represents the strong underlying performance of the Company during the year ended 31 March 2015.
- The 2013 Performance Share Plan (PSP) (approved by shareholders at the 2013 AGM): The PSP was introduced to increase the alignment of Directors' remuneration with shareholder value, to motivate the achievement of strong growth in the long term and to increase the proportion of variable pay. PSP Awards have a three year performance period and the awards granted during this year have required 30% growth per year in adjusted EPS for maximum vesting. As a result, it is both challenging and firmly aligned to shareholders' interests. Growth of 56% in adjusted EPS has been achieved during the year ended 31 March 2015. Provisions to enable PSP awards to be clawed back prior to vesting have been introduced to the 2013 PSP as well as a shareholding requirement for Executive Directors. In addition, a provision has been added so that part or all of an annual bonus may be forfeited or sought to be clawed back in certain circumstances.
- 2004 Options Plans: Option awards granted to Brian Tenner in 2011 vested during June 2014 as the share price condition attached to these awards was met in full.

Finally, there have been no changes to the Non-Executive Directors' annual fees in the year.

### Committee membership

This section describes the membership of the Committee and principal activities during the year. It forms part of the Annual Report on Remuneration section of the Directors' Remuneration Report. All members of the Committee are independent. Members of the Committee during the year are set out below and further biographical details can be found on page 55:

- Ian Griffiths (Chairman)
- John Allkins

The Company Secretary attends all Committee meetings and is secretary to the Committee. The Executive Directors, the Chairman of the Board and the Group HR Director attend meetings by invitation. PwC, the external advisers to the Committee, also attend meetings by invitation. Further details in relation to PwC's engagement as adviser to the Committee can be found at page 87. No Director is involved in deciding his own remuneration, whether determined by the Committee, or in the case of the Non-Executive Directors, by the Board.

An evaluation of the Committee was undertaken during the year ended 31 March 2015 and I can report that this review concluded the Committee has operated effectively.

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

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

# Directors' Remuneration Report

## Annual Statement

continued

### Committee activities

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

Theme	Agenda items
Best practice	<ul style="list-style-type: none"> <li>– The Company's remuneration policy in light of the Regulations, and consideration of any AGM feedback</li> <li>– Review of the current UK corporate governance environment and the implications for the Company</li> </ul>
Directors' remuneration policy	– Noting the Directors' Remuneration Policy is in place for three years from the 2014 AGM
Annual report on remuneration	– Consideration and approval of the Annual report on remuneration to be put to shareholders
Executive Directors	<ul style="list-style-type: none"> <li>– Reviewing the base salaries payable to each of the Executive Directors</li> <li>– Reviewing performance under the annual bonus and consideration of any bonuses payable for the financial year ended 31 March 2015</li> <li>– Approving the annual bonus structure and performance targets for the financial year ending 31 March 2016</li> <li>– Approving the LTIP awards made under the Company's 2013 PSP during the year</li> </ul>
Committee performance	– Reviewing the Committee's performance
Performance of external advisers	– Reviewing the performance of PwC and retaining them as external remuneration consultants

In addition, it is noted that the Executive Directors and the Chairman reviewed the remuneration arrangements of the Non-Executive Directors.

The Company has complied with the 2012 Code in respect of the Directors' Remuneration Policy and the Directors' Remuneration Report, to the extent set out in the statement of Corporate Governance on page 52. The 2014 Code does not apply to the Company's reporting period ending 31 March 2015. However, the Board has, where appropriate, early adopted some of the new provisions in the 2014 Code and provides disclosure against these requirements in this Directors' Remuneration Report.

In particular, the Committee notes the new Main Principle in the 2014 Code: "Executive Directors' remuneration should be designed to promote the long-term success of the Company" and believes that the Director's Remuneration Policy inherently reflects this requirement.

As noted in the Directors' Remuneration Policy, all of the rules relating to the 2013 PSP and Executive Director annual bonus contain clawback and malus provisions.

Finally, the Committee considered the 2014 Code provision for share schemes requiring Directors to hold shares for a period after vesting or exercise including for a period after leaving the Company. There is a minimum vesting period of three years in respect of PSP awards and as set out in the Directors' Remuneration Policy on page 75, all LTIP awards vesting (net of income tax and National Insurance contributions) must be retained until a shareholding requirement is met. The Committee has considered a post-vesting holding period but has decided not to implement this.

The Committee reviewed the existing remuneration arrangements and is satisfied that the Company is otherwise compliant with the 2014 Code.

The Committee reviews shareholder voting on the remuneration report each year. We are focused on clear reporting of past remuneration and future policy and we welcome feedback from shareholders. I will be available at the AGM to answer any questions about the Committee and its work.

#### Ian Griffiths

Chairman of the Remuneration Committee  
26 May 2015

# Directors' Remuneration Report

## Directors' Remuneration Policy

### Introduction

This part of the Directors' Remuneration Report sets out the Company's policy for the remuneration of its Directors.

The Directors' Remuneration Policy was approved by shareholders at the AGM on 22 July 2014 and took effect from that date. The Committee has since reviewed the Directors' Remuneration Policy and concluded that it remained appropriate for the foreseeable future. There are no current proposals to revise the policy and it will not be put for shareholder approval at the AGM on 21 July 2015. It is expected that the Company will next propose a resolution to approve the Directors' Remuneration Policy at the 2017 AGM, or earlier should any revisions to the policy be proposed.

The Directors' Remuneration Policy is extracted in full from the 2014 Annual Report, without amendment except: (1) this Introduction; (2) minor amendments such as cross references and (3) updating the total remuneration opportunity chart on page 77 and the Non-Executive Directors' appointment details on page 79 which are time specific. It is in the form approved by shareholders at the AGM which took place on 22 July 2014.

### Remuneration principles for Executive Directors

Our Directors' Remuneration Policy has been designed to deliver two key aims:

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

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

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

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

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

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

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

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

### Shareholder views

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

### Discretion of the Committee

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

# Directors' Remuneration Report

## Directors' Remuneration Policy

continued

### Policy table

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

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

Remuneration element	Purpose and link to corporate strategy	Operation of the element	Maximum potential value and payment at threshold/review basis	Performance metrics
<b>Base salary</b>	To ensure competitive salaries to attract, retain and motivate those responsible for executing strategy while ensuring the Company pays no more than is necessary.	<p>Base salary is paid in 12 equal monthly instalments during the year.</p> <p>Reviewed annually, the policy is to provide third quartile salary for comparable jobs in manufacturing companies of a similar size, influenced by:</p> <ul style="list-style-type: none"> <li>→ Role, experience and performance;</li> <li>→ Changes in broader workforce salary; and</li> <li>→ Salaries payable in similar companies.</li> </ul>	<p>Reviewed annually and set on 1 August each year.</p> <p>Annual rate for each Executive Director is set out in the annual report on remuneration on page 81.</p> <p>Salary increases will normally be in line with increases for the wider employee population. Higher increases may be awarded in circumstances such as following recruitment into a role at a below-market rate or due to a change in role or responsibilities.</p> <p>For new recruits, the salary increases may be higher than the wider workforce until the individual is aligned with market levels.</p>	None.
<b>Benefits</b>	As base salary above, benefits are non-pensionable.	<p>The Company pays the cost of providing the benefits on a monthly basis or as required for one-off events.</p> <p>Benefits consist of a fully expensed company car (or cash equivalent) and private medical insurance in addition to a lump sum death-in-service benefit of five times base salary. Death-in-service benefit is also available to all other UK staff at five times base salary for those who opt to join the Company pension scheme and at two times for those opting out.</p> <p>In the case that an Executive Director is required to relocate, either on recruitment or during service as a Director, reasonable relocation expenses will be provided in line with market practice.</p> <p>The Committee may change the benefits offered in line with local market practice or the operational needs of the business.</p>	<p>Reviewed annually and set on 1 August each year in line with the Company's car policy to a maximum of £11,000 per annum cash allowance or equivalent lease value.</p> <p>The maximum opportunity for other benefits is defined by the nature of the benefit itself and the cost of providing it. As the cost of providing such insurance benefits varies according to premium rates and the cost of other benefits is dependent on market rates and other factors, there is no formal maximum monetary value.</p>	None.
<b>Pension</b>	As base salary above.	The Executive Directors are not members of the Company pension scheme and have their own pension arrangements. The Company's only pension liability is to make annual cash contributions to the personal pension arrangements of the Executive Directors.	Cash allowances equivalent to 15% of base salary.	None.

Remuneration element	Purpose and link to corporate strategy	Operation of the element	Maximum potential value and payment at threshold/review basis	Performance metrics
<b>Annual bonus</b>	To incentivise delivery of the corporate strategy and reward delivery of superior performance.	<p>Annual bonuses are paid shortly after the end of the financial year end to which they relate.</p> <p>Bonuses are normally payable in cash but the Committee has flexibility to introduce a deferral if it deems it appropriate.</p> <p>Bonus payments are based on Group financial targets. Maximum bonus payments are made only on the achievement of outstanding performance. Bonuses are not pensionable.</p> <p>Performance targets are set at the start of the financial year and the level of bonus paid is determined by the Committee after the year end based on performance against target.</p> <p>A claw back facility will apply from 1 April 2014 under which part or all of the cash bonus may be forfeited or clawed back if any of the circumstances outlined on page 73 arise.</p>	<p>For Executive Directors the maximum annual bonus payable is 100% of base salary.</p> <p>No bonuses will be payable unless a minimum level of financial performance has been achieved. 50% is payable at threshold performance.</p>	<p>The bonus may be based on a range of financial, non-financial and personal targets as set by the Committee from year to year. Financial targets will comprise at least half of the bonus.</p> <p>Details of the measures and weightings will be set out in the Annual Report on Remuneration following the end of each financial year.</p> <p>Notwithstanding the achievement of performance targets, any bonus payable will be determined by the Committee in accordance with the relevant plan rules, including the Committee's right to exercise its discretion fairly and reasonably in any circumstances which the Committee considers it appropriate to do so.</p> <p>The Committee has the discretion to vary the weighting of performance metrics over the life of this remuneration policy.</p>
<b>2013 PSP</b>	To incentivise delivery of long-term shareholder value.	<p>The 2013 PSP was approved by shareholders at the AGM on 23 July 2013. The key features are as follows:</p> <ul style="list-style-type: none"> <li>→ Conditional share awards or options may be granted under the PSP (the exercise price of options is set by the Committee and can be nil).</li> <li>→ The Committee will impose demanding performance conditions on the vesting of awards.</li> <li>→ Outstanding commitments to issue new shares under all share plans operated by the Company are subject to a maximum of 10% of the Company's issued share capital in any ten year period.</li> <li>→ The PSP includes the ability to grant options under an HM Revenue &amp; Customs approved schedule.</li> <li>→ A claw back facility is in operation with effect from 1 April 2014 under which part or the whole of the PSP award can be recovered prior to vesting if any of the circumstances outlined on page 73 arise, including if there is a restatement of the financial accounts or the individual is dismissed for cause.</li> </ul>	<p>A maximum grant is permitted of 100% of base salary each year (200% of base salary in exceptional circumstances such as recruitment).</p> <p>Vesting is dependent on performance conditions. On achievement of threshold performance 25% of the award vests for 30% CAGR in adjusted EPS.</p>	<p>Performance condition based on CAGR in adjusted EPS which must be met over a three year period.</p> <p>In exceptional circumstances, the Committee has discretion to change the performance measures, targets and weightings between measures during the performance period if there is a significant event which causes the Committee to believe that the original conditions are no longer appropriate. Any amendments would be such that the new conditions are not materially less difficult to satisfy than the original conditions.</p> <p>The Committee also has discretion to reduce the percentage that vests in cases where it believes the outcome of the performance conditions is not a fair reflection of the Company's performance.</p>
<b>Shareholding requirement</b>	To strengthen the alignment between the interests of Executive Directors and those of shareholders.	<p>Executive Directors must build up over five years.</p> <p>Unvested LTIP or deferred shares are not taken into account. Share price is measured at the end of each financial year.</p> <p>All LTIP or deferred share awards vesting (net of income tax and National Insurance contributions) must be retained until the shareholding requirement is met.</p>	Executive Directors – 100% of salary.	None.
<b>Provisions of previous policy that continue to apply – LTIP awards made prior to and in 2013 under the 2004 Option Plans.</b>	To align the interests of Executive Directors with those of shareholders.	<p>The outstanding awards under the 2004 Option Plans will continue to form part of the remuneration policy until vesting.</p> <p>Details in relation to the background, terms and use of the 2004 Option Plans are set out on page 79.</p>	A maximum of 200% of salary.	<p>Market value options exercisable on the third anniversary of the grant.</p> <p>The performance condition is based on a varying percentage of the shares under option becoming exercisable depending on the Company's share price on the date three years following the date of grant.</p>

# Directors' Remuneration Report

## Directors' Remuneration Policy

continued

### Notes to the Policy table

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

The performance targets are determined annually by the Committee.

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

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

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

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

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

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

### Differences in remuneration policy for all employees

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

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

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

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

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

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

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

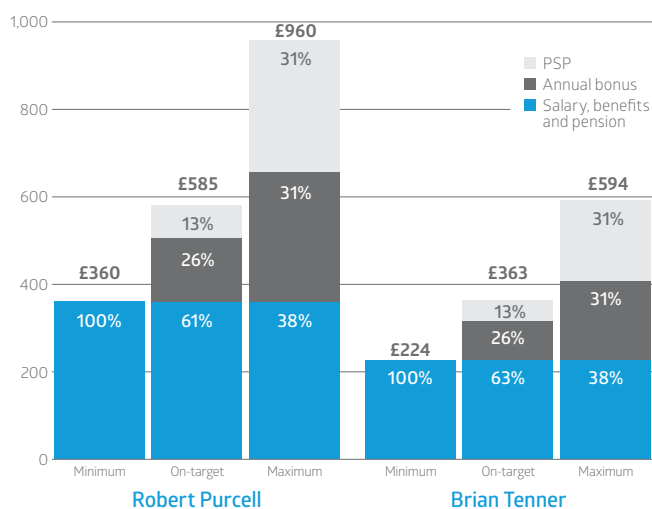
### Total remuneration opportunity

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

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

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

### Total remuneration £'000



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

### Service contracts, remuneration and exit payments

As a matter of policy, the length of service contracts and notice periods is determined by the Committee at the time of appointment in light of the then prevailing market practice. Details of the Executive Directors' terms of appointment and notice periods are as follows:

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

# Directors' Remuneration Report

## Directors' Remuneration Policy

continued

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

### Change of control

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

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

### Leavers

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

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

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

### Approach to recruitment remuneration

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

The remuneration package of any new Executive Director would therefore include the elements and maximum award size set out on pages 74 and 75 in accordance with the Company's remuneration policy and subject to the same discretions.

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

Where it is necessary to 'buy out' an individual's awards from a previous employer, the Committee will seek to match the expected value of the awards that vest over a timeframe similar to those given up, with a commensurate reduction in quantum where the new awards will be subject to performance conditions that are not as stretching as those on the awards given up. This would be an additional element of remuneration to the normal maxima as set out in the Policy table on pages 74 and 75.

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

### External non-executive directorships

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

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

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

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

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

Granted 8 June 2011 <sup>1</sup> – performance test 8 June 2014	
Share price (p)	% of shares under option that become exercisable <sup>2</sup>
45	25
55	50
60	75
65	100

Granted 21 January 2013 <sup>3</sup> – performance test 21 January 2016	
Share price (p)	% of shares under option that become exercisable <sup>2</sup>
30	0
35	50
40	100

<sup>1</sup> The closing share price on the date of grant (8 June 2011) was 37.13 pence.

<sup>2</sup> With the corresponding number of shares being rounded down to the nearest whole number.

<sup>3</sup> The closing share price on the date of grant (21 January 2013) was 25.5 pence.

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

The key features of the 2013 PSP are set out in the table on page 75. The performance conditions attaching to options granted under the 2013 PSP in the year ended 31 March 2014, measured as the equivalent CAGR in adjusted EPS over a three year period, are as follows:

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

### Non-Executive Directors

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

Name	Date of appointment	Unexpired term (months)	Date of election/last re-election	Contractual fees
Mark Harper	1 May 2012 <sup>1</sup>	1	22 July 2014	£110,000
John Allkins	17 April 2008 <sup>2</sup>	23	22 July 2014	£43,000 <sup>3</sup>
Ian Griffiths	13 January 2010 <sup>4</sup>	9	22 July 2014	£38,000

<sup>1</sup> Mark Harper's appointment was renewed with effect from 1 May 2015 and for a period of three years in line with best practice guidelines.

<sup>2</sup> John Allkins' appointment was renewed with effect from 17 April 2014 and for a period of three years in line with best practice guidelines.

<sup>3</sup> John Allkins' fee includes an additional £2,500 payable with effect from 21 January 2013 as a result of his appointment as the Senior Independent Non-Executive Director.

<sup>4</sup> Ian Griffiths' appointment was renewed on 14 January 2013 for a period of three years in line with best practice guidelines.

# Directors' Remuneration Report

## Directors' Remuneration Policy

continued

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

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

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

# Directors' Remuneration Report

## Annual Report on Remuneration



*"The Group delivered a second consecutive significant increase in adjusted operating profit and earnings per share, two of the key performance metrics used to assess the performance of the business and Executive Directors. The further development of a series of detailed five year action plans in each operating unit to deliver our longer term strategic objectives was also a key milestone. In parallel, implementing the new five year financing agreement and further progress in de-risking our pensions liabilities supports and aligns the business to longer term value generation. The Committee had regard to all of these factors when aspects of the Executive Directors' remuneration was assessed."*

**Ian Griffiths**

Chairman of the Remuneration Committee

### Introduction

This section of the Directors' Remuneration Report sets out the remuneration paid to Directors for the financial year ending 31 March 2015. This part, together with the description of the composition of the Committee, which is set out on page 71 of the report, constitutes the Annual report on remuneration. The Annual report on remuneration will be subject to an advisory shareholder vote at the AGM on 21 July 2015.

### Directors' remuneration

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

The total remuneration for the period and for the year ending 31 March 2014, in order to permit comparison, for each Director is set out in the table below:

Executive Directors		Salary (£'000)	Benefits (£'000)	Bonus (£'000) <sup>1</sup>	LTIP (£'000) <sup>2</sup>	Pensions (£'000)	Total (£'000)
Robert Purcell	2015	300	15	201	–	45	561
	2014	300	14	300	–	45	659
Brian Tenner	2015	185	11	124	137 <sup>3</sup>	28	485
	2014	185	11	185	36	28	445

Non-Executive Directors' fees		2015 £'000	2014 £'000	Change £'000
Mark Harper		110	110	–
John Allkins		43	43	–
Ian Griffiths		38	38	–

<sup>1</sup> Further details in relation to the annual bonus paid to Executive Directors are on page 82 within the Directors' Remuneration Report.

<sup>2</sup> Further details of awards to the Executive Directors under the 2004 Option Plans and 2013 PSP are on pages 82 to 84. The LTIP uses the closing share price on the day of vesting less the option exercise price to calculate the value of the award.

<sup>3</sup> Of the 495,978 options awarded to Brian Tenner on 8 June 2011 with an exercise price of 37.30p, 495,978 (equivalent to 100% of the maximum award) vested on 8 June 2014 as the mid-market price of the Company's shares on the five preceding trading days was 65.2p. The closing mid share price on 6 June 2014, which was the last trading day prior to vesting on 8 June 2014, was 65.0p.

# Directors' Remuneration Report

## Annual Report on Remuneration

continued

### (1) Fixed elements of pay

#### (i) Base salary

Consistent with the key strategic goal of lowering the Group's breakeven point and the pay restraint that continued across the Group, there were no pay rises for Executive Directors during the period. Robert Purcell's annual salary therefore remained at £300,000 and Brian Tenner's annual salary at £185,000. These figures are outlined in the Total remuneration table on page 81.

The proportion of the Group's basic salary bill attributable to the Executive Directors' base salaries for the year ended 31 March 2015 was 0.91% (2014: 0.87%).

#### (ii) Pension

The Executive Directors' only pension entitlements are Company contributions equivalent to 15% of base salary. The Committee agreed that Brian Tenner's pension would be payable as a cash equivalent with effect from 1 April 2014 as the value of his retirement benefits were expected to exceed the lifetime allowance. During the year ended 31 March 2015, cash payments of £45,000 (2014: £45,000) and £27,750 (2014: pension contribution of £27,750) were made by the Company to Robert Purcell and Brian Tenner respectively. These figures are shown in the Total remuneration table on page 81.

#### (iii) Benefits

The Executive Directors received the following benefits during the period. Robert Purcell received a non-cash benefit of £15,000 for his company car and private healthcare. Brian Tenner received a cash benefit of £10,000 for his company car allowance and £1,000 non-cash benefit for private healthcare. These figures are outlined in the Total remuneration table on page 81.

Non-Executive Directors do not receive any benefits.

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

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

The annual bonus, which is payable in cash, provides the Executive Directors with the opportunity to receive an annual bonus based on achievement of certain performance targets. For the year ended 31 March 2015 the annual bonus scheme for Executive Directors was structured as follows:

	Maximum (% salary)	Adjusted EBITDA Weight	Achieved	Average Net Debt Weight	Achieved	Paid in cash (£'000)	Total paid as % maximum
Robert Purcell	100%	70%	60%	30%	66%	201	67
Brian Tenner	100%	70%	60%	30%	66%	124	67

The two metrics shown were structured as a matrix such that failure to deliver a minimum result in either metric would have led to no bonus being achievable in the other. Similarly, in order to achieve the maximum award, superior performance would be required against both metrics. There was no allowance for personal objectives during the year (this was the same for the year ended 31 March 2014).

The following table sets out an indication of the actual performance against the targets for the year ended 31 March 2015. The performance targets for the annual bonus are based on internal targets and considered commercially sensitive. Consequently these will not be disclosed.

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

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

Awards made under the 2004 Option Plans in 2011 had a three year performance period ending on 8 June 2014 with share price targets as shown in the table below:

Of the 495,978 options awarded to Brian Tenner on 8 June 2011 with an exercise price of 37.30p, 495,978 (equivalent to 100% of the maximum award) vested on 8 June 2014 as the mid-market price of the Company's shares on the five preceding trading days was 65.2p.

Granted 8 June 2011 – tested on 8 June 2014	
Share price (p)	% of shares under option that become exercisable <sup>1</sup>
45	25
55	50
60	75
65	100

<sup>1</sup> With the corresponding number of shares being rounded down to the nearest whole number.

(iii) 2013 PSP awards performance testing during the year

The year ended 31 March 2015 was the second year in which awards were made under the 2013 PSP and none were due for testing in the same year.

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

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

(i) 2013 PSP (granted in year)

Awards equal to 100% of salary were made.

	Type of award	Face value	Number of shares <sup>2</sup>	Date of award
Robert Purcell	Nil price Option	£300,000	460,358	5 June 2014
Brian Tenner	Nil price Option	£185,000	283,887	5 June 2014

<sup>2</sup> The number of shares is based on the average mid-market share price for the three business days preceding the date of grant (65.17 pence).

The performance conditions attaching to options granted under the 2013 PSP in the year ended 31 March 2015, measured as the equivalent compound annual growth rate in adjusted EPS over a three year period from a base EPS for the year ended 31 March 2014, are as follows. On achievement of threshold performance 25% of the award vests. Straight line vesting occurs between threshold and maximum performance.

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

*(4) Payments to past Directors*

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

*(5) Payments made for loss of office*

No payments were made to a Director during the year in respect of loss of office.

**Directors' shareholding and share interests (audited information)**

*(1) Vesting history of the 2004 Options Plan and PSP*

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

	Award 2007/08 Vesting 2010/11	Award 2008/09 Vesting 2011/12	Award 2009/10 Vesting 2012/13	Award 2010/11 Vesting 2013/14	Award 2011/12 Vesting 2014/15
Vesting %	Nil	Nil	Nil	47.9%	100%

The vested awards relate to options awarded to Brian Tenner in 2010/11 and 2011/12: further details are set out on page 82 and above.

# Directors' Remuneration Report

## Annual Report on Remuneration

continued

### (2) Directors' interests

The beneficial interest of each of the Directors and their connected persons in the ordinary shares of the Company is detailed below and these amounts were unchanged between the year ended 31 March 2015 and the date of this report.

#### Executive Directors

Executive Directors are required to build up a shareholding equal to 100% of salary over a five year period. Unvested shares and unexercised options are not counted within the shareholding requirement. The table below sets out the extent to which this requirement was met as at 31 March 2015.

	31 March 2014	Shareholding requirement (% of salary)	Shareholding at 31 March 2015 (% of salary)	31 March 2015
Robert Purcell	3,748,526	100%	675%	3,748,526
Brian Tenner	408,396	100%	119%	408,396

#### Non-Executive Directors

The shareholdings of the Non-Executive Directors are:

	31 March 2015
Mark Harper	469,189
John Allkins	75,000
Ian Griffiths	10,000

The shareholdings of the Executive Directors and Non-Executive Directors are unchanged between 31 March 2015 and the date of this report.

### (3) Directors' share options

Awards over shares in which the Executive Directors retain an interest are detailed in the table below and were unchanged between the year ended 31 March 2015 and the date of this report.

	Number of share options				Options vested at 31 March 2015	Option price (p)	Date from which exercisable	Expiry date
	Options held at 1 April 2014	Granted in year	Lapsed in year	Options held at 31 March 2015				
Robert Purcell								
2004 Options Plan	1,145,038	–	–	1,145,038	–	26.20	21.01.2016	20.01.2023
<b>Total 2004 Options Plan</b>	<b>1,145,038</b>	<b>–</b>	<b>–</b>	<b>1,145,038</b>	<b>–</b>			
2013 PSP	1,065,089	–	–	1,065,089	–	Nil	25.07.2016	25.07.2023
	–	460,358	–	460,358	–	Nil	05.06.2017	31.03.2024
<b>Total 2013 PSP</b>	<b>1,065,089</b>	<b>460,358</b>	<b>–</b>	<b>1,525,447</b>	<b>–</b>			
<b>Total</b>	<b>2,210,127</b>	<b>460,358</b>	<b>–</b>	<b>2,670,485</b>	<b>–</b>			

	Number of share options				Options vested at 31 March 2015	Option price (p)	Date from which exercisable	Expiry date
	Options held at 1 April 2014 (restated) <sup>1</sup>	Granted in year	Lapsed in year	Options held at 31 March 2015				
Brian Tenner								
2004 Options Plan	311,444	–	–	311,444	311,444	27.25	27.09.2013	26.09.2020
	495,978	–	–	495,978	495,978	37.30	08.06.2014	07.06.2021
<b>Total 2004 Options Plan</b>	<b>807,422</b>	<b>–</b>	<b>–</b>	<b>807,422</b>	<b>807,422</b>			
2013 PSP	656,805	–	–	656,805	–	Nil	25.07.2016	25.07.2023
	–	283,887	–	283,887	–	Nil	05.06.2017	31.03.2024
<b>Total 2013 PSP</b>	<b>656,805</b>	<b>283,887</b>	<b>–</b>	<b>940,692</b>	<b>–</b>			
<b>Total</b>	<b>1,464,227</b>	<b>283,887</b>	<b>–</b>	<b>1,748,114</b>	<b>807,422</b>			

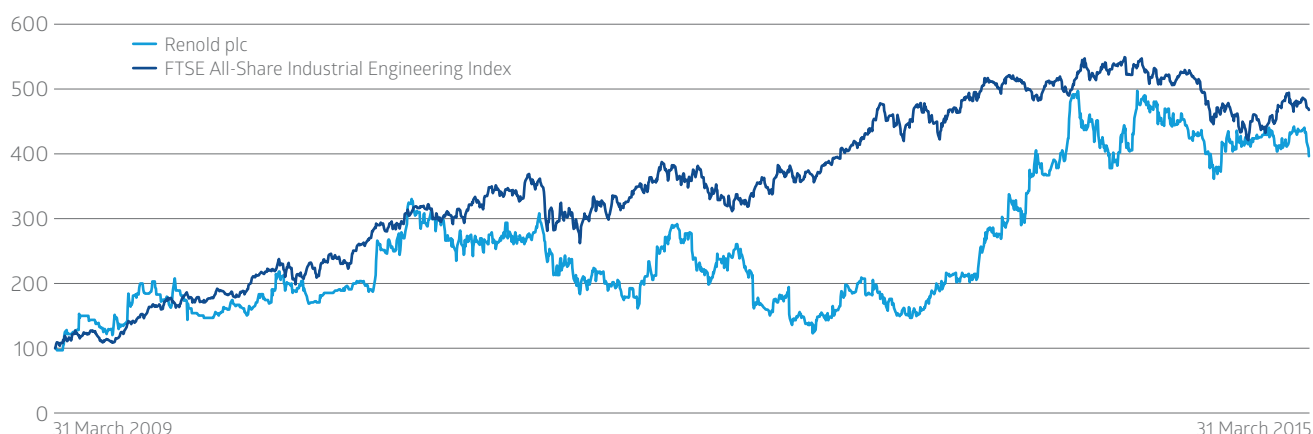
<sup>1</sup> The prior year figures have been amended to restate the number of share options lapsed.

The performance conditions to which the share options are subject are disclosed on pages 79, 82 and 83 and are included in this audited information section by reference. None of the terms and conditions of the share options was varied in the year.

### Performance graph and table

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

The market capitalisation of the Company at 31 March 2015 was £120.45m and the lowest and highest share prices during the year were 49.25p and 67.75p respectively, with a share price on 31 March 2015 of 54p.



Source: Thomson Financial – Thomson One Banker

### Chief Executive's remuneration for the period 2009/10 to 2014/15

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

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Chief Executive's total remuneration <sup>1</sup> £'000	337	667	494	311	659	561
Annual bonus as % of maximum awarded	0	81	44	16	100	67
LTI as % of maximum vesting	100	0	0	0	N/A	N/A

<sup>1</sup> The values use the same methodology as that shown in calculating the single figure basis of remuneration in the table on page 81.

### Chief Executive pay and employee pay

The table below shows the percentage change from the preceding financial year in respect of the total of the Chief Executive's remuneration (on a single total remuneration basis as shown in the table above on page 81).

	Percentage change in salary	Percentage change in benefits	Percentage change in annual bonus
Chief Executive	0%	6%	(33%)
Workforce <sup>2</sup>	<2% <sup>3</sup>	0%	(33%)

<sup>2</sup> The Group uses the UK workforce as an appropriate comparator group as the Executives are based in the UK and the structure of remuneration varies considerably based on local market practice in other countries in which the Group operates.

<sup>3</sup> The figures include only those employees who were not promoted and did not change role during the year to provide a like-for-like comparison.

# Directors' Remuneration Report

## Annual Report on Remuneration

continued

### Relative importance of spend on pay

The table below sets out the total of the Executive Directors' remuneration (on a single total remuneration basis as shown in the table on page 81) compared to a number of other key financial metrics. The metrics chosen are considered of interest and relevance to both the Group's actual performance in the period and also to be of relevance to different stakeholder groups.

	Employee remuneration	Shareholder distributions	Market capitalisation	Revenue <sup>1</sup>	Adjusted operating profit <sup>2</sup>	EBITDA <sup>3</sup>	Executive Directors' total remuneration
2015	£61.7m	Nil	£120.5m	£181.4m	£15.5m	£20.8m	£0.6m
2014	£64.0m	Nil	£124.4m	£184.0m	£11.1m	£16.5m	£1.1m
Difference (%)	4%	Nil	3%	1%	40%	26%	

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

<sup>3</sup> EBITDA is adjusted operating profit before depreciation and amortisation charges.

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

The Committee intends to operate the remuneration policy as set out in the Policy table and notes on pages 73 to 80 and as approved by shareholders at the 2014 AGM for the next financial year.

#### Base salary

Consistent with the timing of annual employee pay reviews across the Group, which are implemented with effect from 1 August, the Committee reviews base salaries for the Executive Directors annually at its July meeting. The Committee's review of base salaries for the Executive Directors in July 2014 concluded that there would be no increase with effect from 1 August 2014. The next review will take place in July 2015 and any change implemented from 1 August 2015. The current base salaries for the Executive Directors are set out on page 82 and below:

	2014/15
Robert Purcell £'000	300
Brian Tenner £'000	185

### Annual bonus

The performance measures and weightings for the 2015/16 annual bonus are unchanged from 2014/15. The performance measures and weightings are as follows:

	Weighting
Adjusted EBITDA	70%
Average net debt	30%

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

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

### Long Term Incentive Plan – 2013 PSP

The performance conditions attaching to options that will be granted under the 2013 PSP in the year commencing 1 April 2015, measured as the equivalent CAGR in adjusted EPS over a three year period, are as follows. On achievement of threshold performance 25% of the award vests. Straight line vesting occurs between threshold and maximum performance. Performance will be measured from an adjusted EPS figure of 5.0p for the year to 31 March 2015.

Threshold		Maximum		Performance period
Performance	% vesting	Performance	% vesting	
20%	25%	30%	100%	

### Adviser to the Committee

During the year, the Committee received independent advice from PwC in relation to remuneration reporting, share sourcing in connection with the exercise of options under the Company's share plans, an update on market trends in executive remuneration and themes from the 2014 AGM season. Total fees for services provided over the year amounted to £13,310 plus VAT. PwC was appointed by the Committee in 2014 following an assessment and interview process and has advised on various issues including remuneration policy and the Regulations and updating the Committee on trends in compensation matters. Fees charged have been on a time-spent basis. PwC is a member of the Remuneration Consultants Group and adheres to that group's Code of Conduct. PwC has provided internal audit and pensions related services to the Company. The Committee has chosen to retain PwC as its adviser.

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

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

### Statement of shareholder voting

The Directors' Remuneration Report and Remuneration Policy received significant shareholder support at the AGM held on 22 July 2014. Votes cast in respect of each of these at the 2014 AGM are detailed in the table below.

Remuneration Report	2014 AGM	%
Votes cast in favour	149,734,682	98.74
Votes cast against	1,916,225	1.26
Total	151,650,907	
Votes withheld	58,786	

Remuneration Policy	2014 AGM	%
Votes cast in favour	149,644,229	98.68
Votes cast against	1,999,735	1.32
Total	151,643,964	
Votes withheld	65,729	

Approved by the Board and signed on its behalf by:

#### Ian Griffiths

Chairman of the Remuneration Committee  
26 May 2015

# Directors' Report

The Directors submit their report and the financial statements as set out on pages 94 to 148.

The Directors' report, which comprises pages 88 to 90, sets out certain information in relation to the Company in accordance with the requirements of the Companies Act 2006 and the FCA's Listing and Disclosure and Transparency Rules.

The Strategic Report provides an overview of the performance of the business in the year ended 31 March 2015 and covers likely future developments in the business of the Company and the Group.

In accordance with section 414C (11) of the Companies Act 2006, information about the employment of disabled persons, employee involvement and greenhouse gas emissions, which is required to be included in the Directors' report, has been included in the Strategic Report. The Corporate Governance report also forms part of the Directors' Report. Where statutory disclosures have been made elsewhere in the Annual Report and Accounts, they are cross referenced in the table on page 90 and therefore incorporated by reference.

## 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.

## Results

Profit before tax for the year ended 31 March 2015 is £7.7m compared with a loss of £5.9m for the year ended 31 March 2014.

## Dividends

Details about dividend policy are set out on page 106 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 2015, 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 2014 and 1 January 2015.

## Directors' appointment and replacement

The appointment and replacement of Directors of the Company is governed by its articles of association and legislation. The Company's articles of association give power to the Board to appoint Directors to fill a vacancy or as additional Directors, but also require Directors to retire and submit themselves for election at the first Annual General Meeting following their appointment. In addition, all Non-Executive Directors are subject to annual election: please refer to the Corporate Governance report on page 58 for further details.

As a result, Mark Harper, John Allkins and Ian Griffiths will be standing for re-election at the 2015 AGM.

Under the terms of reference of the Nomination Committee, appointments to the Board are recommended by the Nomination Committee for approval by the Board. For a full description of the Company's policy on appointments to the Board, see the Nomination Committee report at pages 68 and 69.

Shareholders may also appoint a Director by ordinary resolution.

## Directors' interests

Details of the interests of the Directors and their connected persons in the Company's share capital and in options held under the Company's share option schemes, along with any changes in such interests since the end of the year, are detailed in the Directors' remuneration report on pages 70 to 87. No Director had any interests in contracts of significance in relation to the Company's business during the year.

## Directors' and officers' liability insurance

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

## Conflicts of interest

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

## Shares

### Share capital

As at 31 March 2015, the issued share capital of the Company was £27,146,657.75 divided into 223,064,703 ordinary shares of 5p each, 580,482 units of 6% cumulative preference stock of £1 each and 77,064,703 deferred shares of 20p each. The ordinary shares represent 41.08% of the Company's total share capital, the preference stock represents 2.14% and the deferred shares represent 56.78%. The Company's ordinary shares and preference stock are listed on the London Stock Exchange. The deferred shares have no voting or dividend rights and are not able to be traded.

The Company obtained shareholder authority at the 2014 Annual General Meeting to make market purchases of up to 22,306,470 ordinary shares in the Company, which remains

outstanding until the conclusion of the 2015 Annual General Meeting. The minimum price which must be paid for any ordinary share is the nominal value of such share at the time of the purchase and the maximum price is that permitted under the FCA's Listing Rules or, in the case of a tender offer, 5% above the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the tender offer is announced. As at the date of this report, the Company had not purchased any of its own ordinary shares in the market pursuant to such authority. The Directors will seek authority from shareholders at the forthcoming Annual General Meeting for the Company to purchase, in the market, up to 22,306,470 of its own ordinary shares (which represents approximately 10% of the Company's ordinary share capital as at the date of this report) either to be cancelled or retained as treasury shares.

Details of the Company's share capital are also set out in Note 19 to the Group financial statements on page 131.

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

#### *Voting rights*

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

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

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

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

#### *Major shareholdings*

As at 31 March 2015, the Company had been notified of the following major holdings of voting rights attached to its ordinary shares under the FCA's Disclosure and Transparency Rule 5:

Shareholder	Number of voting rights	% of total number of voting rights
Schroder Investment Management	34,094,214	15.28
Prudential plc group of companies, of which 11% is managed by M&G Investment Funds 3 <sup>1</sup>	33,343,324	14.95
Henderson Global Investors Limited	25,959,814	11.64
JP Morgan Asset Management	24,353,229	10.92
Rights and Issues Investment Trust plc	8,480,000	3.80
AXA Framlington	8,373,982	3.75

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

Subsequent to 31 March 2015, the Company was notified of the following: by Schroder Investment Management, a reduction in its shareholding to 14.93% ordinary shares; and by JP Morgan Asset Management, an increase in its shareholding to 11.01% 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.

#### *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 £557,661.76, 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 2014 Annual General Meeting. The authority will expire at the forthcoming Annual General Meeting. The Directors will seek authority from shareholders at the Annual General Meeting to issue equity securities either by way of a rights issue or in any other way, provided that the shares issued other than by way of a rights issue, open offer or other pre-emptive offer or under the various share option schemes of the Company be limited to shares with an aggregate nominal value of £557,661.76.

# Directors' Report

## continued

In addition, the Directors have authority to allot shares up to a maximum nominal amount of £7,428,054.61, representing approximately two thirds of the issued ordinary share capital as at the date of the Notice of the Company's 2014 Annual General Meeting. The authority will expire at the forthcoming Annual General Meeting. The Directors will seek authority from shareholders at the Annual General Meeting to allot shares up to a maximum nominal amount of £7,428,054.61, representing approximately 66.6% of the issued ordinary share capital as at the date of the Notice of the Annual General Meeting.

### *Transfer of shares*

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

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

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

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

### **Donations**

During the year, the Group made no political donations.

### **Contracts: Change of control provisions**

The Company's main UK banking facilities agreement with Lloyds Bank plc 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 126 to 130 details the Group's obligations to contribute to the UK defined benefit pension schemes.

Details of the effect of any change of control in relation to awards under the long term incentive plan are set out on page 78 within the Directors' remuneration report.

### **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 100 which is incorporated by reference here.

### **Other disclosures**

Directors' biographical details and date of appointment	54 & 55
Employee involvement	43 & 44
Employment of disabled persons	44
Financial instruments Note 25 to the Group financial statements	133 to 137
Greenhouse gas emissions	44 & 45
Important events affecting the Group since 31 March 2015 Note 27 to the Group financial statements	138
Statement on disclosure to auditor	91
Statement of Directors' responsibilities	91 & 92

The Directors' report was approved by the Board on 26 May 2015.

For and on behalf of the Board:

### **Louise Brace**

Company Secretary  
26 May 2015

# Statement of Directors' Responsibilities In Relation to the Group Financial Statements and Annual Report

## Consolidated financial statements prepared under IFRS

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

Company law requires the directors to prepare Consolidated financial statements for each financial year. Under that law, the directors must not approve the Consolidated 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 the Consolidated financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

## Parent company financial statements prepared under UK GAAP

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

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

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

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

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

The directors who were members of the Board at the time of approving the Directors' report are listed on pages 54 and 55. 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.

# Statement of Directors' Responsibilities In Relation to the Group Financial Statements and Annual Report

continued

## Directors' responsibility statements pursuant to DTR4

Each of us, for himself and on behalf of each other director who held office on 31 March 2015, confirms that, to the best of his knowledge:

- the Consolidated Financial Statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Company and the undertakings included in the consolidation as a whole; and
- the Strategic Report (comprising pages 10 to 49) and the Directors' report (on pages 88 to 90) includes fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces.
- the Board confirms that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Company.

On behalf of the Board:

**Robert Purcell**  
Chief Executive

**Brian Tenner**  
Finance Director

# Shareholder Information

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

If you wish to advise a change of name, address, or dividend mandate, please contact the Company's registrar, Capita Asset Services, whose contact details appear on page 149. Alternatively, you can view up-to-date information and manage your shareholding through Capita's share portal where you will be able to access and maintain your holding at your own convenience. You will require your unique investor code, which can be found on your share certificate. The URL for the portal is [www.capitashareportal.com](http://www.capitashareportal.com)

## Beware of share fraud

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

### How to avoid share fraud

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

### Report a scam

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

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

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

# Financial Statements





## Contents

Independent Auditor's Report to the Members of Renold plc	96
Accounting Policies	100
Consolidated Income Statement	108
Consolidated Statement of Comprehensive Income	109
Consolidated Balance Sheet	110
Consolidated Statement of Changes in Equity	111
Consolidated Statement of Cashflows	112
Notes to the Consolidated Financial Statements	113
Group Five Year Financial Review	139
Company only:	
Accounting Policies	140
Company Balance Sheet	142
Company Statement of Total Recognised Gains and Losses	143
Notes to the Company Financial Statements	144
Corporate Information	149
Glossary	150



## People

The ability to deliver our Strategic Plan depends upon our people. Building upon our existing capability we will continue to strengthen our teams, develop our people and create a sustainable pipeline of talent for the future.

# Independent Auditor's Report To the Members of Renold plc

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

## What we have audited

We have audited the financial statements of Renold plc for the year ended 31 March 2015 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 Consolidated Accounting Policies and the related Notes 1 to 27, the Company Balance Sheet, the Company Statement of Total Recognised Gains and Losses and the Company Accounting Policies and the related notes i to xv.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Our assessment of risks of material misstatement

We consider that the following areas present the greatest risk of material misstatement in the financial statements and consequently have had the greatest impact on our audit strategy, the allocation of resources and, the efforts of the engagement team, including the more senior members of the team:

Principal risk area and rationale	Audit response
<b>Revenue recognition</b> Refer to page 101 (notes). There is a risk concerning inappropriate revenue recognition when the risks and rewards of the product have not yet passed to the customer and revenue is recognised. As such revenue recognition has been held as an area of audit focus.	We carried out substantive testing, including cut-off testing verifying the recognition of revenue to contractual shipping terms and goods dispatched. We also performed analytical procedures to identify significant fluctuations and trends which were further investigated.  We undertook a review of credit notes raised post year end and detailed test of transactions back to supporting evidence. We also audited a sample of manual revenue journal entries to underlying evidence to assess appropriateness. We confirmed managements' policies for revenue recognition continue to be robust and are applied consistently.

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 Directors' Responsibilities Statement set out on page 91, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Principal risk area and rationale	Audit response
<p><b>Inventory provision</b></p> <p>Refer to page 64 (Audit Committee Report) and Note 11. Inventory provision is generated automatically by the system based on age of stock and historical usage with management adjustment for known anomalies, for example new stock lines with no history. This level of management adjustment can leave the stock provision susceptible to error/ judgement.</p>	<p>We tested the standard costs used to value inventory at year end, such as agreeing back to invoices, and challenged management's key assumptions, such as labour and overhead absorption rates compared to actual costs.</p> <p>We tested management's calculation of the inventory provision, challenged management judgements formed in adjusting the system generated provision for appropriateness and confirmed that the provision was derived in line with Group policy.</p> <p>We reviewed the inventory provision compared to the prior year and investigated any unusual movements.</p> <p>We also checked that a consistent approach to inventory valuation and provisioning had been adopted globally</p>
<p><b>Accounting for defined benefit pension schemes</b></p> <p>Refer to page 64 (Audit Committee Report) and Note 18. Small changes in the underlying assumptions used to value these schemes have a material impact on the Group's balance sheet. Volatility in capital markets means that asset values can change significantly in a short period of time.</p>	<p>We utilised our own actuarial experts to benchmark and consider an appropriate range for the key assumptions underpinning the calculation of the pension liabilities.</p> <p>We also utilised our own actuarial experts to challenge the appropriateness and consistency of the methodology used by management's actuaries to calculate the liabilities for the pension scheme.</p> <p>We reviewed the adequacy of pension disclosures provided in the financial statements and compliance with the requirements of IAS 19 (revised).</p> <p>We obtained confirmation of the pension assets from the asset managers and performed procedures to verify that assets have been appropriately valued.</p>
<p><b>Deferred tax</b></p> <p>Refer to page 64 (Audit Committee Report) and Note 17. The recoverability of these assets needs to be considered, taking into account the forecast taxable profits of the individual trading entities as well as the ability to utilise losses against future profits.</p>	<p>We performed audit procedures on the calculation and disclosure of deferred tax to assess compliance with local tax rules and the group's accounting policies, including review by our Tax specialists to ensure it has been recognised in accordance with local tax regulations.</p> <p>We considered the appropriateness of management's assumptions and estimates in relation to the likelihood of generating suitable future taxable profits, such as the appropriateness of profit forecasts, to support the recognition of deferred tax assets described in note 17, challenging those assumptions and considering supporting forecasts and estimates.</p> <p>We reviewed the adequacy of deferred tax disclosures provided in the financial statements and compliance with the requirements of IAS 12.</p> <p>Following a review of the tax base of the unfunded pension scheme in Germany, it was identified that the value of the tax base that had been used in calculating the deferred tax asset on the German pension deficit in 2014 was understated. The effect of this restatement has been to reduce, for the prior period, the closing recognised deferred tax asset by £4.2m. Please refer to the Accounting Policies on page 107 for further details. The tax credit shown in other comprehensive income in the consolidated statement of comprehensive income in the prior year has been reduced by the same amount. The restatement has no impact on the current or prior year income statement, cash flows or earnings per share.</p>

# Independent Auditor's Report

## To the Members of Renold plc

continued

In 2014 we highlighted that Group restructure was identified as a significant risk in relation to the Bredbury closure. As this project was completed in the first quarter of the current year with only £0.2m additional costs recorded, this was no longer considered to be a significant risk. Hence the risk has not been included in the risk table above.

### Our application of materiality

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

We determined planning materiality for the group to be £480,000, (2014: £415,000), which is approximately 5% (2014: 5%) of adjusted pre-tax profit (2014: 5% of forecast adjusted profit before interest and tax). We used adjusted pre-tax profits (2014: forecast adjusted profit before interest and tax) to exclude the exceptional items of £2.9m (2014: £11.8m) as described in note 2 (c). This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the group should be 50% (2014 50%) of planning materiality, namely £240,000 (2014: £207,000). Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level.

Audit work at individual components is undertaken based on a percentage of our total performance materiality. The performance materiality set for each component is based on the relative size of the component and our view of the risk of misstatement at that component. In the current year the range of performance materiality allocated to components was £48,000 to £144,000.

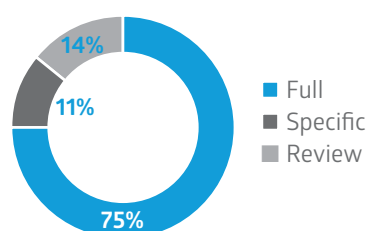
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £24,000 (2014: £20,750) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

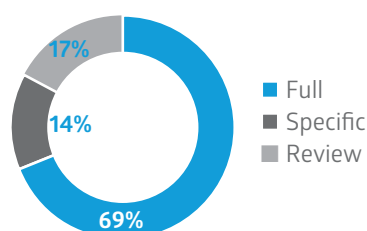
### An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, we selected components which represent the twelve (2014: fourteen) principal business units within the Group's two divisions and account for 86% (2014: 69%) of the group's profit before tax (2014: profit before interest and tax) and 83% (2014: 86%) of the group's total revenue.

#### Profit before tax %



#### Revenue %



Six (2014: five) of these were subject to a full audit, whilst on the remaining six (2014: nine) specific audit procedures were performed including full audit of the accounts that were impacted by our assessed risks of material misstatement and the materiality of the Group's business operations at those locations. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. For the remaining components, we performed other procedures to confirm there were no significant risks of material misstatement in the Group financial statements.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor or his designate visits each full scope location at least once every other year on a rotational basis. This year the group team visited five out of six full scope locations. For all entities in scope, the Group audit team reviewed key working papers and participated in the component team's audit planning, including the component team's discussion of fraud and error, and the audit closing meeting.

## Opinion on other matter 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;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 90, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

## Gary Harding

(Senior statutory auditor)  
for and on behalf of Ernst & Young LLP,  
Statutory Auditor  
Manchester  
26 May 2015

# 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 140 to 148. The financial statements were approved by the Board on 26 May 2015.

## Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income 'OCI' are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The results and financial position of Renold Scottish Limited Partnership ('SLP') have been consolidated in the consolidated financial statements of Renold plc. Renold plc is the parent undertaking of the general partner in the SLP (see Note (xv) to the Company financial statements). To determine that Renold plc has control over the SLP, we considered the following activities, benefits and risks:

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

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

Risks – the Group bears the risks incidental to the activities of the SLP because it retains the obligation to ensure the Schemes are appropriately funded.

Accordingly, advantage has been taken of the exemption conferred by paragraph 7 of the Partnerships (Accounts) Regulations 2008 from the requirements for preparation, delivery and publication of the partnership's accounts.

## Going concern

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

Further information in relation to the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report on pages 10 to 49.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report on pages 10 to 49. 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. Note 27, Post Balance Sheet Events, includes additional information on the revisions to the core banking agreement signed after the year end.

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

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

### 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. Examples are costs incurred in restructuring the Group, significant asset impairments and discount adjustments on onerous lease provisions.

### Borrowing costs

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

### Taxation

The tax charge comprises current tax payable and deferred tax.

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

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

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

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

# Accounting Policies

## continued

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

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

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

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

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

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

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

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

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

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

### 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. An impairment charge was made against the book value in the year, writing down the value of this property to nil. See Note 9.

### Inventories

Inventories are stated at the lower of cost and estimated net realisable value, after due allowance for obsolete or slow moving items. Cost includes all direct expenditure and attributable overhead expenditure incurred in bringing goods to their current state under normal operating conditions. The first in, first out method of valuation is used. Net realisable value is the estimated selling price in the ordinary course of

business, less the costs of completion and selling expenses. In the Group accounts, unrealised profit on sales within the Group is deducted from inventories.

### Assets held for sale

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

### Trade receivables

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

### Financial assets and liabilities

#### (a) Financial assets

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

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

#### (i) Financial assets at fair value through the income statement:

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

# Accounting Policies

## continued

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

### (ii) Loans and receivables:

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

### (b) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

#### (i) Assets carried at amortised cost:

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

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

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

#### (ii) Assets carried at cost:

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value

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

### (c) Interest-bearing loans and borrowings

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

### (d) Financial liabilities at fair value through the income statement

Includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through the income statement.

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

## Financial instruments

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

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

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

For the purpose of hedge accounting, hedges are classified as:

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

There are no fair value hedges.

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

#### *(a) Cash flow hedges*

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

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

#### *(b) Hedges of a net investment*

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

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

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

## **Employee benefits**

### *(a) Pension obligations*

The Group operates a number of defined benefit plans around the world. The costs are calculated by independent actuaries using the projected unit credit method. Any past service costs resulting from enhanced benefits are recognised immediately in income. Administration costs, other than plan asset management costs which are included in the actual return on plan assets, are charged to operating costs, including the Pension Protection Fund Levy.

Remeasurement gains and losses, comprising of actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest), are recognised in other comprehensive income in the period in which they occur.

The defined benefit liability or asset recognised in the balance sheet represents the net total for each plan of the present value of the benefit obligation at the balance sheet date, less the fair value of plan assets (for funded schemes) at the balance sheet date. If a plan records a surplus, the asset recognised is limited to the present value of any amount expected to be recoverable by the Group by way of refunds or reduction in future contributions.

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

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

### *(b) Share-based compensation*

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

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new

# Accounting Policies

## continued

vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

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

### Cash and cash equivalents

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

### Provisions

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

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

### Dividend distribution

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

### Significant accounting judgements, estimates and assumptions

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

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

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

#### *a) Impairment of non-financial assets*

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

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

#### *b) Deferred tax assets*

Deferred tax assets in respect of pension liabilities are recognised in full (with the exception of Germany where the amount recognised is offset by a deferred tax liability in relation to the German tax base of the pension liability) given the business has a legal obligation to make the underlying pension contributions and it is probable that adequate taxable profit will be available to take advantage of the associated taxable deductions. Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Actual outcomes may vary that could require a material adjustment to the carrying amounts. Further details are contained in Note 17.

#### *c) Retirement benefit obligations*

The valuation of the Group's defined benefit plans are determined by using actuarial valuations. These involve making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Net interest is calculated by applying the discount rate to the net defined benefit liability. Further details are given in Note 18.

#### d) Onerous lease

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

#### e) Inventory valuation

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

#### Changes in accounting policy and disclosures

The Group has not adopted the following pronouncements, which have been issued by the International Accounting Standards Board (IASB) but are not effective for the year ended 31 March 2015:

International Accounting Standards (IAS/IFRSs)		Effective date <sup>1</sup>
IAS 1	Amendment - presentation of financial statements	1 January 2016
IAS 19	Amendment - employee benefits	1 July 2014
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2017
	Annual improvements 2010-2012 cycle	1 July 2014
	Annual improvements 2011-2013 cycle	1 July 2014
	Annual improvements 2012-2014 cycle	1 January 2016

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

The Group has adopted all applicable amendments to standards with an effective date from 1 April 2014. Adoption of these standards did not have any material impact on financial performance or position of the Group.

#### Restatements

Following a review of the tax base of the unfunded pension scheme in Germany, it was identified that the value of the tax base in relation to the pension deficit that had been used in calculating the deferred tax asset on the German pension deficit in 2014 was understated. The tax base had been assumed to be nil, whereas tax relief had been claimed in respect of the pension scheme, based on actuarial valuations, under German tax law. In respect of pensions, a deferred tax asset represents the difference between the carrying amount of a pension deficit and its tax base. As a result, the deferred tax asset recognised in the accounts in the prior year was over-stated by £4.2m. The prior year comparatives have been restated to correct for this error. The deferred tax asset in respect of the pension deficit was correctly calculated at 2013 and therefore no opening balance sheet at 1 April 2013 is presented.

The effect of this restatement has been to reduce, for the prior period, the closing recognised deferred tax asset by £4.2m. The tax credit shown in other comprehensive income in the consolidated statement of comprehensive income in the prior year has been reduced by the same amount. The restatement has no impact on the current or prior year income statement, cash flows or earnings per share.

The restatement has been made in accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'. The effect of the restatement to the financial statements including the related impact on taxation is summarised below:

	2014 Reported £m	2014 Adjustment £m	2014 Restated £m
<b>Consolidated statement of comprehensive income</b>			
– Tax credit on remeasurement (gains) / losses on retirement benefits obligations	2.1	(4.2)	(2.1)
– Other comprehensive expense for the year, net of tax	(2.7)	(4.2)	(6.9)
– Total comprehensive expense for the year net of tax	(13.4)	(4.2)	(17.6)
<b>Balance Sheet</b>			
– Recognised deferred tax assets	18.9	(4.2)	14.7
– Total assets	160.0	(4.2)	155.8
– Net assets	18.1	(4.2)	13.9

# Consolidated Income Statement

for the year ended 31 March 2015

	Note	2015 £m	2014 £m
<b>Revenue</b>	1	<b>181.4</b>	184.0
Operating costs before pension administration costs and exceptional items	2	(165.9)	(172.9)
<b>Operating profit before pension administration costs and exceptional items</b>		<b>15.5</b>	11.1
Pension administration costs	2	(0.5)	(0.6)
Exceptional items	2	(2.9)	(11.8)
<b>Operating profit/(loss)</b>		<b>12.1</b>	(1.3)
Financial costs		(1.7)	(1.8)
Net IAS 19 financing costs		(2.5)	(2.8)
Discount on provisions		(0.2)	–
Net financing costs	3	(4.4)	(4.6)
<b>Profit/(loss) before tax</b>		<b>7.7</b>	(5.9)
Taxation	4	(2.1)	(4.8)
<b>Profit/(loss) for the financial year</b>		<b>5.6</b>	(10.7)
Attributable to:			
Owners of the parent		5.5	(10.9)
Non-controlling interests		0.1	0.2
		<b>5.6</b>	(10.7)
<b>Earnings/(loss) per share</b>	5		
Basic earnings/(loss) per share		2.5p	(4.9)p
Diluted earnings/(loss) per share		2.5p	(4.9)p
Adjusted earnings per share <sup>1</sup>		5.0p	3.2p
Diluted adjusted earnings per share <sup>1</sup>		5.0p	3.2p

<sup>1</sup> Adjusted for the after tax effects of pension administration costs, exceptional items, changes in the provision discounts and the IAS 19 financing costs.

# Consolidated Statement of Comprehensive Income

for the year ended 31 March 2015

	2015 £m	2014 (restated) £m
<b>Profit/(loss) for the year</b>	<b>5.6</b>	<b>(10.7)</b>
<b>Other comprehensive income/(expense):</b>		
<b>Items that may be reclassified to profit or loss in subsequent periods:</b>		
Net (losses)/gains on cash flow hedges	(0.2)	0.2
Foreign exchange translation differences	4.6	(8.5)
Foreign exchange differences on loans hedging the net investment in foreign operations	(0.6)	0.6
	<b>3.8</b>	<b>(7.7)</b>
<b>Items not to be reclassified to profit or loss in subsequent periods:</b>		
Remeasurement (losses)/gains on retirement benefit obligations	(15.1)	2.9
Tax on remeasurement losses/(gains) on retirement benefit obligations	3.4	(2.1)
	<b>(11.7)</b>	<b>0.8</b>
<b>Other comprehensive income/(expense) for the year, net of tax</b>	<b>(7.9)</b>	<b>(6.9)</b>
<b>Total comprehensive income/(expense) for the year, net of tax</b>	<b>(2.3)</b>	<b>(17.6)</b>
<b>Attributable to:</b>		
Owners of the parent	(2.4)	(17.7)
Non-controlling interest	0.1	0.1
	<b>(2.3)</b>	<b>(17.6)</b>

# Consolidated Balance Sheet

as at 31 March 2015

	Note	2015 £m	2014 (restated) £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	7	21.9	19.8
Other intangible assets	7	6.1	6.1
Property, plant and equipment	8	39.7	39.3
Investment property	9	–	1.3
Other non-current assets	12	–	0.2
Deferred tax assets	17	17.3	14.7
Retirement benefit surplus	18	0.2	0.4
		<b>85.2</b>	<b>81.8</b>
<b>Current assets</b>			
Inventories	11	35.8	35.9
Trade and other receivables	12	30.6	29.7
Derivative financial instruments	25	–	0.1
Cash and cash equivalents	13	12.6	6.7
		<b>79.0</b>	<b>72.4</b>
Non-current asset classified as held for sale	10	1.4	1.6
		<b>80.4</b>	<b>74.0</b>
<b>TOTAL ASSETS</b>		<b>165.6</b>	<b>155.8</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	14	(0.7)	(0.1)
Trade and other payables	15	(36.6)	(34.9)
Current tax		(1.6)	(1.7)
Derivative financial instruments	25	(0.1)	–
Provisions	16	(2.1)	(2.4)
		<b>(41.1)</b>	<b>(39.1)</b>
<b>NET CURRENT ASSETS</b>		<b>39.3</b>	<b>34.9</b>
<b>Non-current liabilities</b>			
Borrowings	14	(30.9)	(30.9)
Preference stock	14	(0.5)	(0.5)
Trade and other payables	15	(1.1)	(0.6)
Deferred tax liabilities	17	(0.2)	(0.2)
Retirement benefit obligations	18	(75.9)	(65.3)
Provisions	16	(4.3)	(5.3)
		<b>(112.9)</b>	<b>(102.8)</b>
<b>TOTAL LIABILITIES</b>		<b>(154.0)</b>	<b>(141.9)</b>
<b>NET ASSETS</b>		<b>11.6</b>	<b>13.9</b>
<b>EQUITY</b>			
Issued share capital	19	26.6	26.6
Share premium account		29.9	29.9
Currency translation reserve	21	2.3	(1.7)
Other reserves	21	1.0	1.2
Retained earnings	21	(50.8)	(44.6)
<b>Equity attributable to equity holders of the parent</b>		<b>9.0</b>	<b>11.4</b>
Non-controlling interests		2.6	2.5
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>11.6</b>	<b>13.9</b>

Approved by the Board on 26 May 2015 and signed on its behalf by:

**Robert Purcell**  
Chief Executive

**Brian Tenner**  
Finance Director

# Consolidated Statement of Changes in Equity

for the year ended 31 March 2015

	Share capital £m Note 19	Share premium account £m	Retained earnings £m Note 21	Currency translation reserve £m Note 21	Other reserves £m Note 21	Attributable to owners of parent £m Note 21	Non-controlling interests £m	Total equity £m
At 1 April 2013	26.5	29.6	(34.8)	6.1	1.2	28.6	2.4	31.0
(Loss)/profit for the year	–	–	(10.9)	–	–	(10.9)	0.2	(10.7)
Other comprehensive income/(expense)	–	–	0.8	(7.8)	0.2	(6.8)	(0.1)	(6.9)
Total comprehensive income/(expense) for the year	–	–	(10.1)	(7.8)	0.2	(17.7)	0.1	(17.6)
Employee share options:								
– value of employee services	–	–	0.1	–	–	0.1	–	0.1
Exercise of share warrants:								
– release of share warrant reserve	–	–	0.2	–	(0.2)	–	–	–
– proceeds from share issue	0.1	0.3	–	–	–	0.4	–	0.4
<b>At 31 March 2014 (restated)</b>	<b>26.6</b>	<b>29.9</b>	<b>(44.6)</b>	<b>(1.7)</b>	<b>1.2</b>	<b>11.4</b>	<b>2.5</b>	<b>13.9</b>
Profit for the year	–	–	5.5	–	–	5.5	0.1	5.6
Other comprehensive income/(expense)	–	–	(11.7)	4.0	(0.2)	(7.9)	–	(7.9)
Total comprehensive income/(expense) for the year	–	–	(6.2)	4.0	(0.2)	(2.4)	0.1	(2.3)
Employee share options:								
– settled share based payment transactions	–	–	(0.2)	–	–	(0.2)	–	(0.2)
– value of employee services	–	–	0.2	–	–	0.2	–	0.2
<b>At 31 March 2015</b>	<b>26.6</b>	<b>29.9</b>	<b>(50.8)</b>	<b>2.3</b>	<b>1.0</b>	<b>9.0</b>	<b>2.6</b>	<b>11.6</b>

# Consolidated Statement of Cashflows

for the year ended 31 March 2015

	2015 £m	2014 £m
<b>Cash flows from operating activities (Note 24)</b>		
Cash generated from operations	14.2	7.0
Income taxes paid	(1.4)	(0.9)
<b>Net cash from operating activities</b>	<b>12.8</b>	<b>6.1</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(3.8)	(6.0)
Purchase of intangible assets	(1.7)	(1.1)
<b>Net cash from investing activities</b>	<b>(5.5)</b>	<b>(7.1)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares	–	0.4
Financing costs paid	(1.4)	(1.5)
Proceeds from borrowings	1.0	8.0
Repayment of borrowings	(1.1)	(8.0)
<b>Net cash from financing activities</b>	<b>(1.5)</b>	<b>(1.1)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>5.8</b>	<b>(2.1)</b>
<b>Net cash and cash equivalents at beginning of year</b>	<b>6.6</b>	<b>9.2</b>
Effects of exchange rate changes	(0.2)	(0.5)
<b>Net cash and cash equivalents at end of year (Note 13)</b>	<b>12.2</b>	<b>6.6</b>

# Notes to the Consolidated Financial Statements

## 1. Segmental information

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

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

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

The Chief Operating Decision Maker 'CODM' for the purposes of IFRS 8: 'Operating Segments' is considered to be the Board of Directors of Renold plc. Management monitor the results of the separate reportable operating segments based on operating profit and loss which is measured consistently with operating profit and loss in the consolidated financial statements. The same segmental basis applies to decisions about resource allocation. However, Group net financing costs, retirement benefit obligations and income taxes are managed on a Group basis and therefore are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Year ended 31 March 2015	Chain <sup>(i)</sup> £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	138.3	43.1	–	181.4
Inter-segment <sup>(i)</sup>	–	4.6	(4.6)	–
<b>Total revenue</b>	<b>138.3</b>	<b>47.7</b>	<b>(4.6)</b>	<b>181.4</b>
Operating profit/(loss) before pension administration costs and exceptional items	14.2	6.9	(5.6)	15.5
Pension administration costs	–	–	(0.5)	(0.5)
Exceptional items	(2.1)	(0.2)	(0.6)	(2.9)
<b>Operating profit/(loss)</b>	<b>12.1</b>	<b>6.7</b>	<b>(6.7)</b>	<b>12.1</b>
Net financing costs				(4.4)
<b>Profit before tax</b>				<b>7.7</b>
<b>Other disclosures</b>				
Working capital <sup>(iii)</sup>	22.3	9.3	(3.0)	28.6
Capital expenditure <sup>(iv)</sup>	4.4	0.9	1.3	6.6
Depreciation and amortisation	3.0	1.1	1.2	5.3

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

# Notes to the Consolidated Financial Statements

## continued

### 1. Segmental information continued

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

Year ended 31 March 2014	Chain <sup>(i)</sup> £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	139.6	44.4	–	<b>184.0</b>
Foreign exchange	(5.3)	(0.8)	–	<b>(6.1)</b>
<b>Underlying external sales</b>	<b>134.3</b>	<b>43.6</b>	<b>–</b>	<b>177.9</b>
Operating profit/(loss) before pension administration costs and exceptional items	9.9	5.8	(4.6)	<b>11.1</b>
Foreign exchange	(0.6)	–	–	<b>(0.6)</b>
<b>Underlying operating profit/(loss) before pension administration costs and exceptional items</b>	<b>9.3</b>	<b>5.8</b>	<b>(4.6)</b>	<b>10.5</b>

(i) Inter-segment revenues are eliminated on consolidation.

(ii) Included in Chain external sales is £7.2m (2014: £7.6m) of Torque Transmission product sold through the Chain NSCs, usually in countries where Torque Transmission does not have its own presence.

(iii) The measure of segment assets reviewed by the CODM is total working capital, defined as inventories and trade and other receivables, less trade and other payables. Working capital is also measured as a ratio of rolling annual sales.

(iv) Capital expenditure consists of additions to property, plant and equipment and intangible assets (including through acquisitions).

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

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

	Revenue ratio		External revenues		Non-current assets		Employee numbers	
	2015 %	2014 %	2015 £m	2014 £m	2015 £m	2014 £m	2015	2014
United Kingdom	<b>9.3</b>	8.7	<b>16.9</b>	16.0	<b>12.7</b>	13.8	<b>372</b>	558
Rest of Europe	<b>27.8</b>	27.7	<b>50.5</b>	51.0	<b>10.8</b>	12.8	<b>503</b>	405
North America	<b>36.8</b>	37.8	<b>66.7</b>	69.5	<b>28.3</b>	24.8	<b>351</b>	355
Australasia	<b>11.5</b>	12.0	<b>20.8</b>	22.0	<b>6.6</b>	7.0	<b>152</b>	157
China	<b>3.8</b>	4.1	<b>6.8</b>	7.5	<b>3.5</b>	3.5	<b>350</b>	348
India	<b>3.9</b>	3.4	<b>7.1</b>	6.2	<b>4.9</b>	3.8	<b>481</b>	479
Other countries	<b>6.9</b>	6.3	<b>12.6</b>	11.8	<b>0.9</b>	0.8	<b>68</b>	77
	<b>100</b>	100	<b>181.4</b>	184.0	<b>67.7</b>	66.5	<b>2,277</b>	2,379

All revenue relates to the sale of goods and services. No individual customer, or group of customers, represents more than 10% of Group revenue (2014: none).

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

## 2. Operating costs and exceptional items

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

	2015 £m	2015 £m	2014 £m	2014 £m
Change in finished goods and work in progress		1.0		1.5
Raw materials and consumables		61.9		64.0
Other external charges		33.8		34.8
Employee costs				
Gross wages and salaries	53.4		55.6	
Social security costs	6.2		6.4	
Pension costs				
– defined benefit (Note 18)	0.4		0.4	
– defined contribution (Note 18)	1.5		1.5	
Share-based incentive plans	0.2		0.1	
		61.7		64.0
Depreciation of property, plant and equipment				
– owned assets		3.9		4.2
Amortisation of intangible assets		1.4		1.2
Operating leases – minimum lease payments				
– plant and machinery	0.3		0.4	
– property	0.9		1.6	
		1.2		2.0
Other operating income		(0.3)		(0.8)
Profit/(loss) on disposal of property, plant and equipment		–		0.1
Research and development expenditure		0.8		0.7
Auditors' remuneration (Note 2(b))		0.6		0.7
Trade receivables impairment		0.1		0.1
Foreign exchange		(0.2)		0.4
Operating costs before pension administration costs and exceptional items		165.9		172.9
Pension administration costs		0.5		0.6
Exceptional items (Note 2(c))		2.9		11.8
Total operating costs		169.3		185.3

### (b) Auditors' remuneration

	2015 £000 Total	2014 £000 Total
Audit of the Group's annual financial statements	208	180
Audit of the Company's subsidiaries	240	327
Total audit fees	448	507
Tax compliance services	82	50
Tax advisory services	20	75
All other assurance services	–	60
All other non-audit services	10	48
	560	740
<b>This is analysed in the following captions in the financial statements:</b>		
Exceptional reorganisation and restructuring costs	–	54
Operating costs	560	686
	560	740

The Group's auditors also received fees of £54,000 for audit services provided to Group pension schemes (2014: £74,000). These were the only services provided to the pension schemes, the decrease reflecting additional work performed in the prior year on the asset backed funding structure and subsequent UK scheme merger.

# Notes to the Consolidated Financial Statements

continued

## 2. Operating costs and exceptional items continued

### (c) Exceptional charges

	2015 £m	2014 £m
<b>Included in operating costs</b>		
Bredbury factory closure costs	0.2	4.7
Bredbury site onerous lease provision	–	5.7
Increase in onerous lease provision due to change in discount rate	0.5	–
Chain business model review		
– impairment of property, plant and equipment	–	0.1
– impairment of inventory and production tooling	–	0.5
Impairment of investment property	1.2	–
Impairment of software licences	0.2	–
Other reorganisation and redundancy costs	0.8	0.8
	<b>2.9</b>	<b>11.8</b>

The current year saw £0.2m of residual costs incurred in relation to the completion of the Bredbury closure project such as additional redundancy costs and lease termination costs. Even with these extra costs the project was still completed ahead of its estimated cost. In the prior year, closure costs of £4.7m and an onerous lease provision of £5.7m were recognised in that period. The current carrying value of the Bredbury onerous lease provision is set out in more detail in Note 16. The Bredbury site onerous lease provision was increased by £0.5m due to a change in the discount rate used to discount the future payment obligations.

Also in the current year, an impairment charge of £1.2m was made in relation to an investment property located in Calais, France, writing down the value of the property to a net book value of nil. This decision reflects ongoing weakness in the general economy and property market in particular in that region of France and therefore we have concluded that the property has no material value. Any alternate use specified by local planning regulations may also impact any net realisable value (see Note 9).

The impairment of software licences reflects the decision to change the Group's planned global ERP system and consequently not to make use of previously acquired licences. As a result, future periods will include approximately £0.2m accelerated amortisation for 4-5 years to reflect the shorter assumed useful economic life. Other restructuring and redundancy costs include costs associated with the agreed relocation of our headquarters in Manchester and ongoing restructuring of our senior management teams.

### (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:

	2015 £000	2014 £000
Directors' remuneration	1,100	1,231
Post-employment benefits – contributions direct to defined contribution schemes	–	28
<b>Statutory Directors' remuneration</b>	<b>1,100</b>	<b>1,259</b>
Share-based payments	53	75
Social security costs	167	103
<b>Total</b>	<b>1,320</b>	<b>1,437</b>

The remuneration listed in the table above differs from the single total figure table in the Directors' Remuneration Report on page 81 for the following reasons:

Only pensions payable directly to pension schemes are included in the post employment benefits in the table on page 81. £73,000 (2014: £45,000) additional cash payments for pensions paid indirectly were included in Directors' remuneration;

The table above excludes LTIPs vested in the form of share options.

Further details of the remuneration of Directors are provided in the Directors' Remuneration Report on pages 70 to 87.

A geographical split of the Group's average number of employees during the year is included in Note 1. The total number of employees employed by the Group at 31 March 2015 was 2,243 (2014: 2,208).

### 3. Net financing costs

	2015 £m	2014 £m
<b>Financial costs:</b>		
Interest payable on bank loans and overdrafts	(1.4)	(1.5)
Amortised financing costs	(0.3)	(0.3)
<b>Total financing costs</b>	<b>(1.7)</b>	<b>(1.8)</b>
<b>Net IAS 19 financing costs</b>	<b>(2.5)</b>	<b>(2.8)</b>
Discount unwind on provisions	(0.2)	–
<b>Net financing costs</b>	<b>(4.4)</b>	<b>(4.6)</b>

### 4. Taxation

Analysis of tax charge/(credit) in the year

	2015 £m	2014 £m
<b>United Kingdom</b>		
UK corporation tax at 21% (2014: 23%)	–	–
Less: double taxation relief	–	–
<b>Overseas taxes</b>		
Corporation taxes	1.3	1.0
Withholding taxes	0.1	0.2
Current income tax charge	1.4	1.2
<b>Deferred tax</b>		
UK – origination and reversal of temporary differences	(0.3)	3.0
Overseas – origination and reversal of temporary differences	1.0	0.6
Total deferred tax charge/(credit)	0.7	3.6
<b>Tax charge on profit/(loss) on ordinary activities</b>	<b>2.1</b>	<b>4.8</b>
	2015 £m	2014 (restated) £m
<b>Tax on items taken to other comprehensive income</b>		
Deferred tax on changes in net pension deficits	3.4	(2.1)
Tax credit/(charge) in the statement of other comprehensive income	3.4	(2.1)

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

The UK Finance Act 2013 reduced the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and then 20% from 1 April 2015. The effect of these reductions has been incorporated into the closing deferred tax balances in the financial statements.

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

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

	2015 £m	2014 £m
Profit/(loss) on ordinary activities before tax	7.7	(5.9)
Theoretical tax charge/(credit) at 21% (2014: 23%)	1.6	(1.4)
Effects of:		
Permanent differences	0.8	0.2
Overseas tax rate differences	0.8	0.4
Deferred tax (utilised)/not recognised	(1.1)	5.2
Change in UK tax rate	–	0.4
<b>Total tax charge/(credit)</b>	<b>2.1</b>	<b>4.8</b>

# Notes to the Consolidated Financial Statements

continued

## 5. Earnings/(loss) per share

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

	2015			2014		
	Profit £m	Shares (thousands)	Per share amount (pence)	Loss £m	Shares (thousands)	Per share amount (pence)
<b>Basic EPS</b>						
Profit/(loss) attributed to ordinary shareholders	5.5	223,065	2.5	(10.9)	222,398	(4.9)
<b>Basic EPS</b>	5.5	223,065	2.5	(10.9)	222,398	(4.9)

	2015			2014		
	Earnings £m	Shares (thousands)	Per share amount (pence)	(Loss)/ earnings £m	Shares (thousands)	Per share amount (pence)
<b>Adjusted EPS</b>						
Basic EPS	5.5	223,065	2.5	(10.9)	222,398	(4.9)
Effect of exceptional items, after tax:						
Exceptional items in operating costs	2.9		1.3	11.4		5.1
Exceptional tax charge	–			3.5		1.6
Pension administration costs included in operating costs	0.5		0.2	0.6		0.3
Discount unwind on exceptional items	0.2		0.1	–		–
Net pension financing costs	2.1		0.9	2.4		1.1
<b>Adjusted EPS</b>	11.2	223,065	5.0	7.0	222,398	3.2

Inclusion of the dilutive securities, comprising 2,489,000 (2014: 1,620,000 restated) additional shares due to share options in the calculation of basic and adjusted EPS does not change the amount shown above (2014: no change).

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

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

## 6. Dividends

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

## 7. Intangible assets

	Goodwill £m	Computer software £m	Total £m
<b>Cost</b>			
At 1 April 2013	23.3	10.9	34.2
Exchange adjustment	(2.1)	–	(2.1)
Additions	–	1.1	1.1
Disposals	–	(0.7)	(0.7)
<b>At 1 April 2014</b>	<b>21.2</b>	<b>11.3</b>	<b>32.5</b>
Exchange adjustment	2.1	(0.2)	1.9
Additions	–	1.7	1.7
Disposals	–	(0.1)	(0.1)
<b>At 31 March 2015</b>	<b>23.3</b>	<b>12.7</b>	<b>36.0</b>
<b>Accumulated amortisation and impairment</b>			
At 1 April 2013	1.5	4.7	6.2
Exchange adjustment	(0.1)	–	(0.1)
Amortisation charge	–	1.2	1.2
Disposals	–	(0.7)	(0.7)
<b>At 1 April 2014</b>	<b>1.4</b>	<b>5.2</b>	<b>6.6</b>
Exchange adjustment	–	(0.1)	(0.1)
Amortisation charge	–	1.4	1.4
Disposals	–	(0.1)	(0.1)
Impairment charge	–	0.2	0.2
<b>At 31 March 2015</b>	<b>1.4</b>	<b>6.6</b>	<b>8.0</b>
<b>Net book amount at 31 March 2015</b>	<b>21.9</b>	<b>6.1</b>	<b>28.0</b>
Net book amount at 31 March 2014	19.8	6.1	25.9
Net book amount at 31 March 2013	21.8	6.2	28.0

The Group performed its annual impairment test of goodwill at 31 March 2015 that compares the current book value to the recoverable amount from the continued use or sale of the related business. No impairment charge has been recognised in the period.

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

	Growth rates		CGU discount rates		Carrying values	
	2015 %	2014 %	2015 %	2014 %	2015 £m	2014 £m
Jeffrey Chain, USA	2.7	3.1	13.7	13.6	19.5	17.4
Ace Chains, Australia	3.0	3.0	13.5	13.6	0.5	0.5
Renold Chain, India	6.7	6.7	24.1	23.7	1.9	1.9
					21.9	19.8

# Notes to the Consolidated Financial Statements

## continued

### 7. Intangible assets continued

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

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

The Group prepares cash flow forecasts based on the latest management estimates for the next financial year. The expected sales prices and volumes reflect management's experience of how sales will develop at this point of the economic cycle. The expected profit margin reflects management's experience of each CGU's profitability at the forecast level of sales and incorporates the impact of any restructuring that took place during the year ended 31 March 2015.

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

Management believe that 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 46% (2014: 15%) the goodwill in respect of that unit may become impaired.

#### *Computer software*

Following the decision to change the Group's planned global ERP system, an impairment charge of £0.2m has been recognised in the period in respect of software licences that are no longer expected to be used in the business (2014: nil) (see Note 2(c) for details). As a result, future periods will include approximately £0.2m per annum of accelerated amortisation to reflect the shorter useful economic life.

### 8. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
<b>Cost</b>			
At 1 April 2013	25.0	121.3	146.3
Exchange adjustment	(1.6)	(6.3)	(7.9)
Additions	0.9	5.1	6.0
Transfer to asset held for sale	(2.3)	–	(2.3)
Disposals	(3.0)	(15.2)	(18.2)
<b>At 1 April 2014</b>	<b>19.0</b>	<b>104.9</b>	<b>123.9</b>
Exchange adjustment	(0.5)	(2.4)	(2.9)
Additions	0.2	4.7	4.9
Disposals	–	(2.1)	(2.1)
<b>At 31 March 2015</b>	<b>18.7</b>	<b>105.1</b>	<b>123.8</b>
<b>Accumulated depreciation and impairment</b>			
At 1 April 2013	6.0	97.2	103.2
Exchange adjustment	–	(4.3)	(4.3)
Charge for the year	0.8	3.4	4.2
Transfer to asset held for sale	(0.7)	–	(0.7)
Disposals	(3.0)	(14.8)	(17.8)
<b>At 1 April 2014</b>	<b>3.1</b>	<b>81.5</b>	<b>84.6</b>
Exchange adjustment	(0.1)	(2.2)	(2.3)
Charge for the year	0.5	3.4	3.9
Disposals	–	(2.1)	(2.1)
<b>At 31 March 2015</b>	<b>3.5</b>	<b>80.6</b>	<b>84.1</b>
<b>Net book amount at 31 March 2015</b>	<b>15.2</b>	<b>24.5</b>	<b>39.7</b>
Net book amount at 31 March 2014	15.9	23.4	39.3
Net book amount at 31 March 2013	19.0	24.1	43.1

#### *Future capital expenditure*

At 31 March 2015 capital expenditure contracted for but not provided for in these accounts amounted to £1.1m (2014: £0.1m).

#### *Asset held for sale*

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

## 9. Investment property

	£m
<b>Cost</b>	
At 1 April 2013	2.0
Exchange adjustment	(0.1)
At 1 April 2014	1.9
Exchange adjustment	(0.1)
<b>At 31 March 2015</b>	<b>1.8</b>
<b>Accumulated depreciation</b>	
At 1 April 2013	0.6
Charge for the year	–
At 1 April 2014	0.6
Impairment charge	1.2
Charge for the year	–
<b>At 31 March 2015</b>	<b>1.8</b>
<b>Net book amount at 31 March 2015</b>	<b>–</b>
Net book amount at 31 March 2014	1.3
Net book amount at 31 March 2013	1.4

The property has been accounted for on a cost model basis with a value of £1.4m in respect of land and £0.6m in respect of the building. A valuation of the property was conducted in March 2013 by BNP Paribas, French chartered surveyors and property consultants. At that date, the fair value of the property was assessed at £1.9m (excluding de-pollution costs) based on ongoing rental for industrial use. As a result of this valuation, an impairment charge of £0.4m was made in 2013 to include estimated depollution costs.

During the year, the Directors have reassessed the medium term prospects regarding the future use or sale of the property. Given the depressed local property market and general economic weakness in that region of France, the Directors have decided to write down the net book value of the property to nil. As a result, a £1.2m impairment charge (included in the 'Chain' segment in Note 1) has been charged as an exceptional item in the year. Any future maintenance costs will be charged to operating profit in the period incurred. The Group will continue to assess options with regard to the future use of this site which are also subject to any changes in local zoning or planning restrictions.

## 10. Asset Held for Sale

	2015 £m	2014 £m
<b>At 1 April</b>	<b>1.6</b>	–
Transfer in	–	1.6
Exchange adjustment	(0.2)	–
<b>At 31 March</b>	<b>1.4</b>	1.6

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

# Notes to the Consolidated Financial Statements

continued

## 11. Inventories

	2015 £m	2014 £m
Raw materials	6.1	5.8
Work in progress	5.9	6.8
Finished products and production tooling	23.8	23.3
	35.8	35.9

Inventories pledged as security for liabilities amounted to £27.8m (2014: £27.5m).

## 12. Trade and other receivables

	2015 Current £m	2015 Non-current £m	2014 Current £m	2014 Non-current £m
Trade receivables <sup>1</sup>	27.5	–	26.8	–
Less: impairment provision	(0.5)	–	(0.6)	–
Trade receivables: net	27.0	–	26.2	–
Other receivables <sup>1</sup>	1.8	–	1.7	0.2
Prepayments	1.8	–	1.8	–
	30.6	–	29.7	0.2

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

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

Trade receivables are non-interest bearing and are generally on 30-90 days' terms. See Note 25(d) for the Group's credit risk policy. As at 31 March, the ageing analysis of trade receivables is as follows:

	Total £m	Neither past due nor impaired £m	<30 days £m	Past due but not impaired 30-60 days £m	60-90 days £m	>90 days £m
2015	27.5	23.9	2.4	0.4	–	0.8
2014	26.8	22.8	2.3	0.8	0.2	0.7

	2015 £m	2014 £m
<b>Movement on impairment provision</b>		
Opening provision	0.6	0.8
Net charge to income statement	0.1	0.1
Utilised in year through assets written off	(0.2)	(0.3)
Closing provision	0.5	0.6

## 13. Cash and cash equivalents

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

	2015 £m	2014 £m
Cash and cash equivalents	12.6	6.7
Less: Overdrafts (Note 14)	(0.4)	(0.1)
Net cash and cash equivalents	12.2	6.6

## 14. Borrowings

	2015 £m	2014 £m
<b>Amounts falling due within one year:</b>		
Overdrafts	0.4	0.1
Bank loans (net of capitalised costs)	0.3	–
	0.7	0.1
<b>Amounts falling due after more than one year:</b>		
Bank loans (net of capitalised costs)	30.9	30.9
Preference Stock	0.5	0.5
	31.4	31.4
Total borrowings (Note 25(d))	32.1	31.5

All financial liabilities above are carried at amortised cost.

### Core banking facilities

On 13 May 2015 a revision of the terms of the facility in place was agreed. Details of the revised agreed terms are outlined in Note 27. The details of the facility in place at the end of the financial year are summarised below.

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

At the year end the undrawn facility was £9.0m (2014: £9.0m). 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 2.69% for the Euro and Sterling denominated facility and LIBOR plus 2.94% for the US Dollar denominated facility (2014: LIBOR plus 2.75% for the Euro and Sterling denominated facility and LIBOR plus 3% for the US Dollar denominated facility). This facility has two primary financial covenants which are tested on a six monthly basis. The first is net debt as a ratio of rolling annual EBITDA with a maximum ratio of 2.5 times. The second is interest cover with a minimum ratio of 4.0 times (rolling annual EBITDA divided by net financial interest cost). The Group also benefits from a number of overseas facilities totalling £1.6m. Costs of £1.1m associated with the refinancing were capitalised and offset against loans and are being amortised over the life of the facility.

### Secured borrowings

Included in Group borrowings are secured borrowings of £29.3m (2014: £27.5m). Security is provided by fixed and floating charges over assets (including certain property, plant and equipment and inventory) primarily in the UK, USA, France, Germany and Australia.

### Finance leases

The Group has no obligations under finance leases.

### Preference Stock

At 31 March 2015 there were 580,482 units of Preference Stock in issue (2014: 580,482).

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

- a fixed cumulative preferential dividend at the rate of 6% per annum payable half yearly on 1 January and 1 July in each year;
- rank both with regard to dividend (including any arrears on the commencement of a winding up) and return of capital in priority to all other stock or shares in the Company, but with no further right to participate in profits or assets;
- no right to attend or vote, either in person or by proxy, at any general meeting of the Company or to have notice of any such meeting, unless the dividend on the Preference Stock is in arrears for six calendar months; and
- no redemption entitlement and no fixed repayment date.

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

# Notes to the Consolidated Financial Statements

continued

## 15. Trade and other payables

	2015 Current £m	2015 Non-current £m	2014 Current £m	2014 Non-current £m
Trade payables <sup>1</sup>	18.1	–	17.3	–
Other tax and social security	1.7	–	1.4	–
Other payables <sup>1</sup>	1.6	–	1.4	–
Accruals <sup>1</sup>	15.2	1.1	14.8	0.6
	36.6	1.1	34.9	0.6

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

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

## 16. Provisions

	Business restructuring £m	Onerous lease £m	Onerous licences £m	Contingent consideration £m	Total provisions £m
At 1 April 2014	1.1	5.7	0.3	0.6	7.7
Exchange	–	–	–	0.1	0.1
Arising during the year	1.0	0.5	–	–	1.5
Release/utilised in the year	(1.8)	(1.0)	(0.3)	–	(3.1)
Discount unwind on provision	–	0.2	–	–	0.2
<b>At 31 March 2015</b>	<b>0.3</b>	<b>5.4</b>	<b>–</b>	<b>0.7</b>	<b>6.4</b>

Allocated as:	2015 £m	2014 £m
Current provisions	2.1	2.4
Non-current provisions	4.3	5.3
	6.4	7.7

### Business restructuring

This provision relates to the reorganisation and restructuring of various parts of the business. £0.2m relates to the Bredbury plant closure initiated in the prior year and that was completed in the first half of the current financial year. See Note 2(c) on exceptional charges for more details.

### Onerous lease

A provision was established in relation to onerous lease costs in respect of the lease of the Bredbury plant. The lease expires in May 2030 (See Note 2(c)). The provision was increased by £0.5m in the year due to a change in the discount rate used to discount the future payment obligations.

### Contingent consideration

Renold (Hangzhou) Co Limited: China

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

## 17. Deferred tax

	Assets		Liabilities		Net	
	2015 £m	2014 (restated) £m	2015 £m	2014 £m	2015 £m	2014 (restated) £m
Accelerated capital allowances	(1.6)	(1.7)	(0.2)	(0.3)	(1.8)	(2.0)
Pension plans	14.5	11.4	–	–	14.5	11.4
Tax losses	6.3	6.7	–	–	6.3	6.7
Other temporary differences	(1.9)	(1.7)	–	0.1	(1.9)	(1.6)
Tax assets/(liabilities)	17.3	14.7	(0.2)	(0.2)	17.1	14.5
Net off (liabilities)/assets	(0.2)	(0.2)	0.2	0.2	–	–
Net deferred tax assets	17.1	14.5	–	–	17.1	14.5

The net deferred tax asset recoverable within one year is £2.5m (2014: nil) and recoverable after more than one year is £14.6m (2014: £14.5m restated).

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

	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
<b>2015</b>					
Accelerated capital allowances	(1.7)	–	0.1	–	(1.6)
Pension plans	11.4	(0.6)	0.3	3.4	14.5
Tax losses	6.7	0.6	(1.0)	–	6.3
Other temporary differences	(1.7)	(0.1)	(0.1)	–	(1.9)
	14.7	(0.1)	(0.7)	3.4	17.3

	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
<b>2014 (restated)</b>					
Accelerated capital allowances	0.3	0.2	(2.2)	–	(1.7)
Pension plans	13.5	(0.2)	0.2	(2.1)	11.4
Tax losses	9.4	(0.9)	(1.8)	–	6.7
Other temporary differences	(1.8)	0.2	(0.1)	–	(1.7)
	21.4	(0.7)	(3.9)	(2.1)	14.7

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

	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in other comprehensive income £m	Closing balance £m
<b>2015</b>					
Accelerated capital allowances	(0.3)	–	0.1	–	(0.2)
Pension plans	–	–	–	–	–
Tax losses	–	–	–	–	–
Other temporary differences	0.1	–	(0.1)	–	–
	(0.2)	–	–	–	(0.2)

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

# Notes to the Consolidated Financial Statements

## continued

### 17. Deferred tax continued

During the year the Group has reported an operating profit before exceptional items and pensions administration costs of £15.5m. The businesses in all jurisdictions where deferred tax assets have been recognised will, more likely than not, generate suitable profits based on approved management forecasts from which the future reversal of the underlying timing differences can be deducted.

Unrecognised deferred tax assets amount to £22.5m (2014: £27.4m) arising from unrecognised losses of £14.4m (2014: £15.9m) (representing losses of £51.5m (2014: £56.0m)) and other timing differences of £8.1m (2014: £11.5m). Based on available evidence, it is considered unlikely that these amounts will be recovered within the foreseeable future. The significant majority of these losses are not subject to time limits.

### 18. Pensions

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

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

#### UK Pension Plans

The principal fund is the Renold Pension Scheme ('RPS') in the UK that was formed by the merger in June 2013 of three predecessor plans, all of which were already closed to future accrual and to new members: (i) the Renold Group Pension Scheme ('RGPS'); (ii) the Jones & Shipman plc Retirement Benefits Plan (1971) ('J&S RBP'); and (iii) the Renold Supplementary Pension Scheme 1967 ('RSPS') (which was then renamed the RPS). The RPS is a funded defined benefit plan with assets held in separate Trustee administered funds.

The merger of the UK schemes was implemented to reduce the administration costs of running three separate pension schemes. During the merger, 1,316 members with smaller pension entitlements opted at that time to have their entire entitlement paid out in wind up lump sums. All other members had their benefits transferred in full into the RPS. The legacy RGPS and J&S RBP were formally liquidated during the year.

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

## 18. Pensions continued

The RPS is underpinned by a 25 year asset backed partnership structure (the 'SLP'). The partnership holds an intercompany loan from Renold International Holdings Limited, the holding company for most of the Group's overseas trading companies. The capital rights to the assets in the SLP belong to Renold plc except in the event of a corporate insolvency of the scheme sponsor (Renold plc). The income rights in the SLP belong to the RPS. The loan generates interest income that provided an annual cash contribution of £2.6m to the pension fund in the current year, with annual increases linked to RPI plus 1.5% and capped at 5%. The income stream is used to fund deficit repair payments and the first £0.5m of annual administrative expenses (with the company bearing any excess). In the event that the RPS becomes fully funded on a buyout basis, the income stream will instead accrue to Renold. The SLP was put in place with the expectation that the period to recover the funding shortfall was 25 years from the time of merger. The SLP therefore helps reduce the volatility in short term cash funding by following an agreed payment plan over a longer period of time. The interest in the SLP held by the Schemes is not reported as a plan asset in the consolidated financial statements as it is a non-transferable interest issued by the Group.

The new arrangement replaced all other existing funding arrangements for the RPS and there is no separate schedule of contributions as at 31 March 2015. The SLP therefore represents the entirety of the committed cash element of the funding plan for the RPS. The funding plan also assumes an allowance for asset outperformance of 1.0% (that is, assets are expected to return an amount of 1.0% more than the discount rate applied to the liabilities). Separately to the SLP but put in place at the same time, the Group has also agreed that if operating profits reach £16.0m in any year following the year ended 31 March 2017, additional annual contributions of £1.0m will become payable (monthly in arrears) while profits remain above this level. The £1.0m increase matches the approximate £1.0m reduction agreed at the inception of the SLP. Finally, as part of the overall agreement, Renold plc is not constrained from paying a dividend, other than by normal legal considerations, and has agreed to make additional contributions equal to 25% of the value of any dividend paid in order to accelerate the deficit recovery plan. The accounting deficit will be reduced as the cash contributions under the scheme are made.

Total cash costs for UK deficit repair payments and UK administrative expenses in the period were £3.1m (2014: £2.7m). The current year figure includes the £2.6m noted above in connection with the SLP, and a further £0.5m in respect of the costs of other pension projects that were carried out or initiated during the year. The main initiative was the medically underwritten insured buy-in that completed after the end of the financial year to de-risk approximately 25% of current pensioner liabilities. Further details on that project are contained in the Finance Director's report on pages 37 to 39 and Note 27.

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

### Overseas Pension Plans

#### Germany

In Germany, in addition to participating in the Government pension scheme, the Group operates an unfunded defined benefit scheme (no other Group company operates an unfunded defined benefit scheme). The scheme has no asset backing and the Group pays member benefits as they fall due. The scheme closed to new members on 1 April 1992. The Group has commenced proceedings aimed at closing the scheme to future accrual. A number of arbitration hearings have been held during the year and a final decision is awaited in the coming financial year. If successful, depending on the terms of the closure, there would be a reduction in ongoing annual service costs, the book value of the scheme liabilities, and the lifetime cost of the scheme, all else being equal.

#### United States of America

In the US the Group operated three defined benefit pension schemes in the Torque Transmission business. All three schemes are closed to new members and two of the schemes closed to future accrual at the same time. Only the hourly paid scheme remains open to future accrual. One of the three schemes, with gross liabilities of £1.1m was formally terminated and member benefits secured in full during the year at a net cost to the Group of £0.1m. Funds that had been earmarked for the closed scheme are now being used to accelerate making good the deficit in the second fully closed US scheme with a similar intention to terminate and secure member benefits in the next two to three years. The US Chain business operates a defined contribution scheme.

In aggregate, the two (2014: three) defined benefit schemes in the US have combined assets of £8.6m (2014: £8.0m) and liabilities of £13.4m (2014: £11.4m), giving a net deficit of £4.8m (2014: £3.4m). The change in the net deficit was due to reduction in the discount rate to 3.5% (2014: 4.0%) and a change in the national mortality rate tables as issued by the US Society of Actuaries.

# Notes to the Consolidated Financial Statements

## continued

### 18. Pensions continued

#### Other overseas schemes

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

In aggregate the other overseas defined benefit schemes have combined assets of £5.7m (2014: £5.7m) and liabilities of £6.2m (2014: £6.1m) giving a net deficit of £0.5m (2014: net deficit of £0.4m).

The pension disclosures in the financial statements are based on the most recent actuarial valuations. Where material, these have been updated to the balance sheet date by qualified independent actuaries. The disclosures provided are presented on a weighted average basis where appropriate. Plan assets are stated at their market values at the respective balance sheet dates.

The weighted average durations for both the UK and German pension schemes are 14 years (2014: 14 years) respectively.

#### Significant assumptions

The principal financial assumptions used to calculate plan liabilities as at 31 March 2015 are presented below. The assumptions adopted by the plans' actuaries represent the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

	UK		Germany		Other Overseas	
	2015	2014	2015	2014	2015	2014
Rate of increase in pensionable salaries <sup>1</sup>	–	–	1.5%	1.5%	2.4%	2.3%
Rate of increase in pensions in payment and deferred pensions	1.6%	1.9%	1.5%	1.5%	–	–
Discount rate	3.3%	4.5%	1.4%	3.3%	3.2%	3.9%
Inflation assumption <sup>2</sup>	1.7%	2.2%	1.5%	1.5%	2.3%	2.4%

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

<sup>2</sup> The inflation assumption used for UK schemes was changed to a blend of RPI and CPI in 2012. In addition members have the option to take a one off increase in pension at retirement in exchange for surrendering future increases. Approximately 25% of members took this option.

The predominant defined benefit obligation for funded plans within the Group resides in the UK (£201.5m of the £247.0m Group obligation for funded plans). In addition to the assumptions shown previously, mortality assumptions have a significant bearing on the calculated obligation. The assumed life expectancy for the RPS members on retirement at age 65 is as follows.

	2015	2014
<b>Males</b>		
Currently aged 45	21.3	21.3
Currently aged 65	20.4	20.3
<b>Females</b>		
Currently aged 45	23.7	23.6
Currently aged 65	22.6	22.5

The post-retirement mortality tables used for the UK plan are the S1PA series tables published by the UK actuarial profession with a 20% uplift in mortality reflecting scheme specific experience. The RPS experiences mortality significantly in excess of the national average. The mortality rates for the RPS are based on average year of birth for both non-pensioners and pensioners with an allowance for future annual improvements in life expectancy.

In Germany, the mortality expectations for the scheme are in line with the local national averages as is the case in the United States and Australia.

## 18. Pensions continued

### Sensitivity analysis on UK scheme:

Assumption	Change in assumption	Impact on plan liabilities
Discount rate	Increase/decrease by 0.25%	Decrease by £7.2m/increase by £7.6m
Rate of inflation	Increase/decrease by 0.25%	Increase by £4.0m/decrease by £3.9m
Rate of mortality	Increase/decrease by 1 year <sup>1</sup>	Increase/decrease by £8.0m

<sup>1</sup> 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.

The market values of assets of the principal defined benefit plans of the Group, together with the present value of plan liabilities, are shown below. It should be noted that the market values of the plans' assets are stated as at the Group's year end and since it is not intended to realise the assets in the short term, the value may change significantly before being realised. The present values of the plans' liabilities are derived from cash flow projections over long periods and are thus inherently uncertain.

The fair values of plan assets were:

	2015			2014		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
UK equities	20.4	–	20.4	20.3	–	20.3
Overseas equities	29.7	7.6	37.3	26.1	7.1	33.2
Hedge funds and diversified growth funds	39.1	–	39.1	31.9	–	31.9
Corporate bonds	36.0	4.2	40.2	39.1	4.0	43.1
Gilts	29.8	0.7	30.5	26.1	0.7	26.8
Other	1.6	2.2	3.8	1.4	2.3	3.7
Total market value of assets	156.6	14.7	171.3	144.9	14.1	159.0

Equities include investments in quoted equities, funds of hedge funds and, in the prior year, property investment vehicles. The assets held are materially a reflection of the underlying liabilities in that lower risk assets such as gilts and bonds are deemed to be a match for pensioner liabilities whereas equities are deemed a better match for the liabilities associated with scheme members not yet in retirement.

### Pension obligations

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

	2015			2014		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Opening obligation	(183.0)	(40.9)	(223.9)	(199.1)	(42.3)	(241.4)
Current service cost	–	(0.4)	(0.4)	–	(0.4)	(0.4)
Interest expense	(8.0)	(1.4)	(9.4)	(8.1)	(1.5)	(9.6)
Contributions by plan participants	–	(0.1)	(0.1)	–	(0.1)	(0.1)
Remeasurement gains/(losses) by changes in:						
– Experience	–	(1.5)	(1.5)	0.3	0.4	0.7
– Demographic assumptions	–	(0.5)	(0.5)	(2.5)	–	(2.5)
– Financial assumptions	(20.5)	(6.3)	(26.8)	4.9	(1.7)	3.2
Liabilities extinguished on settlement	–	1.1	1.1	10.9	–	10.9
Benefits paid	10.0	2.4	12.4	10.6	2.0	12.6
Exchange adjustment	–	2.1	2.1	–	2.7	2.7
Closing obligation	(201.5)	(45.5)	(247.0)	(183.0)	(40.9)	(223.9)
<b>The total defined benefit obligation can be analysed as follows:</b>						
Funded pension plans	(201.5)	(19.5)	(221.0)	(183.0)	(17.3)	(200.3)
Unfunded pension plans	–	(26.0)	(26.0)	–	(23.6)	(23.6)
	(201.5)	(45.5)	(247.0)	(183.0)	(40.9)	(223.9)

# Notes to the Consolidated Financial Statements

## continued

### 18. Pensions continued

#### Pension assets

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

	2015			2014		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Opening assets	144.9	14.1	159.0	156.0	15.9	171.9
Interest income	6.3	0.6	6.9	6.3	0.5	6.8
Remeasurement gains	12.8	0.9	13.7	0.9	0.6	1.5
Employer contributions	2.6	1.0	3.6	2.7	1.1	3.8
Participant contributions	–	0.1	0.1	–	0.1	0.1
Benefits paid	(10.0)	(1.3)	(11.3)	(10.6)	(2.1)	(12.7)
Assets distributed on settlement	–	(1.2)	(1.2)	(10.4)	–	(10.4)
Exchange adjustment	–	0.5	0.5	–	(2.0)	(2.0)
Closing assets	156.6	14.7	171.3	144.9	14.1	159.0
Balance sheet reconciliation:						
Plan obligations	(201.5)	(45.5)	(247.0)	(183.0)	(40.9)	(223.9)
Plan assets	156.6	14.7	171.3	144.9	14.1	159.0
Net plan deficit	(44.9)	(30.8)	(75.7)	(38.1)	(26.8)	(64.9)
Analysed as follows:						
<b>Non-current assets</b>						
Retirement benefit surplus	–	0.2	0.2	–	0.4	0.4
<b>Non-current liabilities</b>						
Retirement benefit obligations	(44.9)	(31.0)	(75.9)	(38.1)	(27.2)	(65.3)
Net deficit	(44.9)	(30.8)	(75.7)	(38.1)	(26.8)	(64.9)

The retirement benefit surplus relates to the Australian scheme which remains in surplus.

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

	2015			2014		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Remeasurement gains/(losses) on plan obligations	(20.5)	(8.3)	(28.8)	2.7	(1.3)	1.4
Remeasurement gains/(losses) on plan assets	12.8	0.9	13.7	0.9	0.6	1.5
Net (losses)/gains	(7.7)	(7.4)	(15.1)	3.6	(0.7)	2.9

The actual return on plan assets was £20.6m (2014: £8.3m) which equates to 12.9% (2014: 4.8%) and compares to the assumed rates of return of 4.5% in the UK and 3.9% in other overseas locations (2014: 4.3% and 3.7%).

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

	2015 £m	2014 £m
Operating costs		
Pension administration costs	(0.5)	(0.6)
Current service cost	(0.4)	(0.4)
Settlement (loss)/gains	(0.1)	0.5
	(1.0)	(0.5)

The settlement loss of £0.1m relates to the termination of the US Clerical pension scheme in February 2015. The settlement gain in 2014 relates to the merger of the three UK schemes in June 2013.

The cost for the period of the various defined contribution schemes was £1.5m (2014: £1.5m) and was fully paid up.

## 19. Called up share capital

	Issued	
	2015 £m	2014 £m
Ordinary shares of 5p each	11.2	11.2
Deferred shares of 20p each	15.4	15.4
	26.6	26.6

At 31 March 2015, the issued ordinary share capital comprised 223,064,703 ordinary shares of 5p each (2014: 223,064,703) and 77,064,703 deferred shares of 20p each (2014: 77,064,703).

## 20. Share-based payments

Details of the share-based payment arrangements are provided in the Directors' Remuneration Report on pages 70 to 87. At 31 March 2015, unexercised options for ordinary shares amounted to 7,454,402 (2014: 7,242,517 restated).

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

	2015 Executive share option scheme	2014 Executive share option scheme		
Grant date	05.06.14	6.12.13	26.9.13	25.7.13
Share price at date of grant	65.17p	49.9p	38.3p	28.2p
Exercise price	0.0p	0.0p	0.0p	0.0p
Number of employees	23	10	2	8
Shares under option	1,945,789	520,887	319,427	3,236,249
Vesting period (years)	3	3	3	3
Expected volatility	58%	59%	59%	58%
Option life (years)	10	10	10	10
Expected life (years)	6	6	6	6
Risk free interest rate	1.0%	1.0%	1.0%	0.8%
Assumed dividends expressed as a dividend yield	Zero	Zero	Zero	Zero
Possibility of ceasing employment before vesting	Zero	Zero	Zero	Zero
Fair value per option	65.17p	49.9p	38.3p	28.2p
Weighted probability of meeting vesting conditions	37.5%	37.5%	37.5%	37.5%

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 2015 is shown below:

### Executive share option schemes

	2015		2014 (restated)	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	7,242,517	18.3p	5,343,642	35.5p
Granted	1,945,789	0.0p	4,076,563	0.0p
Exercised	(1,060,811)	37.3p	–	–
Lapsed	(29,360)	63.27p	(390,942)	30.35p
Forfeited	(643,733)	24.08p	(1,786,746)	32.9p
Outstanding at 31 March	7,454,402	9.9p	7,242,517	18.3p
Exercisable at 31 March	1,158,935	37.9p	819,826	34.5p

# Notes to the Consolidated Financial Statements

## continued

### 20. Share-based payments continued

Range of exercise prices	Weighted average exercise price	2015			Weighted average exercise price	2014 (restated)		
		Number of shares	Weighted average remaining life			Number of shares	Weighted average remaining life	
			Expected	Contractual			Expected	Contractual
Nil	0.0p	5,150,429	8.6	4.6	0.0p	3,420,252	5.4	9.4
20p to 30p	26.4p	1,456,482	7.3	3.3	26.9p	1,714,931	4.0	8.0
30p to 40p	37.3p	735,923	6.2	2.2	37.3p	1,966,406	3.2	7.2
40p to 100p	71.3p	111,568	1.5	–	69.6p	140,928	–	2.1

1,060,811 options have been exercised in the period (2014: nil). The exercise of the options was executed in the form of a surrender for cash consideration rather than the issue of new equity. This was done to avoid dilution on the issue of a relatively small number of shares on a post tax basis. The total charge for the year relating to employee share-based payment plans was £0.2m (2014: charge £0.1m), all of which related to equity settled share-based transactions.

The prior year figures have been restated to exclude share options that had in fact lapsed.

The middle market price of ordinary shares at 31 March 2015 was 54.00p and the range of prices during the year was 49.25p to 67.75p.

### 21. Reserves

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

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

Cumulative goodwill written off directly to Group reserves at 31 March 2015 amounted to £3.5m (2014: £3.5m).

Included in retained earnings is an amount of £5.7m (net of tax) (2014: £6.1m) 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:

	2015		2014	
	Properties £m	Equipment £m	Properties £m	Equipment £m
Within one year	1.9	0.3	1.9	0.3
Between two and five years	6.2	0.4	6.4	0.3
Over five years	10.8	0.1	12.9	–
	18.9	0.8	21.2	0.6

Certain of the leased properties have been sublet and the future minimum sublease payments expected to be received under non-cancellable sublease agreements is £3.0m (2014: £3.0m).

An onerous lease provision of £5.4m (2014: £5.7m) (see Note 16) was established in 2014 following the closure of the Bredbury manufacturing facility (see Note 2(c) for more details). The lease expires in May 2030 at a rental cost of £0.8m per annum and is included in the analysis above.

### 23. Contingent liabilities and commitments

Performance guarantees given to third parties in respect of Group companies were £nil (2014: £nil).

Various UK group companies have given guarantees to the merged UK pension scheme to cover the full cost of buying out the liabilities in the event that the Sponsoring Employers defaulted on the agreed deficit repair plan. As one of the sponsoring employers of the UK scheme is Renold plc, the continuing obligation is effectively unchanged and is to fully fund the member's accrued benefits.

## 24. Additional cash flow information

Reconciliation of operating profit to net cash flows from operations:

	2015 £m	2014 £m
<b>Cash generated from operations:</b>		
Operating profit/(loss)	12.1	(1.3)
Depreciation and amortisation	5.3	5.4
Impairment of intangible assets	0.2	–
Impairment of investment property	1.2	–
Proceeds from plant and equipment disposals	–	0.2
Equity share plans	–	0.1
Decrease in inventories	0.7	1.8
(Increase)/decrease in receivables	(0.2)	0.8
Increase/(decrease) in payables	0.9	(1.8)
(Decrease)/increase in provisions	(1.5)	5.8
Movement on pension plans	(4.4)	(3.8)
Movement in derivative financial instruments	(0.1)	(0.2)
<b>Cash generated from operations</b>	<b>14.2</b>	<b>7.0</b>

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

	2015 £m	2014 £m
Increase/(decrease) in cash and cash equivalents	5.8	(2.1)
Change in net debt resulting from cash flows	0.1	–
Foreign currency translation differences	(0.3)	0.4
Non-cash movement – amortisation of refinancing costs	(0.3)	(0.3)
Change in net debt during the period	5.3	(2.0)
Net debt at start of year	(24.8)	(22.8)
Net debt at end of year	(19.5)	(24.8)
Net debt comprises:		
Cash and cash equivalents (Note 13)	12.6	6.7
Total borrowings (Note 14)	(32.1)	(31.5)
	(19.5)	(24.8)

## 25. Financial instruments

These notes should be read in conjunction with the narrative disclosures in the Finance Director's review on pages 34 to 39.

### *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.

# Notes to the Consolidated Financial Statements

continued

## 25. Financial instruments continued

Change in US Dollar rate (an 'increase' being a fall in the value of Sterling compared to US\$):

	Increase/ (decrease) in US\$ rate	Effect on profit before tax £m	Effect on shareholders' equity £m
2015	25% (10%)	(0.1) 0.1	1.3 (0.7)
2014	25% (10%)	0.1 –	1.6 (0.9)

Change in Euro rate (an 'increase' being a fall in the value of Sterling compared to the Euro):

	Increase/ (decrease) in Euro rate	Effect on profit before tax £m	Effect on shareholders' equity £m
2015	25% (10%)	– –	0.3 (0.2)
2014	25% (10%)	– –	– –

### Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the basis points of the Group's floating interest rates:

	Increase in basis points	2015 Effect on profit before tax £m	2014 Effect on loss before tax £m
Sterling	+150	(0.3)	(0.3)
US Dollar	+150	(0.1)	(0.1)
Euro	+150	(0.1)	(0.1)
Other	+150	–	–
		(0.5)	(0.5)

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

	2015 £m	2014 £m
Current (liabilities)/assets:		
Forward foreign currency contracts: cash flow hedge	(0.1)	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 (2014: £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 2015 was £5.8m (2014: £5.2m). £0.6m of exchange loss (2014: £0.6m gain) 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.

## 25. Financial instruments continued

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

Currency	2015			2014		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Sterling						
– Financial liabilities	–	21.7	21.7	–	20.5	20.5
– Preference Stock	0.5	–	0.5	0.5	–	0.5
US Dollar	–	5.8	5.8	–	5.9	5.9
Euro	–	3.6	3.6	–	4.5	4.5
Other	–	0.5	0.5	–	0.1	0.1
	0.5	31.6	32.1	0.5	31.0	31.5

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 2015

	2015 £m	2014 £m
Cash at bank and in hand by currency		
Sterling	0.7	1.2
Euro	5.0	0.6
US Dollar	3.1	2.5
Other	3.8	2.4
	12.6	6.7

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

### (f) Maturity of financial liabilities

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

	One year or less on demand £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
2015					
Interest bearing loans and borrowings	–	32.1	–	–	32.1
Interest paid on borrowings	1.7	–	–	–	1.7
Trade payables	18.1	–	–	–	18.1
Forward foreign exchange contracts – outflow	2.7	–	–	–	2.7
Preference Stock <sup>1</sup>	–	–	–	0.5	0.5
	22.5	32.1	–	0.5	55.1

# Notes to the Consolidated Financial Statements

## continued

### 25. Financial instruments continued

2014	One year or less on demand £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Interest bearing loans and borrowings	–	–	32.7	–	32.7
Interest paid on borrowings	1.8	–	–	–	1.8
Trade payables	17.3	–	–	–	17.3
Forward foreign exchange contracts – outflow	3.2	–	–	–	3.2
Preference Stock <sup>1</sup>	–	–	–	0.5	0.5
	22.3	–	32.7	0.5	55.5

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

The Group has contracted forward contracts consisting of Euro forward contracts of £1.7m (2014: nil) and US Dollar forward contracts of £1.0m (2014: £3.2m). The Euro contracts are buy contracts and the US Dollar are sell contracts, given that the UK Group tends to have a surplus in US Dollars and a deficit in Euro's.

A lease became onerous in 2014, see Note 22 for details of rentals payable under this lease.

#### (g) Borrowing facilities

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

	2015 £m	2014 £m
Expiring within one year or less, or on demand	3.0	2.5
Expiring between one and two years	7.6	–
Expiring between two and five years	–	9.0
	10.6	11.5

The facilities expiring in one year or less, or on demand, are primarily annual facilities subject to review at various dates during the year ended 31 March 2015. See Note 27 for details of amended borrowing facilities agreed post year end.

#### (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	
	2015 £m	2014 £m	2015 £m	2014 £m
Financial assets – cash	12.6	6.7	12.6	6.7
Financial liabilities – floating rate bank overdraft	0.4	0.1	0.4	0.1
Interest bearing loans and borrowings				
Floating rate borrowing	31.2	30.9	31.2	30.9
Preference Stock	0.5	0.5	0.5	0.5

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

With reference to the fair value hierarchy below the above financial instruments are level 2 except Preference Stock which is level 1.

## 25. Financial instruments continued

### 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 2015, the Group held the following financial instruments measured at fair value:

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
<b>Assets measured at fair value</b>				
Forward foreign currency contracts: cash flow hedge	(0.1)	–	(0.1)	–
As at 31 March 2014:				
	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
<b>Liabilities measured at fair value</b>				
Forward foreign currency contracts: cash flow hedge	(0.2)	–	(0.2)	–

The fair value of derivatives has been calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

### (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 2015 and 31 March 2014.

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.

	2015 £m	2014 £m
Net debt (Note 24)	19.5	24.8
Total capital (restated)	9.0	11.4
Capital and net debt (restated)	28.5	36.2
Gearing ratio (restated)	68%	69%
Adjusted EBITDA <sup>1</sup> (£m)	20.8	16.5
Net debt to adjusted EBITDA	0.9 times	1.5 times

<sup>1</sup> Adjusted EBITDA is calculated as operating profit before pension administration costs and exceptional items adding back depreciation and amortisation charges in the period.

# Notes to the Consolidated Financial Statements

## continued

### 26. Business combinations

There were no acquisitions in the current or prior year.

### 27. Post balance sheet events

#### *Amendment and Extension of the Group's Core Banking Facility*

On 13 May 2015 the Group agreed a revision to its existing banking facilities with its current banking partners, Svenska Handelsbanken AB and Lloyds Bank plc. The new facility replicates the previous £41m MRCF but also adds a £20m accordion feature that can be triggered by the Group to fund investment or acquisition opportunities. The revised facility has been extended to mature in May 2020 whereas the original maturity was in October 2016. The new facility is also priced at current market rates and will lead to a reduction in average annual interest expense of approximately £0.3m on current debt levels. The main covenants and security granted to the banks and other terms remain largely unchanged.

#### *UK Pensions De-risking Project*

After the end of the financial year the Group completed a medically underwritten insured buy-in of approximately £25m of higher risk current pensioner liabilities representing approximately 25% of current pensioner liabilities. The population in question is described as high risk because it includes members with higher annual pensions and therefore a concentration of longevity risk. The UK pension scheme is the beneficiary of the insurance contract purchased which creates matching cash flows for the pensions secured. The transaction will have no impact on the Group's accounting balance sheet but the price achieved was at a discount to the funding assumption which will be relevant to future funding discussions with Trustees. The key benefit of the transaction was the full de-risking achieved in respect of a significant proportion of current pensioner liabilities.

# Group Five Year Financial Review

(unaudited)

	2015 £m	2014 (restated) £m	2013 (restated <sup>3</sup> ) £m	2012 £m	2011 £m
Group revenue	181.4	184.0	190.3	209.5	191.0
Operating profit before exceptional items and pension administration costs	15.5	11.1	7.2	14.1	7.0
<b>Operating profit/(loss)</b>	<b>12.1</b>	<b>(1.3)</b>	<b>(6.4)</b>	<b>12.0</b>	<b>4.3</b>
Profit/(loss) before tax	7.7	(5.9)	(11.9)	7.6	(1.3)
Taxation	(2.1)	(4.8)	0.1	(1.2)	0.4
Profit/(loss) for the year	5.6	(10.7)	(11.8)	6.4	(0.9)
<b>Net assets employed</b>					
Tangible and intangible fixed assets	45.8	46.7	50.7	54.9	55.1
Working capital and other net assets	30.0	32.0	33.3	40.2	36.9
Operating assets	75.8	78.7	84.0	95.1	92.0
Goodwill	21.9	19.8	21.8	22.3	22.4
Net debt	(19.5)	(24.8)	(22.8)	(22.9)	(20.0)
Deferred and current taxation	15.5	12.8	19.4	15.9	15.2
Provisions	(6.4)	(7.7)	(1.9)	(1.5)	(1.2)
Net assets excluding pension obligations	87.3	78.8	100.5	108.9	108.4
Pension obligations	(75.7)	(64.9)	(69.5)	(55.7)	(51.5)
Total net assets	11.6	13.9	31.0	53.2	56.9
<b>Other data and ratios</b>					
Return on capital employed (restated) (%) <sup>1</sup>	15.6	11.1	6.5	12.2	6.1
Return on sales (restated) (%) <sup>2</sup>	8.5	6.0	3.8	6.7	3.7
Capital expenditure (£m)	6.6	7.1	4.9	5.6	6.6
Basic earnings/(loss) per share (restated) (p)	2.5	(4.9)	(5.4)	2.8	(0.4)
Employees at year end <sup>4</sup>	2,243	2,208	2,466	2,569	2,521

<sup>1</sup> Being operating profit before exceptional items and pension administration costs divided by average operating assets and goodwill.

<sup>2</sup> Based on operating profit before exceptional items and pension administration costs divided by revenue.

<sup>3</sup> Only 2013 has been restated for the impact of IAS 19R and hence some of the income statement figures in the earlier years are not fully comparable.

<sup>4</sup> Basis of calculation of employee numbers changed to include temporary workers in 2013 onwards.

# Accounting Policies

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

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

## Basis of accounting

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

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

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

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

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

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

## Foreign currencies

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

## Financial instruments and risk management

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

## Derivative financial instruments

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

## Tangible fixed assets

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

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

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

## Leases

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

## Investments

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

The results and financial position of Renold Scottish Limited Partnership (SLP) have been consolidated in the consolidated financial statements of Renold plc. Renold plc is a parent undertaking of the general partner in the SLP (see Note (xv) 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.

# Company Balance Sheet

as at 31 March 2015

	Note	2015 £m	2014 £m
<b>Fixed assets</b>			
Tangible assets	i	6.5	6.7
Investments in subsidiary undertakings	ii	140.2	143.0
		146.7	149.7
<b>Current assets</b>			
Debtors	iii	2.0	2.3
Derivative financial instruments	vii	–	0.1
Cash and short term deposits		3.3	1.0
		5.3	3.4
<b>Creditors: amounts falling due within one year</b>			
Other creditors	iv	(6.5)	(8.8)
Provisions for liabilities	v	(0.2)	–
Net current (liabilities)/assets		(1.4)	(5.4)
Total assets less current liabilities		145.3	144.3
<b>Creditors: amounts falling due after more than one year</b>			
Other creditors	iv	(62.5)	(62.5)
Bank borrowings	vi	(16.7)	(14.7)
Preference Stock	vi	(0.5)	(0.5)
Provisions for liabilities	v	–	(0.3)
<b>Net assets</b>		65.6	66.3
<b>Capital and reserves</b>			
Called up share capital	ix	26.6	26.6
Share premium account	x	29.9	29.9
Profit and loss account	x	9.1	9.8
<b>Shareholders' funds</b>		65.6	66.3

Approved by the Board on 26 May 2015 and signed on its behalf by:

**Robert Purcell**  
Chief Executive

**Brian Tenner**  
Finance Director

# Company Statement of Total Recognised Gains and Losses

for the year ended 31 March 2015

	2015 £m	2014 £m
Loss for the year	(0.7)	(8.1)
Total recognised losses for the year	(0.7)	(8.1)

All attributable to the equity shareholders of the Company.

# Notes to the Company Financial Statements

## (i) Tangible assets

	Property £m	Equipment £m	Total £m
<b>Cost</b>			
At beginning of year	0.4	10.0	10.4
Additions at cost	–	1.3	1.3
<b>At end of year</b>	<b>0.4</b>	<b>11.3</b>	<b>11.7</b>
<b>Depreciation</b>			
At beginning of year	0.4	3.3	3.7
Depreciation for the year	–	1.5	1.5
<b>At end of year</b>	<b>0.4</b>	<b>4.8</b>	<b>5.2</b>
<b>Net book value at end of year</b>	<b>–</b>	<b>6.5</b>	<b>6.5</b>
Net book value at beginning of year	–	6.7	6.7

### Future capital expenditure

At 31 March 2015, contracted capital expenditure not provided for in these financial statements for which contracts have been placed amounted to £nil (2014: £nil).

## (ii) Investments in subsidiary undertakings

	Shares £m	Advances £m	Total £m
<b>Subsidiary undertakings</b>			
Cost or valuation			
At beginning of year	62.0	81.0	143.0
Net repayments	–	(2.8)	(2.8)
<b>At end of year</b>	<b>62.0</b>	<b>78.2</b>	<b>140.2</b>

The principal subsidiary undertakings of the Company at 31 March 2015 are set out in Note (xv).

## (iii) Debtors

	2015 £m	2014 £m
Amounts owed by subsidiary undertakings	1.0	1.6
Other debtors	0.3	0.1
Prepayments	0.7	0.6
	<b>2.0</b>	<b>2.3</b>

Unrecognised deferred tax assets amount to £2.5m (2014: £4.1m), arising from unrecognised losses of £1.6m (2014: £3.3m) (representing losses of £8.2m (2014: £16.4m)) and other timing differences of £0.9m (2014: £0.8m). None of these losses are subject to time limits.

## (iv) Other creditors

	2015 £m	2014 £m
Amounts falling due within one year:		
Trade creditors	0.9	0.7
Amounts owed to subsidiary undertakings	3.9	6.7
Other taxation and social security	0.3	0.2
Accruals	1.4	1.2
	<b>6.5</b>	<b>8.8</b>
Amounts falling due after one year:		
Loan from subsidiary undertakings	62.5	62.5

A 25 year loan of £62.5m was established with Renold International Holdings Limited in the prior period. Interest of £2.5m per annum, increasing in line with RPI plus 1.5% capped at 5%, is payable for the period of the loan.

**(v) Provisions for liabilities**

	2015 £m	2014 £m
At beginning of year	0.3	0.6
Charge for the year	0.2	–
Released/utilised in the year	(0.3)	(0.3)
At end of year	0.2	0.3

The provision in the prior year relates to onerous software licence costs in relation to the Group ERP system that were unlikely to be utilised. This has been released in the year. An additional provision has been made in the year relating to Head Office restructuring costs of £0.2m.

**(vi) Borrowings**

	2015 £m	2014 £m
Amounts falling due after one year:		
Bank loans repayable in two to five years	16.7	14.7
Summary of total borrowings:		
Bank loans	16.7	14.7
Preference Stock	0.5	0.5
Total borrowings	17.2	15.2

Bank borrowings are secured by fixed and floating charges over the assets of UK subsidiaries.

**Banking facilities**

The Group's core banking facilities comprise a £41m Multi-Currency Revolving Credit Facility (MRCF), and an additional £8m of ancillary facilities which mature in October 2016. These facilities have been provided by a banking group comprised of Lloyds Bank plc and Svenska Handelsbanken AB. The MRCF is fully committed and available until maturity. See Note 14 and Note 27 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**

	2015 £m	2014 £m
Forward foreign currency contracts – cash flow hedge	–	0.1

The Group has contracted forward contracts consisting of Euro forward contracts of £1.7m (2014: £nil) and US Dollar forward contracts £1.0m (2014: £3.2m). The two Euro contracts are buy contracts and the US Dollar contracts are sell contracts, given that the UK group companies have a surplus in US Dollars and a deficit in Euros.

**(viii) 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.

# Notes to the Consolidated Financial Statements

continued

## (ix) Called up share capital

	2015 £m	Issued 2014 £m
Equity interests		
Ordinary shares of 5p each	11.2	11.2
Deferred shares of 20p each	15.4	15.4
Preference Stock <sup>1</sup>	0.5	0.5
	27.1	27.1

<sup>1</sup> Included in borrowings – see Note (vi).

At 31 March 2015, the issued ordinary share capital comprised 223,064,703 ordinary shares of 5p each (2014: 223,064,703) and 77,064,703 deferred shares of 20p each (2014: 77,064,703).

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

### Share options

At 31 March 2015, unexercised options for ordinary shares amounted to 7,454,402 (2014: 7,242,517 restated) made up as follows:

Date normally exercisable	Scheme	Option price (p per share)	Number of shares 2015	Number of shares 2014 (restated)
Within seven years from:				
22 November 2007	2004 Scheme	63.3	–	29,360
26 July 2009	2004 Scheme	52.5	64,592	64,592
02 January 2010	2004 Scheme	97.2	46,976	46,976
27 September 2013	2004 Scheme	27.3	311,444	311,444
08 June 2014	2004 Scheme	37.3	735,923	1,966,406
31 July 2015	2004 Scheme	29.4	–	258,449
21 January 2016	2004 Scheme	26.2	1,145,038	1,145,038
25 July 2016	2013 Scheme	0.0	2,579,938	2,579,938
26 September 2016	2013 Scheme	0.0	319,427	319,427
06 December 2016	2013 Scheme	0.0	419,451	520,887
05 June 2017	2013 Scheme	0.0	1,831,613	–
			7,454,402	7,242,517

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.

The prior year figures have been restated in the table above to exclude share options in relation to the 2004 Scheme exercisable from 27 September 2013 that had lapsed.

## (x) Reserves

	Profit and loss account £m	Share premium £m	Total reserves £m
At beginning of year	9.8	29.9	39.7
Loss for the year	(0.7)	–	(0.7)
Employee share options - value of employee services	0.2		0.2
Settled share based payment transactions	(0.2)		(0.2)
At end of year	9.1	29.9	39.0

As permitted by section 408 of the Companies Act 2006, no profit and loss account is presented in these financial statements. The Company's loss for the financial year was £0.7m (2014: loss £8.1m).

Total fees payable by the Company to Ernst & Young LLP for work in respect of the audit of the Company were £30,000 (2014: £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:

	2015 £m	2014 £m
Leases expiring:		
– less than one year	0.2	–
– between one and two years	–	0.2
	0.2	0.2

**(xii) Contingent liabilities**

The Company has guaranteed borrowings by subsidiary undertakings of £0.4m (2014: £0.2m). 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 2015 (and 2014) with Renold Transmission Technology (Jiangsu) Inc. are not material. Transactions entered into and trading balances outstanding at 31 March with Renold (Hangzhou) Company Limited and Renold Chain India Private Limited are as follows:

	2015 £m	2014 £m
Amounts receivable as at 31 March		
– Renold (Hangzhou) Company Limited	4.4	0.1
– Renold Chain India Private Limited	–	0.2
	4.4	0.3

**Transactions with key management personnel**

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

**(xiv) Post balance sheet events*****Amendment and Extension of the Group's Core Banking Facility***

On 13 May 2015 the Group agreed a revision to its existing banking facilities with its current banking partners, Svenska Handelsbanken AB and Lloyds Bank plc. The new facility replicates the previous £41m MRCF but also adds a £20m accordion feature that can be triggered by the Group to fund investment or acquisition opportunities. The revised facility has been extended to mature in May 2020 whereas the original maturity was in October 2016. The new facility is also priced at current market rates and will lead to a reduction in average annual interest expense of approximately £0.3m on current debt levels. The main covenants and security granted to the banks and other terms remain largely unchanged.

***UK Pensions De-risking Project***

After the end of the financial year the Group completed a medically underwritten insured buy-in of approximately £25m of higher risk current pensioner liabilities representing approximately 25% of current pensioner liabilities. The population in question is described as high risk because it includes members with higher annual pensions and therefore a concentration of longevity risk. The UK pension scheme is the beneficiary of the insurance contract purchased which creates matching cash flows for the pensions secured. The transaction will have no impact on the Group's accounting balance sheet but the price achieved was at a discount to the funding assumption which will be relevant to future funding discussions with Trustees. The key benefit of the transaction was the full de-risking achieved in respect of a significant proportion of current pensioner liabilities.

# Notes to the Consolidated Financial Statements

continued

## (xv) Significant undertakings as at 31 March 2015

### *United Kingdom*

Renold Power Transmission Limited\*

Renold International Holdings Limited\*

Renold Europe Limited\*

Renold Scottish Limited Partnership (Address: 3-5 Melville Street, Edinburgh, Scotland, UK EH3 7PE)\*

### *Europe (other than the United Kingdom)*

Austria Renold GmbH

France Brampton Renold SAS\*

Germany Renold GmbH

Russia Renold Russia (Obshchestvo s Ogranichennoj Otvetstvennost'u)

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

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\*

\*Directly held by Renold plc.

The subsidiary undertakings listed are those which, in our opinion, principally affected the results and assets of the Group. Companies of minor importance are omitted by virtue of section 410 of the Companies Act 2006.

All of our companies with the exception of Renold (Hangzhou) Company Limited, Renold Chain India Private Limited and Renold Transmission Technology (Jiangsu) Inc. are direct or indirect subsidiaries of Renold plc, a company incorporated in England and Wales, which ultimately holds a 100% (except for those companies in which the Group does not hold all of the shares and voting rights as set out above) interest in the equity shares and voting rights. Renold Power Transmission Limited, Renold International Holdings Limited and Renold Europe Limited are registered in England and Wales.

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

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

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

# Corporate Information

## Corporate Calendar

Annual General Meeting	21 July 2015
Half year end 2015/16	30 September 2015
Announcement of half year 2015/16 results	November 2015
Year end 2015/16	31 March 2016
Announcement of annual results 2015/16	May 2016
Payment of preference dividends	1 July 2015 and 1 January 2016

## 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>

The registered office address of Renold plc will change to the following in August 2015: Trident 2, Trident Business Park, Styal Road, Wythenshawe, Manchester, M22 5XB.

### *Company Secretary*

Louise Brace

### *Auditor*

Ernst & Young LLP

### *Broker and financial adviser*

Arden Partners

### *Financial PR consultants*

Instinctif Partners Limited

### *Registrars*

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

Telephone: If calling from the UK: 0871 664 0300 (calls cost 10p per minute plus network extras; lines are open 8.30am to 5.30pm, Monday to Friday)

If calling from overseas: +44 208 728 5000

Email: [shareholderenquiries@capita.co.uk](mailto:shareholderenquiries@capita.co.uk)

Website: [www.capitaassetservices.com](http://www.capitaassetservices.com)

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.

# Glossary

<b>2013 PSP</b>	2013 Performance Share Plan (approved by shareholders at the 2013 AGM).
<b>Adjusted</b>	Add back pension administration costs, exceptional items and any tax thereon.
<b>AGM</b>	Annual General Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.
<b>Average working capital % of sales</b>	Calculated as the average of each months closing working capital divided by rolling twelve months sales in each month.
<b>Board</b>	The Board of Directors of the Company (for more information see pages 54 to 55).
<b>CAGR</b>	Compound Annual Growth Rate.
<b>Company, Group, Renold, we, our or us</b>	We use these terms, depending on the context, to refer to either Renold plc itself or to Renold plc and its subsidiaries collectively.
<b>Directors/Executive Directors/Non-Executive Directors</b>	The Directors/Executive Directors and Non-Executive Directors of the Company whose names are set out on pages 54 and 55 of this Report.
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation. Calculated as operating profit before pension administration costs and exceptional items adding back depreciation and amortisation charged.
<b>EPS</b>	Earnings per share. Profit for the year attributable to equity shareholders of the parent allocated to each ordinary share.
<b>EY</b>	The Company's external auditor, Ernst and Young LLP.
<b>FCA</b>	Financial Conduct Authority.
<b>FRC</b>	Financial Reporting Council.
<b>Financial Year</b>	For Renold this is an accounting year ending on 31 March.
<b>FRS</b>	A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC).
<b>IAS or IFRS</b>	An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole. Financial statements are prepared in independence with IFRS as adopted by the EU.
<b>LTA</b>	Lost Time Accident.
<b>Ordinary shares</b>	Voting shares entitling the holder to part ownership of a company.
<b>ROCE%</b>	Return on Capital Employed is calculated as follows: operating profit before pension administration expenses and exceptional items divided by average operating assets and goodwill. Operating assets include tangible and intangible fixed assets, working capital and other non-current assets.
<b>ROS%</b>	Return on sales is calculated as follows: operating profit before pension administration expenses and exceptional items divided by revenue.
<b>Subsidiary</b>	A company or other entity that is controlled by Renold.
<b>2012 Code</b>	Guidance, issued by the Financial Reporting Council in 2012, on how companies should be governed, applicable to UK listed companies including Renold. A new edition of the UK Corporate Governance Code was published in September 2014 (the 2014 Code).
<b>UK GAAP</b>	United Kingdom Generally Accepted Accounting Practice. Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.
<b>Underlying</b>	Restate prior period information at current year exchange rates.