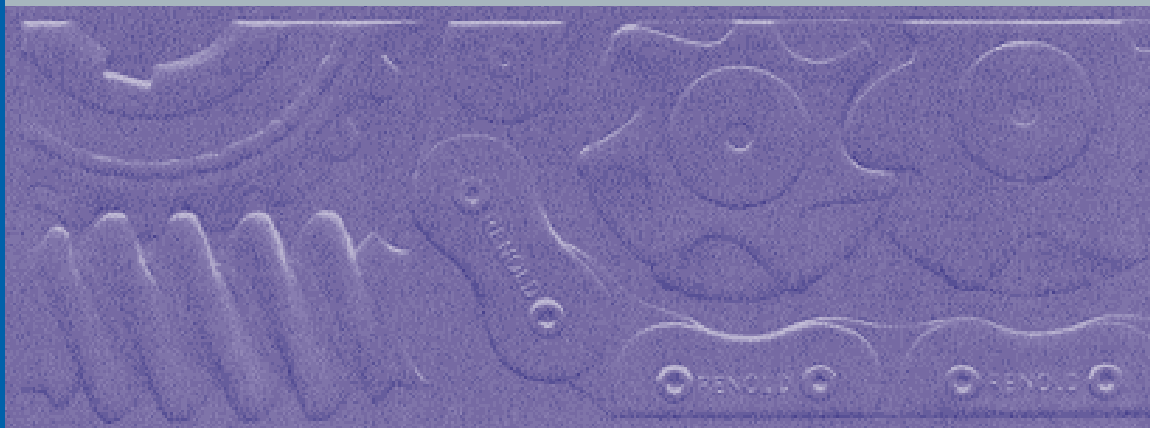
RENOLD

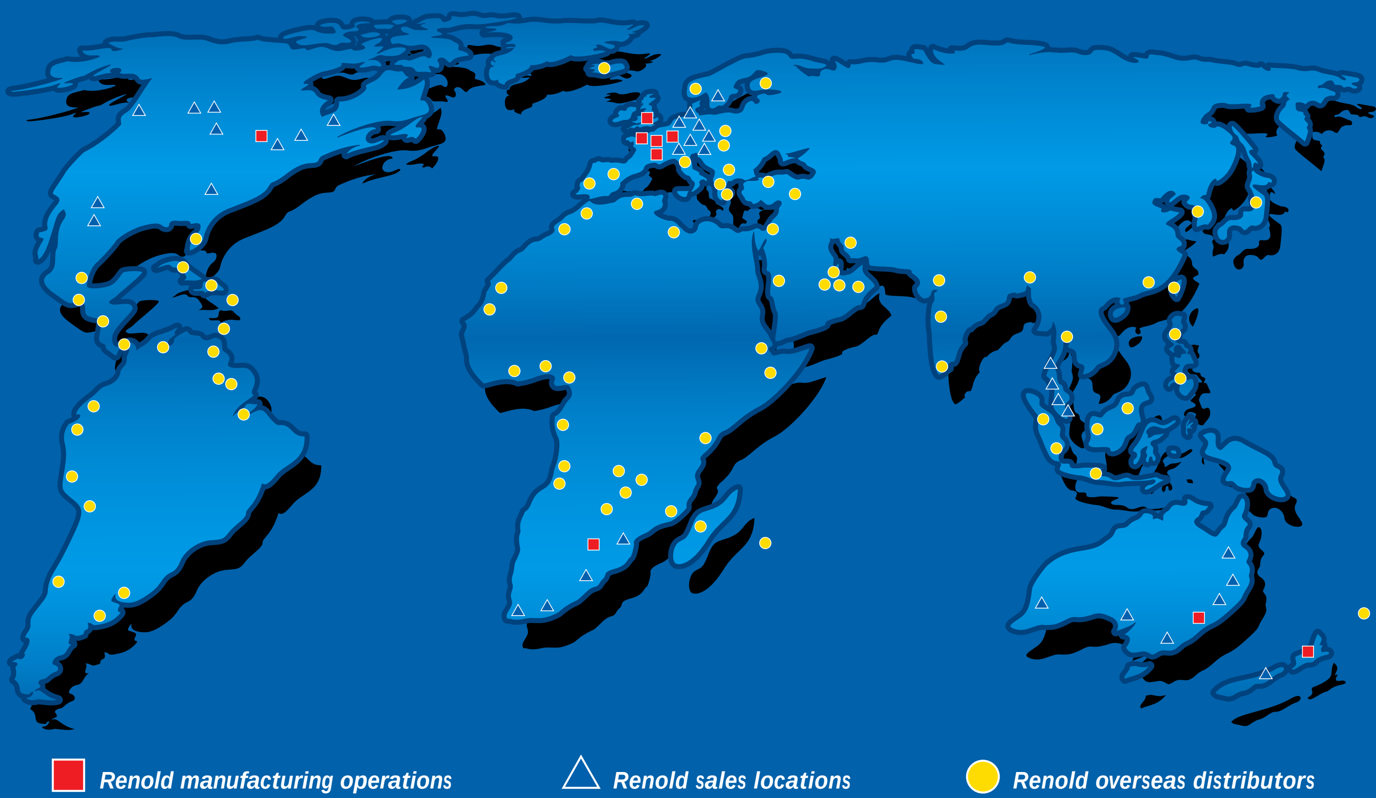


Annual

Report

1999

Contents



Principal Activities

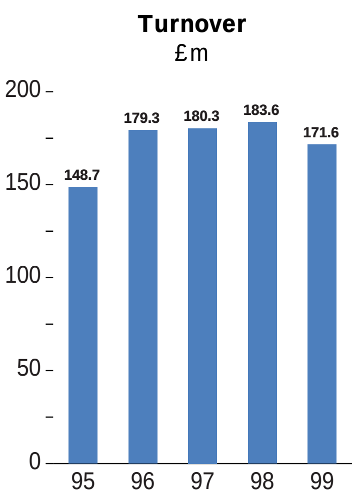
Renold plc is an international engineering group, producing a wide range of precision engineering products, and owning manufacturing and merchanting operations in seventeen countries.

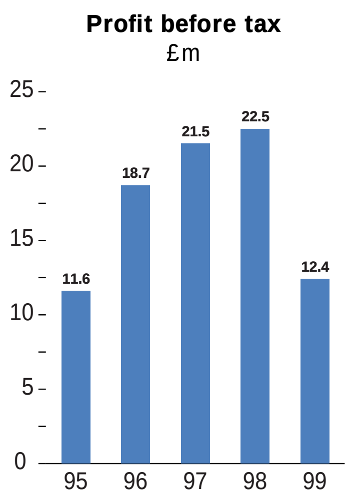
The Group's principal products include transmission and conveyor chains; gearboxes and mechanical variable speed drives; clutches, couplings and spindles; specialist machine tools and compressor rotors.

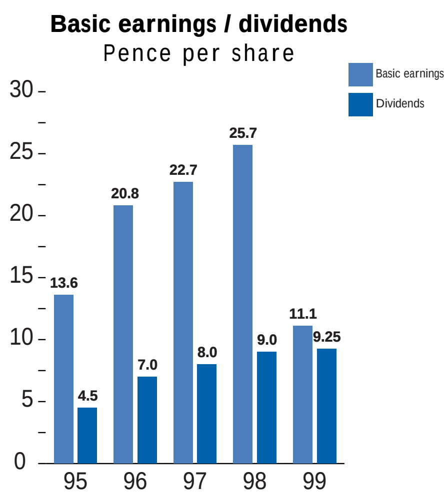
Financial Summary

for the financial year ended 3 April 1999

	1999 £m	1998 £m
Turnover	**171·6**	183·6
Trading profit before exceptional redundancy and restructuring costs	**14·0**	22·4
Profit before tax and before exceptional redundancy and restructuring costs	**14·2**	22·5
Profit before tax	**12·4**	22·5
Adjusted earnings per share	**13·5p**	25·7p
Basic earnings per share	**11·1p**	25·7p
Dividends per ordinary share, paid or proposed	**9·25p**	9·0p
Capital expenditure	**11·3**	9·6
Net cash	**10·8**	22·3







RENOLD

Directors

Standing (l to r): Tim Fortune, Ronnie Kershaw, Mark Smith, Ian Trotter. Seated (l to r): John Allan, Roger Leverton, David Cotterill

Roger Leverton (age 60)
Chairman
was appointed a non-executive Director in October 1998 and became Chairman in December 1998. He is also Chairman of engineering group Haden MacLellan Holdings plc, Chairman of Betts Group Holdings Limited, a non-executive Director of Smiths Industries plc and was previously Group Chief Executive of Pilkington plc from 1992 to 1997.

Tim Fortune (age 60)
Non-Executive Director
was appointed to the Board in 1997. He is also Chairman and was formerly Chief Executive of Spirax-Sarco Engineering plc.

Mark Smith (age 60)
Non-Executive Director
was appointed to the Board in 1994. He is also a Director of The Laird Group PLC, the Bradford & Bingley Building Society and was formerly a Director and Vice Chairman of S G Warburg & Co Ltd.

David Cotterill (age 56)
Chief Executive
joined the Group and was appointed Chief Executive in 1992. An MBA, he was previously an executive Director of Fenner PLC and Senior Engineering plc. He is a non-executive Director of British Vita PLC.

John Allan (age 58)
Finance Director
joined the Group and was appointed a Director in 1987. A chartered accountant, he was previously Finance Director of Mardon Packaging International Limited, an operating group of B.A.T Industries plc.

Ronnie Kershaw (age 53)
Managing Director –
Engineering Products Businesses
joined the Group in 1962 and was appointed a Director in 1997. A chartered engineer, he has held a number of senior management positions within the Group including the post of Managing Director of the Holroyd Machine Tool business 1982-1997.

Ian Trotter (age 55)
Managing Director –
Chain Businesses
joined the Group and was appointed a Director in 1991. A chartered engineer, he had previously held senior management positions within ACI Limited and Trinova/Vickers Systems Limited.

Directors and Officers

Chairman
R F Leverton (appointed a Director 19 October 1998 and Chairman 4 December 1998)

Executive Directors
D Cotterill *Chief Executive*
J H B Allan *Finance Director*
R B Kershaw
I R Trotter

Non-Executive Directors
T B Fortune
M A Smith

Composition of Board Committees

Audit Committee
M A Smith *(Chairman)*
T B Fortune
R F Leverton

Nomination Committee
R F Leverton *(Chairman)*
D Cotterill
T B Fortune
M A Smith

Remuneration Committee
R F Leverton *(Chairman)*
T B Fortune
M A Smith

Company Secretary
G R Newton

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Website: www.renold.com

Auditors
PricewaterhouseCoopers, Manchester

Merchant Bankers
J Henry Schroder & Co Limited

Stockbrokers
Warburg Dillon Read

Registrar
Northern Registrars Limited
Northern House
Penistone Road
Fenay Bridge
Huddersfield HD8 OLA
Telephone: +44 (0)1484 606664

Chairman's Statement

This is my first report to shareholders since I became Chairman of Renold last December.

It has been a challenging year for the Group, with market conditions more difficult than have been experienced for several years, and this has led to lower results in line with market expectations. Profit before tax (and before redundancy and restructuring costs of £1·8 million) was £14·2 million (1997/8 - £22·5 million) on a turnover of £171·6 million (1997/8 - £183·6 million). Adjusted earnings per share were 13·5 pence (1997/8 - 25·7 pence), after a higher tax charge than last year.

The Board is recommending the payment of a final dividend of 6·15 pence per share, up from 5·9 pence per share last year. Together with the interim dividend of 3·1 pence per share paid on 29 January 1999 as a Foreign Income Dividend ("FID"), this gives total dividends for the year of 9·25 pence per share which represent an increase of 2·8% compared with dividends of 9·0 pence per share paid last year. The total dividend is covered 1·5 times by adjusted earnings.

The Group's effective tax rate has increased from 22% last year to 38% this year. Last year's tax rate benefited from a credit of £0·8 million relating to the 1996/7 final dividend, and from payment of both interim and final dividends for 1997/8 as FIDs, and without these benefits the rate would have been 32%. This year the rate has increased mainly due to accelerating UK taxable income into 1998/9 to utilise surplus Advance Corporation Tax prior to its abolition on 6 April 1999. This will benefit future years, and it is expected that the underlying tax rate for the current year will fall to around 30%.

The Group's strategy is to develop a number of related businesses producing a wide range of precision engineered products, which have a strong international market share and technological leadership, where the barriers of entry are high for potential competitors and where there is price leadership in the market. Emphasis on developing these businesses in growth markets and with growth customers is key to the success of the Group. Investment will be focused continually to reduce costs and improve products in order to strengthen profit growth, and we shall search for new businesses to acquire which have similar product technology and market characteristics to our own.

In line with this strategy, the Group purchased Jones & Shipman p.l.c. on 31 December 1998 for £12·1 million including acquired borrowings. Jones & Shipman designs and manufactures a wide range of precision grinding and superabrasive machine tools for customers in the aerospace, automotive, defence and many other industries. It complements our existing machine tool business, Holroyd, which supplies sophisticated milling and thread grinding machines principally into the screw compressor market. The combined product range of Jones & Shipman and Holroyd provides a comprehensive portfolio of world class grinding machines and an international customer service network, which will allow the Group to target a much larger market for machine tool sales.

Performance in our main geographical regions was mixed. In the UK, trading conditions were weak throughout most of the year, with demand depressed by the continued strength of the pound and the impact of economic weakness in South East Asia. Prompt action was taken to address all areas of cost, including reductions in the UK workforce, mainly in the Engineering Products businesses. Demand was particularly weak in the third quarter exacerbated by customer destocking, but since the turn of the year the UK businesses have shown some signs of recovery. Despite the general buoyancy of the American economy, sales to our customers in the USA suffered from the "knock-on" effects of the problems in South East Asia. In contrast, our important businesses in mainland Europe performed well and achieved sound growth supported by healthy order books.

The Chain businesses achieved encouraging sales and profit growth in the operations in mainland Europe. Demand for automotive cam drive systems for new engine models increased rapidly, and will continue to rise this year, with a new system for a world engine for a major US customer entering production. Substantial investment is being made in additional production capacity at Calais to satisfy this demand. The German business achieved record sales and profits, with exports particularly buoyant, and the merchanting businesses

Chairman's Statement

throughout Europe performed well, with Benelux and Switzerland outstanding. In contrast, the UK market was depressed, as the strength of the pound and weak economic conditions in the Far East reduced export prospects and led to lower domestic demand. Despite this, the UK chain business earned sound, although lower, profits.

The Engineering Products businesses, which are predominantly UK based, were particularly affected by the slowdown in both home and export markets. Rapid action was taken to reduce costs significantly. The Holroyd machine tool and rotor business experienced a shortage of new major customer projects until, in March 1999, Holroyd won its largest ever order for a machine tool package, for a North American airconditioning manufacturer. Immediately following their acquisition, and in line with our initial plans, the Jones & Shipman businesses were restructured and their cost base substantially reduced, at a cost of £0·7 million. Since acquisition, orders have been won for the new Dominator grinding machines for the UK aerospace industry. The Milnrow gear box business also suffered from the lack of large capital projects, but the UK coupling businesses had a satisfactory year, with Hi-Tec Couplings in Halifax again achieving higher sales and profits.

In North America, the distribution businesses performed well, but the large couplings manufacturing business, after a strong first half, suffered from a downturn in demand from the US steel industry. Elsewhere the businesses in Australasia, the Far East and South Africa continued to be affected by weak economic conditions. However, during the latter part of the year, orders for several large projects were taken in Australia and New Zealand, and these will benefit the current year.

Capital spending at £11·3 million was 18% up on last year. This included additional production capacity for the automotive systems business and further investment at Holroyd in the dedicated rotor manufacturing cell for a major US customer, as well as the continual updating of production facilities in other businesses. Operating cash flow remained healthy at £23.8 million and, despite this substantial capital investment and the purchase of Jones & Shipman in the year, the Group balance sheet continues to be strong, with net cash of £10·8 million at the year end.

The Group's stand at Hannover Messe 1999 – an important meeting place for customers from around the world

Directors

I was appointed to the Board on 19 October 1998 and became Chairman on 4 December 1998, following the retirement of Peter Frost. Peter, who had been a non-executive director of Renold since 1984 and Chairman since 1986, took over the chairmanship at a time when the Group was in serious difficulties, and made a significant contribution to the resurgence of Renold as a leading precision engineering group. Rab Telfer, who was also appointed a non-executive director in 1984, retired on 20 November 1998. Rab always provided the Board with sound advice and guidance, and made a valuable contribution to the progress of the Group.

Employees

During my visits to a number of the Group's businesses in the UK and Europe, I have been impressed by the commitment and dedication of employees at all levels. This has been a difficult year for many of them, and their response has been admirable.

Prospects

Trading conditions continue to be mixed. Whilst the UK market is still depressed by the strength of sterling against the Euro, our businesses in mainland Europe remain robust. In the current year exports to North America are growing and there are the first signs of recovery in Australasia and the Far East. With benefits from the Group's lower cost base and a clear indication of a bottoming out in order intake, we expect to see a steady improvement in performance as the year progresses.

Roger Leverton

Chief Executive's Review

What a tough year! Although total sales fell by 9% on a direct comparison with the 1997/8 financial year, sales by the UK businesses dropped by 20%. Unfortunately this led to over 200 employees being made redundant in the UK, 14% of the workforce.

The UK manufacturing operations felt the full impact of the strength of the pound. In addition we underestimated the consequences of the turmoil in the Far East economies to ourselves and also to large customers in the UK and the USA. One by one customers cut forward order schedules from normal to zero whilst they re-balanced inventories or readjusted to the fall in demand. The fall in demand was particularly noticeable in the second and third quarters of the year and UK orders fell year on year by over 25% for three consecutive months. Happily, in the last quarter, there was some recovery in orders and rebuilding of the order book.

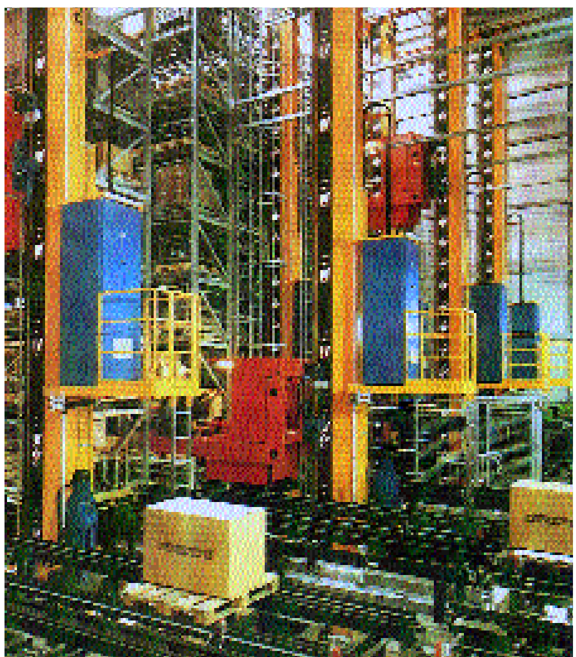
On the credit side, prompt action was taken to address the situation. Cut backs were instigated quickly and inventories reduced in proportion to the fall in sales. Some customers attempted to stretch their payment timings, but overall working capital fell more than the drop in sales and cash management systems once again proved resilient to market fluctuations. Despite the increase in capital expenditure to £11·3 million in the year and the purchase of the Jones & Shipman businesses, year end net cash was nearly £11 million.

The highlight of the year was an excellent performance from the German chain business. Whilst domestic sales were never buoyant, exports rose significantly, helped by the weakness of the deutschmark, and benefits were realised from recent investment in new automatic process, heat treatment and assembly equipment, as well as from better work flows. The net result has been an encouraging increase in factory efficiency and more improvements are planned this year, the ninetieth anniversary of the operation. Profits were well ahead and the return on trading assets was above 25%.

The Calais plant celebrated its centenary last year and, one hundred years after Arthur Brampton, a Birmingham engineer, established a cycle chain factory in Calais, he would have been proud to have seen the display of modern cars and automotive engines which are now synchronised by sophisticated Renold Automotive timing systems. He would have taken great satisfaction from seeing the design engineering and engine test facilities, as well as witnessing the skills of enthusiastic engineers at the open day which formed the centre piece of the celebrations. As luck would have it the celebrations came at a time of peak demand on the factory.

Sales of automotive systems increased by almost 40% to record levels during the year and the manufacture of chain for the industrial market was switched to other plants to relieve the extreme pressure on the Calais facility. Actual demand from automotive customers was some 50% higher than the forward projections on which our investment plans had been based. As a consequence profitability suffered from excess overtime at weekends and through the holidays, and from increased machine breakdowns. Although investment plans were accelerated, the lead time for new equipment is on average six months. Nearly £3 million of new equipment was installed during the year, but profits only started to benefit from this investment during the last quarter. Further investment in new heat treatment, bush curling and assembly equipment is being made in the current year, some of which is being built in other Group factories. This should lead to greater production efficiencies and increased profitability.

The other much smaller "Brampton" factory at Seclin had a more stable year. Demand for its heavy duty conveyor chain was not strong and profits suffered



Fully automated handling systems rely on Renold chains slightly. Orders for industrial chain in the French market were static, although there were one or two successes in new market areas.

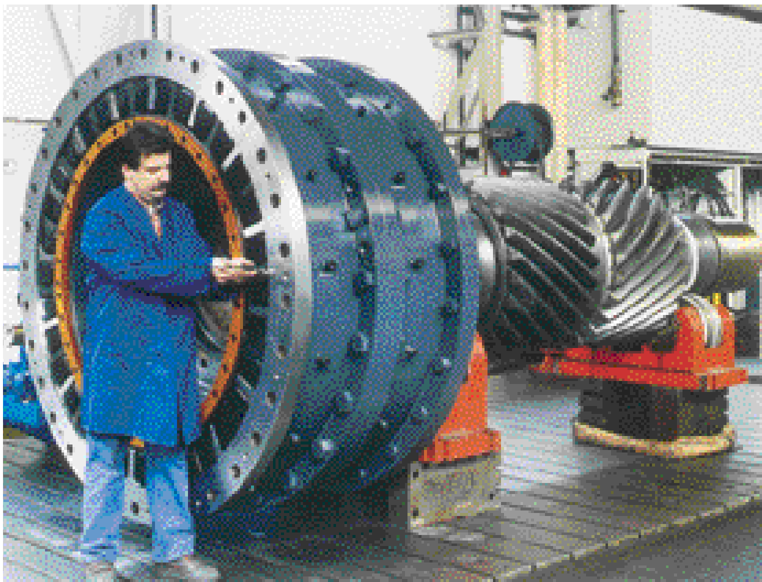
Orders for chain in the UK fell by more than 20% during the year but, like our other UK businesses, the greatest fall was in the second and third quarters of the year and the order position had improved by the year end. The factories were cushioned from the worst of the fall in UK orders by demand from overseas, particularly for Europe. Nevertheless employee numbers had to be cut back to maintain efficiency. Whilst the fall in profitability was significant, profit remained at a healthy level.

This was not the case in our other power transmission manufacturing plants in the UK. The Halifax Hi-Tec coupling plant was the exception, enjoying another excellent year following large orders won in the previous year. £1 million has been spent on two large machining centres which greatly improved manufacturing efficiency. Order intake was more modest but should lead to another satisfactory performance this year, albeit lower than last year's record level.

The other UK manufacturing businesses had a torrid time. The economic problems in the Far East hit Holroyd and the Gears businesses directly, and Holroyd's air conditioning OEM customers in the USA were also severely affected by the cutback in new construction in their Asian markets. Both Gears and Manifold suffered from the strength of the pound in sales to "Euroland" where either margins had to be sacrificed or business was lost. In addition UK customers' own activity suffered as exporters were squeezed by the pound's strength, whilst distributors destocked as the UK manufacturing economy hit the doldrums. Following the compulsory purchase of its leased site, Manifold is being relocated to a modern new factory at Loughton, Essex. The Cardiff couplings business and the Bradford hydraulics and variators business had similar tales of woe. In total UK profits fell £8·4 million compared with the previous financial year.

Despite the setback in demand capital investment continued in the UK businesses and plans are in place for further investment in the current year to improve the quality specification of our products, and to further improve manufacturing efficiency.

The small European resale businesses had a very satisfactory year. In by no means buoyant market conditions a modest increase in sales produced a 22% increase in profits. The Austrian, Benelux and Swiss businesses were the star performers but once again more than useful profits were generated by the Danish and Swedish businesses.



A 25-tonne Renold Hi-Tec coupling being installed at Mannesmann's steel works in Germany

Sales in North America fell in the year, and a significant drop in demand in the third quarter affected second half results. The biggest fall in orders came from steel manufacturing customers where the impact of the collapse of the value of Asian currencies led to greater competition from Asian steel mills, and then to a temporary standstill in orders. The situation eased considerably in the fourth quarter with orders 10% higher than in the same quarter last year.

Renold Power Transmission Corporation, the resale business for the USA based in Cincinnati, made good inroads into the US escalator and elevator market and, after its rapid growth over the past four years, is being relocated into larger premises. The Renold Ajax coupling factory at Westfield, upper New York State, has been modernised with virtually all its machine tools either new or refurbished during the past four years. In the first half of the year large sales were made to the steel industry and in the second half orders were won for couplings for mass transit railway systems. The Canadian resale business produced another solid performance to mark the retirement of the MD, Keith Bank, after 43 years' service with the Group. In his five year stint as MD he produced record sales and profits, and Renold Canada won our "Top Business of the Year" award in two of those years. We thank Keith for his significant contribution to the Group.

For most of the year the Australian, New Zealand, Malaysian, Singaporean and the South African businesses had a tough time. Orders and sales fell from the lows of the previous year and much of the year was spent in cost cutting and retrenchment. However, there was an upturn in orders in Australia and New Zealand in the second half which started to flow through into profits by the final month of the year. Both businesses ended the year with much healthier order books than the previous year. There were encouraging signs, also, in Malaysia and Singapore which produced good results in the difficult trading environment. In South Africa, there has been a major restructuring of the business, consolidating operations in the facility in Johannesburg with a 40% reduction in employee numbers.

The acquisition of Jones & Shipman p.l.c. and its fit with Holroyd

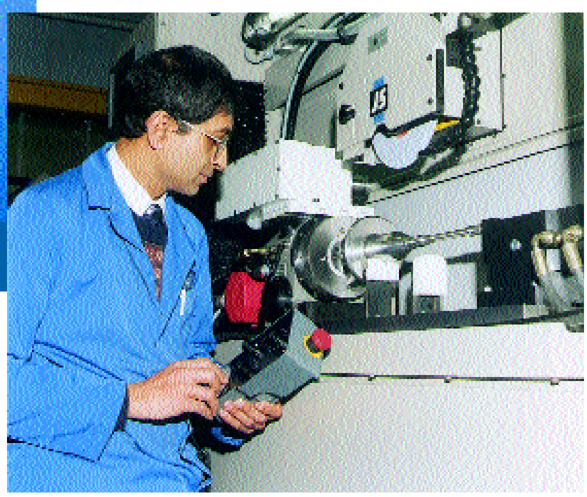
The Holroyd machine tool business is a great strength within the Renold Group. Holroyd has consistently produced excellent results even when other core businesses were struggling. Although Holroyd had a difficult year we believe that this is an exception. It is a niche business specialising in machine tools for volume production of helical forms with consistent high accuracy. Its markets are very focused - screws for pumps for air conditioning, chilling, vacuums, and superchargers. It has developed from high speed milling to high speed grinding, but has not yet been able to expand its customer base successfully into other end use markets.

Jones & Shipman manufacture a wide range of cylindrical and creepfeed grinding machines

Jones & Shipman, which was acquired on 31 December 1998, produces high speed grinding machines for volume production of specialist components for specialist markets - turbine blades, medical instruments, high accuracy automotive components. Holroyd's machine tools can also be sold

Edgetek Machine Corporation manufacture a range of superabrasive machining and turning systems

to Jones & Shipman's customers, and Jones & Shipman's machines can be sold to Holroyd's customer base. The two businesses also complement each other geographically, Holroyd is strong in the Far East whereas Jones & Shipman is stronger in Europe - each business has its own selling organisation in these areas. Both have in-house sales and service facilities in the USA. Virtually every Jones & Shipman and Holroyd machine tool in the current range has been developed in the past five years. Jones & Shipman has world class products in cylindrical, surface and superabrasive grinding. Jones & Shipman is a strong brand, with technical leadership and a high market share in the markets in which it operates. Its focus on aerospace and industrial turbine rotor manufacturing fits the Renold strategy of focusing products on growth customers in growth markets.



Holroyd's new TG150E thread grinding machine with a fully automated component loading system

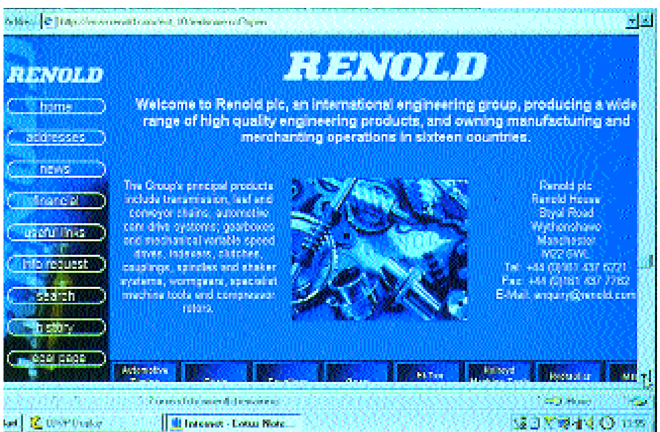
Last year, Jones & Shipman experienced a downturn in orders which exposed its fragile cash resources after a period of heavy R&D expenditure and product launch costs, and this presented Renold with the acquisition opportunity. Jones & Shipman had bought a superabrasive machine tool business, Edgetek Machine Corporation, in the USA during a period of market strength in the previous year, and also has an interesting operation in Goodwin Electronics, which will strengthen the control system technology available to the machine tool businesses. Following acquisition the cost base of the Jones & Shipman businesses was reduced, resulting in 20% of the workforce being made redundant. By the end of the year the Jones & Shipman International operation based at Leicester had made good progress, but the smaller Edgetek operation continues to require considerable management attention. With only a gentle upturn in machine tool orders the Jones & Shipman businesses should make a significant contribution to Group profits.

"E" and "I" Communication

Until a year ago Renold's approach to electronic communications was fragmented. Only two or three of our businesses had developed electronic network communications systems, following the installation of new computer systems. Two years ago senior executives attended courses of telecommunications providers and were impressed by the speed of growth of such systems. It was clear that Renold, as a total organisation, had to be on the "E" (electronic) and "I" (Internet and Intranet) trains quickly. Some changes were made in the organisation to reflect the importance of introducing these new systems speedily. Since then everyone caught the train, enjoyed their first journey, and today Renold has an impressive Group-wide Intranet communication system, as well as a growing reputation for an effective position on the Internet.

The Group can now communicate speedily and exploit an ever growing amount of database information around the world. In this respect I mentioned last year that the Bredbury chain factory was quoted as a reference by IBM/Lotus for the use of Lotus Notes® in a manufacturing environment. The use of this electronic network system is now being exploited in all areas of the business for sharing technical information, product development, customer trends, health and safety issues, as well as important financial data. During the year we received our first orders through the Internet via our website **www.renold.com** and we are committed as an organisation to develop such facilities to the 'outside world', as well as to customers and suppliers.

Two major preoccupations during the year have been the introduction of the 'Euro' (and making sure systems could cope) and dealing with problems associated with the year 2000 - the so-called millennium bug. The introduction of the Euro has caused no real problems. Many of our larger customers have already insisted that they are invoiced in and pay in Euro. In addition, benefits have been realised from our ability to use the Euro for intra Group financing without any currency risk exposure. Most of the new computer systems to replace non-compliant year 2000 systems are up and running. The remainder are due to be in place over the next few months. As a result of all the effort to overcome the impact of the "bug" we are benefiting from the introduction of new state of the art computer systems in various operations.



www.renold.com – the Group's internet website home page

Chief Executive's Review

continued

Installation of Renolube chain on one of Merseyrail's public escalators

It is disappointing to have had to make such a large number of employees redundant during a year when trading conditions have been so difficult. Nevertheless at the same time a great deal of investment has been made in people, whether it be in training or in making the working environment a better and safer place. Health and safety issues have moved up the agenda over the past two years, not just because of legislation, but because of the serious commitment of employers to a safe and healthy working environment. Capital expenditure has underwritten this commitment. On the training front two UK factories are being assessed for Investors in People accreditation over the next few months. Links have been strengthened with local schools and colleges, and we continue to support research programmes at a number of universities.

The investment in product development continues. A new specialised thread grinding machine is being developed by Holroyd. The Gears business is introducing a new range of gearboxes. Hi-Tec Couplings has introduced a new range of rubber to metal bonded couplings for use with large diesel engines. Two new exciting chain derivatives are currently under test. The automotive systems business is constantly working on new system designs for the world's auto makers. Jones & Shipman has just completed a massive upgrade of its total product range and, with the superabrasive techniques from Edgetek, offers to customers in the aerospace, medical and automotive industries up to tenfold productivity gains in the precision production machining of components.

Has the strategy failed? A 9% drop in sales would suggest so. Unfortunately recent successful growth market sectors such as information systems, financial services and medical care do not consume many chains or other power transmission products. Other growth areas like pharmaceuticals and oil which do use Renold products have been subject to consolidation and plant closures. Only the automotive industry has provided significant growth opportunities, from which we have benefited with new product launches by particular target customers. Other target areas such as escalator, elevators, mass transit railway systems, fork lift trucks, automatic warehousing, packaging equipment, theme leisure park equipment and particularly air conditioning and chilling all suffered pauses and declines from their strong growth patterns of the previous five years. Much of the decline can be attributed to the problems in the Far Eastern economies. Indeed sales to the palm oil processing market remained at the same level as the previous year after five years of 20% compound growth.

After the gloom of the year under review there is more optimism running through the organisation. The first half of last year was notable for its lack of project orders whereas towards the end of the year significant orders were received for new steriliser installations, major escalator projects, and a major order for a manufacturing cell for a US air conditioning OEM. At the same time the pace of orders is increasing from the Far East and Australasia. The benefit of this increase in orders should start to be felt by the second quarter of the current year.

The strategy is intact. The growth customers have paused and consolidated, but their long term growth will endure, as will that of the Renold Group.

David Cotterill

Financial Review

Profit and loss account

Sales turnover was £171·6 million compared with £183·6 million last year. Excluding the contribution from the Jones & Shipman businesses, which were acquired on 31 December 1998, this was 9% lower than the previous year. In difficult market conditions lower sales by our UK businesses, and by the operations in Australasia and the Far East, were partly offset by the significant growth of the Automotive Systems business in Calais, and by a good performance from the Group's other European businesses. In North America, after a strong first half, demand turned down as the US steel industry suffered from import penetration by Asian manufacturers.

Trading profit before exceptional redundancy and restructuring costs was £14·0 million, compared with £22·4 million in 1997/8, including a loss of £0·3 million by the Jones & Shipman businesses following acquisition. Operating margins, for the ongoing businesses, were 8·5%, compared with 12·2% last year. The trading profit by geographical region of operation, shown in Note 1 to the Accounts, shows the impact on UK profits of the weakness in UK domestic and export markets; demand in the third quarter was particularly weak, but was followed by an encouraging improvement in the final quarter. In Germany profits rose to a new record level, and there were gains in France and in the rest of Europe. North America was below last year's good performance, and profits in the rest of the world (Australasia, Far East and South Africa) were adversely affected by the economic conditions. Exceptional redundancy costs of £1·1 million were incurred in the ongoing businesses, largely in the UK, as prompt action was taken to reduce employment levels in line with demand. Immediately following the acquisition of Jones & Shipman, £0·7 million was spent restructuring the organisation and reducing the size of the workforce.

The Group's return on average trading assets remained healthy at 17·1%, although this was down on the record level of 27·9% achieved last year. Net interest receivable was £0·2 million, up from £0·1 million in 1997/8. Profit before tax for the year, before the redundancy and restructuring costs, was £14·2 million compared with £22·5 million last year.

The taxation charge amounted to £4·7 million, representing an effective rate of 38%, compared with 22% in the previous year. Last year's tax rate benefited from a credit of £0·8 million relating to the 1996/7 final dividend, and from payment of both interim and final dividends for 1997/8 as FIDs, and without these benefits the rate would have been 32%. This year the rate has increased mainly due to the decision to accelerate UK taxable income into 1998/9 to utilise surplus Advance Corporation Tax prior to its abolition on 6 April 1999. This decision will benefit the tax rate in future years, and it is expected that the underlying tax rate for the current year will fall to around 30%.

Reported profit after tax was £7·7 million compared with £17·6 million last year. Adjusted for the exceptional redundancy and restructuring costs, this represents earnings per share of 13·5 pence, compared with 25·7 pence earnings per share last year. The total dividends paid and proposed of 9·25 pence per share represent an increase of 2·8% over the dividends paid last year, and are 1·5 times covered by adjusted earnings.

The world's leading material handling specialists rely on Renold fork lift truck chains

Financial Review

continued

Balance sheet

Goodwill of £2·9 million arose on the acquisition of Jones & Shipman p.l.c.; in accordance with Financial Reporting Standard (FRS) 10, this has been capitalised and will be amortised over a 20 year period.

Group Trading Assets at year end were £89·7 million, up £10·8 million from the previous year, mainly due to the acquisition of Jones & Shipman. Fixed assets were £7·8 million higher; capital expenditure of £11·3 million was some 1·5 times depreciation of £7·5 million and £3·3 million of assets were acquired with Jones & Shipman. Shareholders' funds increased from £86·0 million to £88·7 million, due to retained profit of £1·3 million and new share issues of £0·7 million, and a £0·7 million gain on exchange translation of the net assets of the overseas subsidiaries.

Cash flow and borrowings

Cash flow from operating activities remained strong at £23·8 million, compared with £29·2 million in the previous year. Tight control was maintained on working capital which was £3·8 million down, broadly in line with the lower level of activity. Payments for fixed assets amounted to £11·5 million, whilst tax and dividends cost £12·7 million. The Jones & Shipman group was purchased for £5·7 million, financed from the Group's cash resources; in addition we assumed £6·4 million of Jones & Shipman's own borrowings. After these substantial investments, the Group's balance sheet still remained healthy, with cash, net of borrowings and finance lease liabilities, of £10·8 million at the year end, although down on last year's level of £22·3 million.

Treasury and financial instruments

The Company has adopted FRS 13 – Derivatives and Other Financial Instruments, for 1998/9. Numerical disclosures, in accordance with that standard, are set out in Note 25 on pages 39 and 40. Additional commentary concerned with these disclosures is made below.

The Group Treasury policy, approved by the directors, is to manage its funding requirements and treasury risks without undertaking any speculative risks. The Group does not use financial derivatives to hedge currency translation exposure on its investments in overseas subsidiaries. Except for the arrangements referred to below for the management of foreign currency and interest rate risks, the Group has not made use of financial derivatives.

The principal funding for the Group in the UK is through unsecured term loans and overdraft facilities with our clearing banks, whilst overseas subsidiaries have borrowing facilities with their local banks. The undrawn committed borrowing facilities are more than adequate to meet the foreseeable requirements of the Group.

The exposure to interest rate fluctuations on the UK term loans of £5·7 million has been managed by using interest rate swaps. The weighted average interest rate at 3 April 1999 on these loans, after taking account of interest rate swaps arranged in May 1995, was 9·2% per annum. Whilst the swaps were fixed when interest rates were substantially higher than at the present time, these fixed rates have a weighted average period in excess of a further seven years. Cash deposits are placed short term with banks where security and liquidity are the primary objectives.

A major exposure of the Group relates to currency risk on its sales and purchases made in foreign (non-functional) currencies, and to reduce such risks these transactions are covered, as commitments are made, primarily by forward foreign exchange contracts. Such commitments generally do not extend much further than two to three months beyond the balance sheet date, although exceptions can occur in the machine tool businesses and elsewhere where longer term projects are entered into.

John Allan

Report of the Directors

for the financial year ended 3 April 1999

To be presented to the sixty-ninth Annual General Meeting of Renold plc to be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Friday, 23 July 1999 at 2.30 p.m.

The Notice of Meeting is included on pages 43 and 44.

Group results

The profit for the year on ordinary activities before tax was £12·4 million compared with £22·5 million for the previous year. After taxation, the profit attributable to ordinary shareholders was £7·7 million compared with £17·6 million last year.

There was a retained profit of £1·3 million after charging the cost of dividends of £6·4 million. Last year there was a retained profit of £11·4 million after dividends of £6·2 million.

The principal activities of the Group are set out on the inside front cover and a review of the development of the business is contained in the Chief Executive's Review on pages 6 to 10.

An indication of future developments is also given in those pages and in the Chairman's Statement on pages 4 and 5.

In the opinion of the directors, the activities of the Group are almost wholly within the power transmission sector of the engineering industry and therefore the results are disclosed as one class of business.

Dividends

An interim dividend of 3·1 pence per ordinary share was paid as a Foreign Income Dividend on 29 January 1999.

A final dividend of 6·15 pence per ordinary share is now recommended which would bring the total payment for the year to 9·25 pence per share compared with 9·0 pence per share for the year 1997/8. If approved, the final dividend will be paid on 5 August 1999 to members appearing on the register on 25 June 1999.

Preference dividend payments were made on 1 July 1998 and 1 January 1999.

Acquisition

On 31 December 1998, the Group acquired the whole of the ordinary shares of Jones & Shipman p.l.c. for a cash consideration, including costs, of £5·6 million. Subsequently, the Group has acquired the whole of the preference shares of Jones & Shipman p.l.c. for £0·1 million in cash. Details of the acquisition are given on page 38.

Directors

The present constitution of the Board and of the Audit, Nomination and Remuneration Committees at the date of this Report is set out on page 3.

Dr R G J Telfer resigned as a director on 20 November 1998 and Mr J P Frost resigned as Chairman and as a director on 3 December 1998.

Mr R F Leverton was appointed a director on 19 October 1998 and as Chairman on 4 December 1998. Having been appointed since the last Annual General Meeting and, being eligible, he offers himself for election at the Annual General Meeting. He does not have a service contract with the Company.

Mr D Cotterill and Mr J H B Allan retire by rotation and, being eligible, offer themselves for re-election. Mr Cotterill has a service contract which can be terminated by the Company giving three years' notice, and Mr Allan has a service contract which can be terminated by the Company giving two years' notice

Biographical details of the directors are on page 2.

Directors' interests

The interests of the directors and their families in the ordinary shares of Renold plc and in options held under share option schemes are given in the Remuneration Report on pages 18 to 20. No director had any interests in contracts of significance in relation to the Company's business during the year.

Report of the Directors

continued

Special business – Annual General Meeting

Amendment to Articles – Variation to 6% cumulative preference stock of 580,482 £1 units

At the forthcoming Annual General Meeting the directors will propose an amendment to the Company's Articles of Association which refer to payment of the dividend on the 6% cumulative preference stock at a rate of 4·2% pursuant to provisions of the Finance Acts 1972 and 1976. Following the abolition of advance corporation tax from 6 April 1999, holders of the cumulative preference stock will be paid dividends at the rate of 6% per annum.

Power to allot shares and disapplication of pre-emption rights

The directors consider it desirable to renew the general authorities granted at the last Annual General Meeting with regard to the allotment of shares in the Company and which will lapse on the date of the next Annual General Meeting or 22 October 2000, whichever is the earlier.

Firstly, the general authority, pursuant to Section 80 of the Companies Act 1985, enabling the directors to allot unissued ordinary shares up to a nominal amount of £5,765,995 representing 33·33% of the current issued ordinary share capital of the Company. Secondly, the authority to disapply Section 89(1) of the said Act, which gives pre-emption rights to shareholders, to the allotment of shares for cash in connection with a rights issue, the Company's share schemes (under the limits of the above general authority) and otherwise up to a nominal amount of £864,899 representing 5% of the current issued ordinary share capital of the Company. Except for the issue of shares pursuant to the Company's employee share schemes the directors have no present intention of issuing any part of the unissued share capital. Resolutions 7 and 8 will be proposed to give effect to these measures.

Share capital

Changes in share capital during the year are set out in Note 15 to the Accounts on page 35.

As at 4 June 1999, the Company had been notified, pursuant to the Companies Act 1985, as amended, of the following interests in its issued ordinary share capital:

(i)	Interests equal to or more than 10%	
	(which may include "material interests" notified to the Company under (ii) below)	%
	Prudential Corporation plc	24·60
(ii)	"Material interests" equal to or more than 3%	
	The Equitable Life Assurance Society	5·28
	Britannic Assurance plc	4·80
	Scottish Equitable plc	3·62

Employee share schemes

The profit sharing allocation of £340,000 set aside out of the profit on ordinary activities attributable to the UK companies for 1997/8 was utilised to issue 185,058 ordinary shares under the Renold Employee Share Scheme. Each of 1,341 eligible participants was allocated 138 ordinary shares in August 1998 at an initial market value of 183·1 pence per share.

The number of shares reserved for issue under the three employee share schemes is currently 6,919,195 being such number of ordinary shares of 25 pence each as represents 10% of the ordinary share capital in issue from time to time.

Employment policies

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

The policy of the Company and its UK subsidiaries is to ensure that disabled applicants for employment are given full and fair consideration, and that existing disabled employees are given equal access to training, career development and promotion opportunities. In the event of employees becoming disabled whilst in the employment of the Company, all reasonable means are explored to achieve retention in employment in the same or an alternative capacity.

Report of the Directors

Employees

At 3 April 1999 the Renold Group employed 2,881 people, including 1,551 in the UK and 839 in the rest of Europe.

Research and development

The research and development activities of the Group continue to be principally directed towards the development of new products and manufacturing methods, and the improvement of performance and cost effectiveness of existing products.

Expenditure on research and development in the year 1998/9 amounted to £1·9 million.

Policy on payment of suppliers

Individual operating businesses are responsible for agreeing the terms and conditions under which transactions with their suppliers are conducted, including the terms of payment. It is the Group's policy that payments to suppliers are made in accordance with these terms, provided that the supplier complies with all relevant terms and conditions.

At 3 April 1999 trade creditors of the Group's businesses in the UK and overseas represented 67 days' purchases, compared with 72 last year.

Donations

During the year contributions to UK organisations for charitable purposes amounted to £500 (1997/8 - £7,500). There were no contributions made to political parties.

Auditors

Following the merger of Price Waterhouse and Coopers & Lybrand on 1 July 1998, Price Waterhouse resigned as auditors in favour of the new firm, PricewaterhouseCoopers, and the directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. A resolution to reappoint PricewaterhouseCoopers as auditors of the Company will be proposed at the Annual General Meeting.

Year 2000

The Group's programme to address the Year 2000 issue has continued throughout the year. Considerable progress has been made in replacing non-compliant computer systems and in verifying the compliance of machinery and other equipment which could potentially be at risk. Communications are being maintained with key suppliers and customers to assess their Year 2000 capability.

A limited amount of work remains to be done and it is intended that the Group will complete this in good time to achieve an acceptable state of readiness. However, given the complex and pervasive nature of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will occur.

The capital cost of new computer hardware and software purchased during the year to replace non-compliant systems was £1·5 million, bringing the total over the last two years to £2·5 million; a further £0·3 million is budgeted for 1999/2000. Other work to implement action plans is, in the main, being carried out by in-house personnel, the cost of which is not separately identifiable.

By order of the Board
G R Newton
Secretary
14 June 1999

Corporate Governance

The Combined Code

The Principles of Good Governance and Code of Best Practice prepared by the Hampel Committee (the "Combined Code") was issued in June 1998 and has been appended to the Listing Rules of the London Stock Exchange ("the Listing Rules"). The Company is required, under the Listing Rules, to include in its accounts statements as to how it has applied the principles set out in the Combined Code and whether or not it has complied with the Code provisions throughout the accounting year. The ways in which the Company applies relevant principles of corporate governance contained in the Combined Code are described below and in the appropriate parts of this report.

Statement of Compliance

The Company has complied throughout the year ended 3 April 1999 with the provisions set out in Section 1 of the Combined Code, with the following exceptions:

– the appointment of Mr M A Smith as senior independent director was made on 12 November 1998;

– the Remuneration Report on pages 18 to 20 draws attention to executive directors' service contracts which are subject to two years' notice by either party and the service contract of Mr D Cotterill, Chief Executive, which is subject to three years' notice.

Board

The Board comprises a non-executive Chairman, two other independent non-executive directors and four executive directors. The roles of Chairman and Chief Executive are held by separate directors. Biographies of the directors appear on page 2.

The Board meets on a regular basis (eleven times in the last financial year) with an agenda and necessary papers for discussion distributed in advance of each meeting.

The Board believes that the non-executive directors are independent and free from any business or other relationship that could interfere with the exercise of their independent judgement.

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.

All directors are subject to election by shareholders at the first Annual General Meeting following their appointment and to re-election thereafter at intervals of no more than three years.

Audit Committee

The Audit Committee is a committee of the Board comprised of the non-executive directors. The Committee is chaired by Mr M A Smith and meets three times a year. The Chief Executive and Finance Director attend meetings at the request of the Committee. Its terms of reference include the review of the Group's financial statements, the review of internal control systems and the conduct of the external audit.

Nomination Committee

The Nomination Committee is a committee of the Board comprised of the non-executive directors and the Chief Executive, chaired by the Chairman of the Board, Mr R F Leverton. The Committee meets as required and its terms of reference are to select and recommend any new appointments of either executive or non-executive directors to the Board.

Remuneration Committee

The Remuneration Committee is a committee of the Board comprised of the non-executive directors and is chaired by the Chairman of the Board, Mr R F Leverton. The Chief Executive attends meetings at the request of the Committee. This Committee determines the terms and conditions of employment including remuneration of the executive directors.

The Remuneration Report is set out on pages 18 to 20.

Corporate Governance

Internal financial controls

The Combined Code has introduced a requirement that the Directors review the effectiveness of the Group's systems of internal controls. However, formal guidance as to the review of non-financial internal controls has yet to be published and we will report on this next year on the basis of that guidance. In the meantime, as allowed by the London Stock Exchange, we continue to report solely on our review of internal financial controls.

The Group's system of internal financial controls, for which the directors have overall responsibility, is designed to safeguard the Group's assets against unauthorised use or disposition, to ensure the maintenance of proper accounting records and the reliability of financial information used within the business and for publication. These systems, by their nature, can provide only reasonable, not absolute, assurance against material misstatement or loss.

The key features and procedures of the system of internal financial controls are as follows:

- an organisation 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 budgets covering profit and cash flow, which are approved by the Board; the review of monthly detailed reports comparing actual performance with budget, and of updated financial forecasts;
- procedures for the appraisal, approval and control of capital investment proposals including acquisitions and disposals;
- monitoring procedures which include a system of key controls questionnaires supported by internal audit reviews. The results of this work are reported to the Audit Committee.

The directors confirm that they have reviewed the effectiveness of the Group's system of internal financial controls.

UK pension schemes

The UK pension schemes are defined benefits type schemes with assets held separately from those of the Group in trustee administered funds, managed by independent managers. Under the terms of their management agreements the investment managers of the schemes' assets are not permitted to invest in the securities of Renold plc. The Boards of Trustees of the principal schemes include employee representatives. Neither the Chairman nor the Chief Executive is a Trustee.

Going concern

After making enquiries, the directors have a reasonable expectation 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 accounts.

Relations with shareholders

Meetings between directors of the Company and major institutional shareholders and fund managers are held at regular intervals.

The Chairman of the Board and of the Audit, Remuneration and Nomination Committees, together with the executive directors, are available at the Annual General Meeting to answer questions.

The Company has an Internet website on which it presents information about the Group.

Remuneration Report

Remuneration Committee

The Remuneration Committee is comprised of the non-executive directors and is chaired by the Chairman of the Board. The Chief Executive attends meetings at the request of the Chairman but does not take part in the Committee's deliberations or recommendations on his own remuneration.

The non-executive directors do not have service agreements and have no automatic right of re-appointment. They do not participate in the Company pension or share option schemes and apart from their fees and expenses do not receive any benefits from the Company.

The Committee determines the terms and conditions of employment including remuneration for the executive directors. The Committee is also responsible for the allocation of options under the Company's Executive Share Option Scheme. The determination of the remuneration of non-executive directors is the responsibility of the whole Board.

Remuneration policy

Remuneration

The aim of the Committee is to ensure that the remuneration package for directors is competitive and will attract and retain directors of the right calibre and qualifications to meet the requirements of the Company.

The basic salary of each executive director is determined by taking into account the responsibilities and performance of the individual and having regard to the external market. Included within each salary are payments under the Company's Inland Revenue approved Profit Related Pay Scheme.

In addition, the Company operates a performance related annual bonus scheme for the executive directors based upon the achievement of the budgeted annual group profit before tax and exceptional items. The total potential bonus payment is capped at 40% of basic salary but nevertheless forms a significant proportion of the total remuneration package.

Benefits in kind incorporate all assessable tax benefits from each director's employment and comprise mainly the provision of a company car, fuel for private use and private medical insurance. Neither the benefits in kind nor bonus payments are pensionable.

In assessing all aspects of pay and benefits the Remuneration Committee compares the packages offered by similar companies in the engineering sector as provided by an independent sector survey.

Details of emoluments of the executive directors, and fees payable to non-executive directors are set out below.

Directors' emoluments			1999			1998
	Salaries & Fees £000	Annual Bonus £000	Benefits £000	Payments to former directors £000	Total £000	Total £000
Executive directors						
D Cotterill	166		10		176	200
J H B Allan	117		9		126	143
R B Kershaw	117		12		129	132
I R Trotter	117		9		126	141
R L Burdett (to 9 June 1997)						22
	517		40		557	638
Non-executive directors						
Chairman						
R F Leverton (from 4 December 1998)	24				24	
J P Frost (to 3 December 1998)	42			30	72	63
T B Fortune	17				17	10
M A Smith	18				18	17
R G J Telfer (to 20 November 1998)	12			19	31	19
	630		40	49	719	747

Mr R F Leverton's director's fees are from 19 October 1998, the date of his appointment as a non-executive director. Mr T B Fortune's director's fees of £8,500 up to 1 November 1998 were paid to Spirax-Sarco Engineering plc.

The payments to former directors were made in recognition of their valuable contribution to the Group.

Note:

During the year, executive directors realised gains on exercise of share options under the Savings Related Scheme totalling £19,310. Details are given in the table of Share Options.

Remuneration Report

Directors' pensions

The executive directors participate in the Renold Supplementary Pension Scheme 1967, which is a contributory defined benefits plan. This provides for a pension at age 62 of two-thirds of pensionable salary after 20 years' service. On death in retirement, a dependant's pension of two-thirds of the member's pension is payable and, on death in service, a dependant's pension of 50% of the member's potential pension is payable together with a lump sum of four times salary. Early retirement can be taken from age 50 onwards but is subject to Company consent and actuarial adjustment where appropriate. Pensions in payment are guaranteed to increase by the lesser of 5% per annum and the rate of increase in the Retail Price Index.

In addition, where Inland Revenue limits apply, 25% of the shortfall between pensionable salary and the earnings cap is accumulated by the Company and will be paid from its own resources on retirement.

No element of remuneration other than salary is pensionable.

Details of pension benefits earned by directors under the defined benefits scheme, and the cost to the Company of amounts in respect of unfunded pension obligations provided for but not paid, are set out below:

			Defined Benefits Scheme			
Name of director	Age at year end	Years' service at year end	Directors' contributions in the year £000	Increase in accrued pension during the year £000	Accumulated total accrued pension at year end £000	Amounts provided in the year but not paid in respect of unfunded obligations £000
D Cotterill	56	7	6	3	20	31
J H B Allan	58	11	7	4	45	
R B Kershaw	52	36	7	2	71	
I R Trotter	55	8	6	3	23	10

The increase in accrued pension during the year excludes any increase for inflation.

Share option schemes

The Remuneration Committee believes that share options are an important motivational aspect of remuneration for executive directors and senior executives who are encouraged to build up a holding of shares in the Company.

The Committee considers whether to invite executive directors and other senior executives to apply for executive share options which are exercisable after the third anniversary of the date of grant. Options granted under the Renold (1995) Executive Share Option Scheme are only exercisable if the performance condition, set by the Committee at the time of grant, is met. This performance condition is reviewed from time to time by the Committee and currently requires the Group's earnings per share to grow from the year preceding the date of grant, over three or more financial years, at a rate greater than 1.5 times the percentage increase in the UK Retail Prices Index over the same period. During the financial year executive directors and other senior executives were granted options under this scheme. In 1998, the rules of the scheme were amended to extend the final exercisable period for unapproved options granted to an employee or director after 5 April 1998 from seven to ten years after the date of grant, in line with approved options. This reflects the change introduced in the Finance Act 1998.

Options are also granted to the executive directors under the Renold (1995) Savings Related Share Option Scheme which scheme is open to all UK employees who are eligible to participate in accordance with the scheme rules. Those options granted prior to 1996 were exercisable on completion of savings under a five-year SAYE contract. In 1996, the rules of the scheme were amended to allow future options granted to be exercisable on completion of either a three-year or five-year savings contract.

Details of directors' interests in shares including options granted to executive directors under the 1985 and 1995 Executive Share Option Schemes and the 1985 and 1995 Savings Related Share Option Schemes are set out below.

Directors' interests

The beneficial interests of the directors in the ordinary shares of the Company, as appearing in the Register of Directors' Interests maintained under the Companies Act 1985, were as follows:

	3 April 1999		28 March 1998	
	Shares	Options	Shares	Options
R F Leverton	–	–	–	–
D Cotterill	233,183	75,000	215,328	72,717
J H B Allan	151,456	116,650	144,231	103,737
T B Fortune	2,000	–	2,000	–
R B Kershaw	21,473	125,721	19,918	107,138
M A Smith	5,000	–	5,000	–
I R Trotter	108,170	116,204	99,528	104,708

The only non-beneficial interest in the ordinary shares of Renold plc at the end of the year was 415,501 shares (28 March 1998 - 305,400 shares) held by Mr D Cotterill and Mr J H B Allan as trustees of the Renold Employee Share Scheme. At 4 June 1999 the number of shares held by the trustees of the scheme was 414,209.

At 3 April 1999 the only interest of the directors in the share capital of the Company was in the ordinary shares as stated above.

There have been no other changes in the interests of directors in the share capital of the Company between the end of the financial year and 4 June 1999.

Share options

	Number of share options				Option price (pence per share)	Date from which exercisable	Gains on exercise £	Expiry date
	At 28.3.98	Granted	Exercised	At 3.4.99				
D Cotterill								
Executive scheme		20,000		20,000 (a)	237·33	17.7.01		16.7.08
	20,000			20,000 (a)	242·67	18.7.00		17.7.04
	35,000			35,000 (a)	293·83	16.7.99		15.7.03
Savings related scheme	17,717		17,717		97·36	1.2.99	8,883	31.7.99
J H B Allan								
Executive scheme		20,000		20,000 (a)	237·33	17.7.01		16.7.08
	20,000			20,000 (a)	242·67	18.7.00		17.7.04
	25,000			25,000 (a)	293·83	16.7.99		15.7.03
	50,000			50,000	120·3	30.11.96		29.11.03
Savings related scheme	7,087		7,087		97·36	1.2.99	3,553	31.7.99
	1,650			1,650	200·8	1.2.00		31.7.00
R B Kershaw								
Executive scheme		20,000		20,000 (a)	237·33	17.7.01		16.7.08
	40,000			40,000 (a)	242·67	18.7.00		17.7.04
	15,000			15,000 (a)	293·83	16.7.99		15.7.03
	20,000			20,000	120·3	30.11.96		29.11.03
	30,000			30,000	52·5	24.11.95		23.11.02
Savings related scheme	1,417		1,417		97·36	1.2.99	994	31.7.99
	721			721	200·8	1.2.02		31.7.02
I R Trotter								
Executive scheme		20,000		20,000 (a)	237·33	17.7.01		16.7.08
	20,000			20,000 (a)	242·67	18.7.00		17.7.04
	25,000			25,000 (a)	293·83	16.7.99		15.7.03
	50,000			50,000	120·3	30.11.96		29.11.03
Savings related scheme	8,504		8,504		97·36	1.2.99	5,880	31.7.99
	1,204			1,204	200·8	1.2.00		31.7.00

(a) only exercisable if the performance condition approved by the shareholders at the 1995 AGM and set at the time of grant is met.

The middle market price of ordinary shares at 3 April 1999 was 170.5 pence and the range of prices during the year was 138.5 pence to 290.5 pence.

Service contracts

Mr J H B Allan, Mr R B Kershaw and Mr I R Trotter have service contracts which are subject to two years' notice and Mr D Cotterill, Chief Executive, has a service contract subject to three years' notice. The Committee believes it is appropriate to retain these notice periods for the executive directors, being the established practice at the date of their appointment. As a result of a specific review, the Committee, recognising the subsequent change in practice, has determined that in normal circumstances future appointments of executive directors will be on a twelve months' notice basis.

In determining the amount of compensation payable on termination of a service contract, it is the Committee's policy to apply normal principles of mitigation. In these circumstances, steps would be taken to ensure that poor performance was not rewarded.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditors' Report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that, in preparing the accounts on pages 22 to 40, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable Accounting Standards have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Auditors

To the members of Renold plc

We have audited the accounts on pages 22 to 40 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 22 and 23.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described above, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statements on pages 16 and 17 reflect the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if they do not. We are not required to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its internal controls.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 3 April 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

101 Barbirolli Square
Manchester M2 3PW
14 June 1999

Accounting Policies

A summary of the principal Group accounting policies is set out below. These have been applied on a consistent basis apart from the treatment of goodwill on acquisitions where the requirements of Financial Reporting Standard (FRS)10 "Goodwill and Intangible Assets" have been adopted, with effect from 29 March 1998, as explained below.

Basis of consolidation – The Group accounts set out on pages 22 to 40, which comprise a consolidation of the Parent Company and all its subsidiaries, have been prepared in compliance with the Companies Act 1985 and in accordance with applicable accounting standards. They have been prepared under the historical cost convention, but include some past revaluations of properties and equipment.

As permitted by Section 230 of the Companies Act 1985 the Parent Company has not presented its own profit and loss account.

Acquisitions and goodwill – The results of businesses acquired and disposed of during the year are included in Group profits from/to the effective date of acquisition or disposal. The net assets of businesses acquired are incorporated in the Group accounts at their fair value to the Group, after making adjustments to reflect the alignment of the accounting policies of the acquired businesses to those of the Group. Acquisitions are accounted for using the acquisition method of accounting.

Goodwill arising on acquisitions prior to 29 March 1998 was eliminated against reserves in accordance with the previous policy and has not been reinstated on implementation of FRS 10. Goodwill arising on acquisitions since 29 March 1998 is capitalised, classified as an asset on the balance sheet, and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years.

On disposal of a previously acquired business any goodwill arising on acquisition that was eliminated against reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on disposal.

Overseas currencies – Assets and liabilities of overseas subsidiaries are translated into sterling at the exchange rates ruling at the end of the financial year. Trading results are translated at the appropriate average rates of exchange for the year. Differences on exchange arising on the retranslation of net assets at the beginning of the year and from the translation of the results at average rates are taken direct to reserves.

Tangible assets represented by properties and equipment are stated at cost or valuation, less depreciation. Where revaluations are included the valuation of properties is based on the advice of professional valuers having regard to estimated realisable values and the valuation of equipment is based on replacement costs and the remaining estimated useful lives of the relevant assets. Depreciation is calculated by reference to original cost or valuation at fixed percentages assuming effective useful lives as follows:-

Freehold properties – 80 years; land is not depreciated

Leasehold properties – 80 years or the period of the lease if less

Equipment (including plant and machinery) – 5 to 25 years according to type of asset

Motor vehicles – 25% per annum for 3 years leaving 25% residual value

Tangible assets financed by leasing agreements that give rights approximating to ownership (finance leases) are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases in creditors. Finance lease costs are charged as interest based on a constant periodic rate as applied to the outstanding liabilities. Depreciation on leased assets is charged to the profit and loss account on the same basis as shown above.

Annual rentals in respect of operating leases are charged against the profit of the year in which they are incurred.

Accounting Policies

Government grants in respect of capital expenditure are treated as deferred credits in the balance sheet. An annual transfer is made to profit and loss account reflecting the benefit over the expected useful lives of the assets concerned.

Stocks are stated at the lower of cost, including full manufacturing overheads, and estimated net realisable value. Long term contract work in progress is valued at cost, less amounts transferred to cost of sales and provisions for foreseeable losses. In the Group accounts, unrealised profit on sales within the Group is deducted from stocks.

Deferred taxation – Provision is not made for deferred taxation unless there is a reasonable probability that a liability will arise within the foreseeable future. Advance corporation tax on dividends paid and proposed, where applicable, is charged in the Group profit and loss account except to the extent that it can be recovered against current taxation.

Turnover comprises the invoiced value of goods and services on ordinary activities after deducting value added tax or other sales related taxes, trade discounts and transactions between Group companies. Also included in turnover is the value of work done on long term contracts which are substantially completed by the balance sheet date and for which the outcome can be assessed with reasonable certainty. An appropriate portion of the anticipated contract profit is recognised in the profit and loss account. The amount by which recorded turnover exceeds payments received on account is classified separately as contract debtors.

Pensions – The costs of providing pensions for employees are charged in the profit and loss account over the average working life of employees in accordance with the recommendations of qualified actuaries. Funding surpluses or deficits that may arise from time to time are amortised over the average remaining working life of employees.

Research and development – Expenditure other than that on tangible assets is charged against the profit of the year in which it is incurred.

Group Profit and Loss Account

for the financial year ended 3 April 1999

	Note	1999 Continuing Operations Ongoing £m	1999 Continuing Operations Acquisition £m	1999 £m	1998 £m
Turnover	1	**167·4**	**4·2**	**171·6**	183·6
Trading costs	2				
- normal operating costs		**153·1**	**4·5**	**157·6**	161·2
- exceptional redundancy and restructuring costs		**1·1**	**0·7**	**1·8**	
		154·2	**5·2**	**159·4**	161·2
Trading profit		**13·2**	**(1·0)**	**12·2**	22·4
Interest receivable	3			**0·2**	0·1
Profit on ordinary activities before tax				**12·4**	22·5
Taxation	4			**4·7**	4·9
Profit for the financial year				**7·7**	17·6
Dividends (including non-equity)	5			**6·4**	6·2
Retained profit for the year	16			**1·3**	11·4
Adjusted earnings per share	6			**13·5p**	25·7p
Basic earnings per share	6			**11·1p**	25·7p
Diluted earnings per share	6			**11·1p**	25·5p

The profit and loss account should be read in conjunction with the notes on pages 28 to 40.

Balance Sheets

as at 3 April 1999

	Note	Group 1999 £m	Group 1998 £m	Renold plc 1999 £m	Renold plc 1998 £m
Fixed assets					
Intangible asset - goodwill	8	**2·9**			
Tangible assets	9	**53·6**	45·8	**0·3**	0·2
Investments	10			**89·1**	75·5
		56·5	45·8	**89·4**	75·7
Current assets	11				
Stocks		**46·6**	39·8		
Debtors		**36·7**	36·3	**8·9**	11·4
Cash and short term deposits		**22·6**	32·7	**4·3**	13·4
		105·9	108·8	**13·2**	24·8
Creditors – amounts falling due within one year					
Loans and overdrafts	12	**(5·8)**	(3·9)	**(0·2)**	(0·2)
Other creditors	13	**(49·0)**	(46·3)	**(5·7)**	(6·1)
Net current assets		**51·1**	58·6	**7·3**	18·5
Total assets less current liabilities		**107·6**	104·4	**96·7**	94·2
Creditors – amounts falling due after more than one year					
Loans	12	**(5·5)**	(5·8)	**(5·5)**	(5·8)
Other creditors	13	**(0·8)**	(0·9)		
Provisions for pensions	14	**(12·6)**	(11·7)	**(2·5)**	(2·4)
Net assets		**88·7**	86·0	**88·7**	86·0
Capital and reserves (including non-equity interests)					
Called up share capital	15	**17·9**	17·7	**17·9**	17·7
Share premium	16	**5·9**	5·4	**5·9**	5·4
Revaluation reserve	16	**6·3**	5·0	**21·5**	19·7
Other reserves	16	**1·3**	1·8		
Profit and loss account	16	**57·3**	56·1	**43·4**	43·2
Shareholders' funds		**88·7**	86·0	**88·7**	86·0

Approved by the Board on 14 June 1999 and signed on its behalf by:

Roger Leverton
David Cotterill } Directors

The balance sheets should be read in conjunction with the notes on pages 28 to 40.

Group Cash Flow Statement

for the financial year ended 3 April 1999

	Note	1999 £m	1999 £m	1998 £m	1998 £m
Cash flow from operating activities	21		**23·8**		29·2
Servicing of finance	22				0·3
Taxation			**(6·5)**		(5·5)
Capital expenditure					
- purchase of tangible fixed assets			**(11·5)**		(8·4)
Acquisition					
- purchase consideration including costs		**(5·7)**			
- net overdrafts acquired with subsidiary		**(1·7)**			
			(7·4)		
Equity dividends paid			**(6·2)**		(5·7)
Cash (outflow)/inflow before use of liquid resources and financing			**(7·8)**		9·9
Management of liquid resources					
Transfers from/(to) short term deposits			**11·2**		(15·8)
Financing	22				
Issue of shares		**0·7**		0·4	
Decrease in debt and lease financing		**(5·6)**		(0·6)	
			(4·9)		(0·2)
Decrease in cash in the year			**(1·5)**		(6·1)

	Note	1999 £m	1999 £m	1998 £m	1998 £m
Reconciliation of net cash flow to movement in net funds	23				
Decrease in cash in the year		**(1·5)**		(6·1)	
Cash outflow from decrease in debt and lease financing		**5·6**		0·6	
Cash flow from (decrease)/increase in liquid resources		**(11·2)**		15·8	
Change in net funds resulting from cash flows			**(7·1)**		10·3
Loans and finance leases acquired with subsidiary			**(4·7)**		
Exchange translation difference			**0·3**		(0·8)
Movement in net funds in the year			**(11·5)**		9·5
Net funds at beginning of year			**22·3**		12·8
Net funds at end of year			**10·8**		22·3

The cash flow statement should be read in conjunction with the notes on page 37.

Other Group Statements

for the financial year ended 3 April 1999

Statement of total recognised gains and losses

	1999	1998
	£m	£m
Profit for the financial year	7·7	17·6
Exchange translation differences on net assets of overseas subsidiaries	0·7	(3·4)
Total recognised gains relating to the financial year	**8·4**	14·2

Reconciliation of movements in shareholders' funds

	1999	1998
	£m	£m
Profit for the financial year	7·7	17·6
Dividends	(6·4)	(6·2)
Retained profit for the year	1·3	11·4
Issue of ordinary shares	0·7	0·4
Exchange translation differences on net assets of overseas subsidiaries	0·7	(3·4)
Goodwill arising on acquisition		0·1
Net addition to shareholders' funds	2·7	8·5
Opening shareholders' funds	86·0	77·5
Closing shareholders' funds	**88·7**	86·0

Historical cost profits and losses

There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis.

Notes on the Accounts

1. Analysis of activities

Activities classified by geographical region of operation:

	1999			1998		
	Turnover	**Trading profit**	**Trading assets**	Turnover	Trading profit	Trading assets
	£m	**£m**	**£m**	£m	£m	£m
United Kingdom	**81·4**	**4·8**	**52·3**	96·4	13·2	43·7
Germany	**36·7**	**3·7**	**10·9**	35·9	2·8	10·9
France	**31·0**	**2·0**	**7·5**	24·9	1·6	6·4
Rest of Europe	**17·9**	**1·7**	**4·1**	17·1	1·4	3·7
North America	**30·7**	**1·7**	**9·5**	32·0	2·7	8·0
Other countries	**16·1**	**0·1**	**5·4**	22·0	0·7	6·2
	213·8	**14·0**	**89·7**	228·3	22·4	78·9
Less: Intra Group sales	**42·2**			44·7		
Less: Exceptional redundancy and restructuring costs		**1·8**				
	171·6	**12·2**	**89·7**	183·6	22·4	78·9

Turnover by geographical region includes intra group sales as follows: United Kingdom £28·2 million (1997/8 - £30·1 million), Germany £9·8 million (1997/8 - £9·6 million) and France £3·3 million (1997/8 - £4·1 million).

Trading assets comprise fixed assets, current assets less creditors but exclude goodwill, cash, property held for sale, borrowings, dividends, corporate tax, finance lease obligations and provisions for pensions.

Geographical analysis of external turnover by market area:

	1999	1998
	£m	£m
United Kingdom	**35·3**	40·7
Germany	**30·1**	26·9
Rest of Europe	**44·7**	41·4
North and South America	**40·2**	44·3
Other countries	**21·3**	30·3
	171·6	183·6

In the opinion of the directors, the activities of the Group are almost wholly within the power transmission sector of the engineering industry and therefore the results are disclosed as one class of business.

Notes on the Accounts

2. Trading costs

	1999		1998	
	£m	£m	£m	£m
Change in stocks of finished goods and work in progress		1·0		
Raw materials and consumables		57·1		64·3
Own work capitalised		(1·4)		(0·9)
Staff costs				
Gross wages and salaries	56·1		56·5	
Social security costs	7·5		7·3	
Other pension costs (Note 14)	3·1		2·8	
		66·7		66·6
Redundancy costs		1·8		
Depreciation				
Owned assets	7·3		6·2	
Assets acquired under finance leases	0·2		0·3	
		7·5		6·5
Operating lease rentals				
Equipment	0·5		0·5	
Other	1·1		1·1	
		1·6		1·6
Remuneration of auditors for audit work		0·4		0·4
Other external charges		27·4		25·3
Other operating income		(2·7)		(2·6)
		159·4		161·2

Trading costs for 1998/9 include £5·2 million for Jones & Shipman p.l.c. and subsidiary companies comprising raw materials and consumables costs £2·2 million, staff costs £1·7 million, depreciation £0·1 million, other external charges £0·8 million and exceptional redundancy and restructuring costs £0·7 million, offset by change in stocks of finished goods and work in progress £0·3 million.

The remuneration of the auditors for the parent company was £24,000 (1997/8 - £32,000). Remuneration of the auditors for non-audit work amounted to £87,000 (1997/8 - £111,000) of which £38,000 (1997/8 - £73,000) related to the UK.

Expenditure on research and development charged against trading profit amounted to £1·9 million (1997/8 - £1·6 million).

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

	1999	1998
United Kingdom	1,489	1,528
Germany	415	436
France	326	328
Rest of Europe	91	90
North America	195	175
Other countries	302	337
	2,818	2,894

3. Interest receivable/(payable)

	1999		1998	
	£m	£m	£m	£m
Interest receivable		1·4		1·1
Less: interest payable:				
On loans and overdrafts	(1·2)		(0·9)	
On finance leases			(0·1)	
		(1·2)		(1·0)
		0·2		0·1

Notes on the Accounts

continued

4. Taxation

	1999 £m	1999 £m	1998 £m	1998 £m
UK corporation tax based on profit of the year at the rate of 31% (1997/8 - 31%)	**7·6**		5·8	
Less: double taxation relief	**(2·3)**		(2·0)	
	5·3		3·8	
Advance corporation tax recovered	**(3·5)**		(3·2)	
		1·8		0·6
Overseas taxes		**2·9**		4·3
		4·7		4·9

5. Dividends

	1999 £m	1998 £m
Ordinary shares		
Interim dividend paid of 3·1p (1997/8 - 3·1p)	**2·1**	2·1
Final dividend proposed 6·15p (1997/8 - 5·9p)	**4·3**	4·1
	6·4	6·2

The interim dividend of 3·1 pence (1997/8 - 3·1 pence) was paid as a Foreign Income Dividend. Last year the interim and final dividends were paid as Foreign Income Dividends.

Dividends on the cumulative preference stock amounted to £27,000 (1997/8 - £24,000).

6. Earnings per share

Earnings per share is calculated by reference to the earnings for the year and the weighted average number of shares in issue during the year as follows:

	1999 £m	1998 £m
Basic and diluted earnings	**7·7**	17·6
Adjustment for exceptional redundancy and restructuring costs after tax relief	**1·6**	
Adjusted earnings	**9·3**	17·6
	Thousands	Thousands
Weighted average number of shares in issue - basic and adjusted	**68,889**	68,581
Dilutive potential of employee share options	**292**	503
Weighted average number of shares in issue - diluted	**69,181**	69,084

7. Directors' emoluments

	1999 £000	1998 £000
Aggregate emoluments	**670**	747
Gains made on exercise of share options	**19**	
Amounts provided but not paid in respect of unfunded pension obligations	**41**	40
Payments to former directors	**49**	

During the year, retirement benefits accrued to four directors (1997/8 - five) under a defined benefits scheme and to two directors (1997/8 - three) under unfunded obligations in respect of salary in excess of the earnings cap.

	1999 £000	1998 £000
Highest paid director		
Aggregate emoluments	**176**	200
Gains made on exercise of share options	**9**	
Aggregate emoluments, including gains made on exercise of share options	**185**	200
Amounts provided but not paid in respect of unfunded pension obligations	**31**	27
Accrued pension at end of year under defined benefits pension scheme	**20**	17

The amounts included above in respect of gains made on exercise of share options take no account of whether or not the directors concerned immediately sold the shares; the gains would be reduced by taxation and expenses.

Further details are given under the headings 'Directors Emoluments' and 'Directors' Pensions' in the Remuneration Report on pages 18 to 20.

Notes on the Accounts

8. Intangible asset - goodwill

	1999 £m
Arising on the acquisition of Jones & Shipman p.l.c. (see Note 24)	**2·9**

9. Tangible assets

	Group Properties £m	Group Equipment £m	Group Total £m	Renold plc Properties £m	Renold plc Equipment £m	Renold plc Total £m
Cost or valuation						
At beginning of year	17·1	87·4	104·5		0·6	0·6
Exchange adjustment	0·3	1·7	2·0			
Additions at cost	0·3	11·0	11·3	0·1	0·1	0·2
Acquisition of subsidiary	2·4	0·9	3·3			
Disposals		(0·9)	(0·9)			
At end of year	**20·1**	**100·1**	**120·2**	**0·1**	**0·7**	**0·8**
Analysis of cost or valuation						
Valuation made in:						
1971	4·0		4·0			
1974		4·7	4·7			
Assets at cost	16·1	95·4	111·5	0·1	0·7	0·8
	20·1	100·1	120·2	0·1	0·7	0·8
Depreciation						
At beginning of year	6·6	52·1	58·7		0·4	0·4
Exchange adjustment	0·2	1·1	1·3			
Depreciation for the year	0·4	7·1	7·5		0·1	0·1
Disposals		(0·9)	(0·9)			
At end of year	**7·2**	**59·4**	**66·6**		**0·5**	**0·5**
Net book value at end of year	**12·9**	**40·7**	**53·6**	**0·1**	**0·2**	**0·3**
Net book value at beginning of year	10·5	35·3	45·8		0·2	0·2

Net book value at the end of the year includes £4·5 million (1997/8 - £4·8 million) in respect of leased assets (land and buildings £3·7 million (1997/8 - £3·7 million), equipment £0·8 million (1997/8 - £1·1 million)).

The total cost or valuation of properties at 3 April 1999 comprises £14·4 million (1997/8 - £11·7 million) for freehold land and buildings and £5·7million (1997/8 - £5·4 million) for leasehold land and buildings which relates to short term leases where the period unexpired is less than 50 years.

If all tangible assets had been determined under the historical cost convention, the values would not have been materially different from the figures shown above.

Future capital expenditure

At 3 April 1999 capital expenditure contracted for but not provided for in these accounts amounted to £2·3 million (1997/8 - £2·3 million).

10. Investments

Renold plc	Shares £m	Advances £m	Total £m
Subsidiary companies			
Cost or valuation			
At beginning of year	53·5	22·0	75·5
Net advances		6·1	6·1
Acquisition of Jones & Shipman p.l.c.	5·7		5·7
Surplus on revaluation	1·8		1·8
At end of year	**61·0**	**28·1**	**89·1**

Shares in subsidiary companies are stated at their net asset value at the end of the year. The directors have adopted this basis because they consider that it more fairly represents the investment of Renold plc in subsidiary companies. The principal subsidiary companies of Renold plc at 3 April 1999 are set out on page 41.

11. Current assets

	Group		Renold plc	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Stocks				
Materials	**8·9**	6·9		
Work in progress	**12·9**	10·7		
Finished products	**24·8**	22·2		
	46·6	39·8		
Debtors				
Trade debtors	**28·3**	27·6		
Amounts owed by group subsidiaries			**7·7**	10·5
Corporate tax recoverable			**1·0**	0·7
Other debtors	**2·3**	2·5		
Property held for sale	**5·0**	5·0		
Prepayments and accrued income	**1·1**	1·2	**0·2**	0·2
	36·7	36·3	**8·9**	11·4
Cash and short term deposits				
Cash at bank	**5·4**	4·7		
Short term deposits	**17·2**	28·0	**4·3**	13·4
	22·6	32·7	**4·3**	13·4
	105·9	108·8	**13·2**	24·8

The Group figures for other debtors include £0·9 million (1997/8 - £0·7 million) of amounts falling due after more than one year.

12. Loans and overdrafts

	Group		Renold plc	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Total borrowings	**11·3**	9·7	**5·7**	6·0
Less: repayable within one year or on demand	**5·8**	3·9	**0·2**	0·2
Amounts falling due after more than one year	**5·5**	5·8	**5·5**	5·8
Repayable:				
In more than one year but not more than two years	**0·2**	0·2	**0·2**	0·2
In more than two years but not more than five years	**4·0**	3·9	**4·0**	3·9
In more than five years	**1·3**	1·7	**1·3**	1·7
	5·5	5·8	**5·5**	5·8
Loans comprise:				
UK term loans 1998-2006	**5·7**	6·0	**5·7**	6·0
Sterling loan 1998 - UK		0·3		
Bank loans - overseas		0·1		
	5·7	6·4	**5·7**	6·0
Less: repayable within one year	**0·2**	0·6	**0·2**	0·2
	5·5	5·8	**5·5**	5·8

Included in Group borrowings are secured borrowings of £3·1 million (1997/8 - £2·0 million). Security is provided on the assets of certain overseas subsidiaries. Renold plc borrowings are unsecured.

13. Creditors

	Group		Renold plc	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Amounts falling due within one year				
Trade creditors	**23·3**	22·6	**0·5**	0·4
Dividends payable	**4·3**	4·1	**4·3**	4·1
Corporate taxes	**2·8**	4·4		
Other taxation and social security	**3·9**	3·5	**0·1**	0·2
Advance payments from customers	**1·5**			
Other creditors	**4·8**	3·0	**0·2**	0·2
Accruals	**8·2**	8·3	**0·6**	1·2
Finance lease obligations	**0·2**	0·4		
	49·0	46·3	**5·7**	6·1
Amounts falling due after more than one year				
Finance lease obligations				
Between one and five years	**0·3**	0·3		
Other creditors	**0·5**	0·6		
	0·8	0·9		

14. Provisions for pensions

The Group operates a number of pension schemes throughout the world. In the UK, the schemes are defined benefits type schemes with assets held in trustee administered funds. Overseas employees participate in a variety of different pension arrangements of the defined contribution or defined benefits type funded in accordance with local practice. There is no material surplus or deficit in any of the overseas schemes and actuarial valuations of these schemes are carried out at least every three years. The total pension costs for the Group were as follows:

	1999	1998
	£m	£m
UK	**1·3**	1·0
Overseas	**1·8**	1·8
	3·1	2·8

The UK cost for 1998/9 reflects the regular contribution rate less £0·9 million (1997/8 - £0·8 million) in respect of the actuarial surplus, calculated on an SSAP 24 basis, which is being recognised over the average expected remaining service life of active scheme members of approximately 15 years from 5 April 1998.

The majority of UK employees are eligible to join one of two schemes, the Renold Group Pension Scheme and the Renold Supplementary Scheme 1997. The pension costs relating to these schemes are assessed in accordance with the advice of William M Mercer Limited, the Group's consulting actuaries, using the projected unit method. The last actuarial valuations of these schemes were carried out as at 5 April 1998. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It has been assumed that the investment return will be 8·5% per annum, that salary increases will average 6·0% per annum and that present and future pensions will increase at rates of 3% or 4% per annum. At the date of the 1998 valuations the actuarial value of the assets of these schemes totalled £84·3 million which represented 103% of the liabilities in respect of benefits accrued to members, allowing for expected future increases in earnings.

Separate pension arrangements are operated by Jones & Shipman p.l.c., which was acquired with effect from 31 December 1998, including a defined benefit scheme for UK employees. At the time of the last actuarial valuation in April 1997 the actuarial value of the assets of this scheme was £22·2 million which represented 100% of the liabilities in respect of benefits accrued to members.

Overseas pension costs include £1·0 million (1997/8 - £1·0 million) in respect of Germany and Australia where the charge is determined in accordance with SSAP 24. For other overseas countries, no adjustment has been made to the local pension costs, since any differences from a charge calculated in accordance with SSAP 24 are not considered to be material.

A provision is included in respect of the excess of the accumulated pension cost over the amount externally funded as follows:

	1999	1998
	£m	£m
UK schemes	**2·5**	2·4
Overseas schemes	**10·1**	9·3
	12·6	11·7

The movement in the year was as follows:

	£m
At beginning of year	**11·7**
Exchange translation differences	**0·6**
Profit and loss account	**3·1**
Utilised	**(2·8)**
At end of year	**12·6**

15. Called up share capital

	Authorised		Issued	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Equity interests				
Ordinary shares of 25p each	**23·1**	23·1	**17·3**	17·1
Non-equity interests				
6% Cumulative Preference Stock (£1 units)	**0·6**	0·6	**0·6**	0·6
	23·7	23·7	**17·9**	17·7

The Company issued 481,743 ordinary shares of 25p each for a cash consideration of £634,658 during the year by the exercise of options under the 1985 Renold Executive Share Option Scheme, the 1985 Renold Savings Related Share Option Scheme and in respect of the Renold Employee Share Scheme.

At 3 April 1999 the issued Ordinary Share Capital comprised 69,191,950 ordinary shares of 25p each.

The preference shares, which comprise the only non-equity interest in shareholders' funds, have the following rights:

(i) a fixed cumulative preferential dividend at the rate of 6% (for dividends payable prior to 6 April 1999 - 4·2% plus tax credit) per annum payable half yearly on 1 January and 1 July in each year;

(ii) they rank both with regard to dividend (including any arrears to the commencement of a winding up) and return of capital in priority to all other stock or shares of the Company but with no further right to participate in profits or assets;

(iii) there is 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 arrear for six calendar months;

(iv) there is no redemption entitlement.

16. Reserves

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total reserves £m
Group					
At beginning of year	5·4	5·0	1·8	56·1	68·3
Exchange translation differences on net assets of overseas subsidiaries				0·7	0·7
Share premium	0·5				0·5
Retained profit for the year				1·3	1·3
Reclassification of reserves		1·3	(0·5)	(0·8)	
At end of year	**5·9**	**6·3**	**1·3**	**57·3**	**70·8**
Renold plc					
At beginning of year	5·4	19·7		43·2	68·3
Share premium	0·5				0·5
Retained profit for the year				0·2	0·2
Surplus on revaluation of shares in subsidiaries		1·8			1·8
At end of year	**5·9**	**21·5**		**43·4**	**70·8**

The consolidated profit for the financial year includes a profit of £6·6 million (1997/8 - £10·3 million) which is dealt with in the accounts of the parent company.

Cumulative goodwill written off to Group reserves at 3 April 1999, subsequent to the capital reorganisation in January 1985, amounted to £3·6 million (1997/8 - £3·6 million).

17. Deferred taxation

No provision has been made for deferred taxation. At 3 April 1999, there were UK fixed asset and other timing differences, at the corporate tax rate, as follows:

	1999 £m	1998 £m
Fixed assets	**(0·4)**	3·4
Other	**(1·6)**	(1·5)
	(2·0)	1·9

In addition, there are tax losses in certain UK subsidiaries amounting to £2·2 million.

Surplus advance corporation tax written off amounts to £2·1 million (1997/8 - £5·6 million) which is available for future relief, subject to the new shadow ACT rules.

Overseas timing differences amounted, at the relevant corporation tax rates, to £2·9 million (1997/8 - £2·5 million) which relate principally to fixed asset revaluations.

Distributions by overseas companies would in most cases be subject to additional taxation.

18. Operating lease obligations

At the end of the year there were annual commitments under non-cancellable operating leases as follows:

	1999		1998	
	Properties £m	Equipment £m	Properties £m	Equipment £m
Leases expiring:				
Within one year	**0·1**	**0·2**	0·1	0·2
Between two and five years	**0·2**	**0·6**	0·4	0·5
Over five years	**1·0**		0·8	
Total annual commitments	**1·3**	**0·8**	1·3	0·7

19. Contingent liabilities

Contingent liabilities at 3 April 1999 in respect of guarantees amounted to £1·4 million (1997/8 - £1·5 million) for the Group. In addition Renold plc had guaranteed bank and other borrowings by subsidiaries which amounted to £Nil (1997/8 - £0·1 million).

20. Share options

Share options have been granted under the Executive Share Option Schemes and the Savings Related Share Option Schemes. At 3 April 1999 unexercised options for ordinary shares amounted to 1,829,871 (1997/8 - 1,858,162) made up as follows:

Date normally exercisable	Option price (pence per share)	Number of shares 1999	Number of shares 1998
Executive Share Option Schemes			
Within seven years from:			
24 November 1995	52·5	**40,000**	50,000
30 November 1996	120·3	**240,000**	250,000
1 December 1997	184·3	**85,000**	95,000
16 July 1999 (1995 Scheme)	293·83	**91,511**	91,511
18 July 2000 (1995 Scheme)	242·67	**45,647**	50,647
17 July 2001 (1995 Scheme)	237·33	**330,000**	
Within four years from:			
16 July 1999 (1995 Scheme)	293·83	**323,489**	323,489
18 July 2000 (1995 Scheme)	242·67	**249,353**	249,353
		1,405,000	1,110,000
Savings Related Share Option Schemes			
Within six months from:			
1 February 1999	97·36	**99,921**	374,910
1 February 2000 (1995 Scheme)	200·8	**107,796**	130,136
1 February 2002 (1995 Scheme)	200·8	**217,154**	243,116
		424,871	748,162

Notes on the Accounts

21. Reconciliation of trading profit to operating cash flows

	1999 £m	1998 £m
Trading profit	**12·2**	22·4
Depreciation charges	**7·5**	6·5
Pension costs provision	**0·3**	
Decrease/(increase) in stocks	**2·4**	(0·6)
Decrease in debtors	**4·1**	0·6
(Decrease)/increase in creditors	**(2·7)**	0·3
Net cash inflow from operating activities	**23·8**	29·2

Net cash flow from operating activities includes an outflow of £1·6 million which relates to exceptional redundancy and restructuring costs; an amount of £0·2 million was retained in creditors.

22. Analysis of cash flows for headings netted in the Cash Flow Statement

	1999 £m	1998 £m
Servicing of finance		
Interest received	**1·5**	1·1
Interest paid	**(1·4)**	(0·7)
Interest element of finance lease rental payments	**(0·1)**	(0·1)
Net cash inflow for servicing of finance	**–**	0·3
Financing		
Issue of ordinary share capital	**0·7**	0·4
Debt due within a year: (decrease)/increase in short-term borrowings	**(3·9)**	0·5
Debt due beyond a year: repayment of loans	**(1·3)**	(0·6)
Capital element of finance lease rental payments	**(0·4)**	(0·5)
Net cash outflow from financing	**(4·9)**	(0·2)

23. Analysis of net funds

	At beginning of year £m	Cash flow £m	Acquisition (excluding cash and overdrafts) £m	Exchange movement £m	**At end of year £m**
Cash in hand, at bank	4·7	0·7			**5·4**
Overdrafts	(3·3)	(2·2)		(0·1)	**(5·6)**
	1·4	(1·5)		(0·1)	**(0·2)**
Debt due after one year	(5·8)	1·3	(1·0)		**(5·5)**
Debt due within one year	(0·6)	3·9	(3·5)		**(0·2)**
Finance leases	(0·7)	0·4	(0·2)		**(0·5)**
	(7·1)	5·6	(4·7)		**(6·2)**
Short term deposits	28·0	(11·2)		0·4	**17·2**
Total	22·3	(7·1)	(4·7)	0·3	**10·8**

24. Acquisition of subsidiary

The effect of the acquisition of Jones & Shipman p.l.c. at 31 December 1998 was as follows:

	Book value £m	Accounting policy adjustment £m	Fair value adjustment £m	Provisional fair value to the Group £m
Intangible asset – goodwill	1·7		(1·7)	
Fixed assets	3·5	0·2	(0·4)	3·3
Stocks	9·2	(0·4)		8·8
Debtors	4·1			4·1
Creditors	(6·5)	(0·2)	(0·3)	(7·0)
Loans	(4·5)			(4·5)
Finance leases	(0·2)			(0·2)
Net overdrafts	(1·7)			(1·7)
	5·6	(0·4)	(2·4)	2·8
Goodwill				2·9
Consideration – cash paid including costs				5·7

Adjustments have been made to align net assets with Renold Group accounting policies; these adjustments relate mainly to machines transferred to fixed assets from stocks and to additional stock and warranty provisions.

Intangible assets acquired have been written off, properties have been revalued to reflect current market value, and pre-acquisition liabilities which had not been provided for have been recognised. Pension fund liabilities have not been revalued in arriving at the provisional fair value.

	£m
Cash paid including costs	5·7
Net overdrafts acquired	1·7
Cash outflow on acquisition	7·4
Loans and finance leases acquired	4·7
Cash outflow and borrowings acquired	12·1

Jones & Shipman p.l.c. made a loss after taxation of £3·9 million in the period from 1 April 1998 to the date of acquisition 31 December 1998 (year to 31 March 1998 profit £0·2 million).

Jones & Shipman p.l.c. contributed a net cash outflow of £1·5 million to the Group's net cash inflow from operating activities, and paid £0·1 million for servicing of finance.

25. Financial instruments

These notes should be read in conjunction with the narrative disclosures in the Financial Review on page 12.

(a) The Group does not trade in financial instruments.

(b) Short term debtors and creditors
Short term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

(c) Currency and interest rate profile of financial liabilities at 3 April 1999

Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Fixed rate £m	Floating rate £m	Total £m
Sterling					
– Financial liabilities	9·2	7·4	5·9		5·9
– Preference shares	6·0	*	0·6		0·6
US Dollar			0·1	2·6	2·7
Euro			0·3	2·5	2·8
Other				0·4	0·4
			6·9	5·5	12·4

*Preference shares have no fixed repayment date.

The sterling fixed rate financial liabilities take into account interest rate swaps.

Floating rate financial liabilities bear interest at rates, based on relevant national base rate equivalents, which can fluctuate on a daily basis.

(d) Currency and interest rate profile of financial assets

	Cash at bank and in hand £m	Short term deposits £m	Total £m
Currency			
Sterling	2·0	10·1	12·1
Euro	1·5	6·8	8·3
Other	1·9	0·3	2·2
	5·4	17·2	22·6

Cash balances and short-term deposits are held with the Group's bankers. The short-term deposits are held largely in the UK and Germany and earn interest at bank deposit interest rates for periods of up to three months.

(e) Maturity of financial liabilities
The maturity profile of the carrying amount of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, was as follows:

	Debt £m	Finance leases £m	Total £m
In one year or less, or on demand	5·8	0·2	6·0
In more than one year but not more than two years	0·2	0·1	0·3
In more than two years but not more than five years	4·0	0·2	4·2
In more than five years	1·9		1·9
	11·9	0·5	12·4

Debt due in more than five years includes £0·6 million (1997/8 - £0·6 million) in respect of Renold plc's preference shares.

25. Financial instruments (continued)

(f) Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 3 April 1999 which are at floating rates of interest.

	£m
Expiring within one year or less, or on demand	21·4
Expiring in more than one year but not more than two years	0·3
Expiring in more than two years	6·2
	27·9

The facilities expiring in one year or less, or on demand, are annual facilities subject to review at various dates during 1999/2000.

Renold plc has a loan facility which is repayable within twelve months of the balance sheet date but, since the amount is drawn under a committed revolving loan facility, it is classified in the table above as expiring in more than two years on the basis of the expiry date of the facility in September 2002.

(g) Fair values of financial assets and financial liabilities

	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:		
Short-term borrowings (up to one year)	(6·1)	(6·1)
Long-term borrowings	(5·7)	(5·7)
Preference shares	(0·6)	(0·5)
Short-term deposits	17·2	17·2
Cash at bank and in hand	5·4	5·4
Derivative financial instruments held to manage the interest rate and currency profile:		
Interest rate swaps		(0·7)

Under the Group's accounting policy, foreign currency assets and liabilities that are hedged using forward foreign exchange contracts are translated at the forward rate inherent in the contracts. Consequently, the book value of the relevant asset or liability effectively is the fair value of the forward foreign exchange contract.

Fair values of the preference shares and interest rate swaps are based on market values at the balance sheet date.

There is no significant difference between the book and fair value of forward foreign exchange contracts held or issued to hedge currency exposures on expected future transactions.

(h) Currency exposures

The analysis below shows the net monetary assets/liabilities of companies in the Group that are not denominated in their functional currency. Exchange differences on these exposures will be recognised in the profit and loss account.

	Sterling £m	US dollars £m	Euro £m	Other £m	Total £m
Functional currency of companies					
Sterling		(0·8)	0·3	0·4	(0·1)
US dollars	(1·0)				(1·0)
Euro	(1·2)	0·7			(0·5)
Other currencies	(0·4)		(0·1)		(0·5)
	(2·6)	(0·1)	0·2	0·4	(2·1)

(i) Gains and losses on instruments used for hedging

There were no significant unrecognised or deferred gains and losses on hedges at 3 April 1999 and at 28 March 1998.

Principal Subsidiary Companies

as at 3 April 1999

UNITED KINGDOM

Renold Power Transmission Limited*
FACTORIES: BRADFORD, BREDBURY, BURTON, CARDIFF, HALIFAX, LONDON, MILNROW

Renold International Holdings Limited*

Jones & Shipman p.l.c.* FACTORY: LEICESTER
– Goodwin Electronics Limited FACTORY: BROMBOROUGH

REST OF EUROPE

Austria	Renold GmbH
Belgium	Renold Continental Limited (incorporated in the United Kingdom)
Denmark	Renold A/S
France	Brampton Renold SA FACTORIES: CALAIS, LILLE Manifold Indexing SARL Jones & Shipman SARL
Germany	Renold (Deutschland) GmbH – Arnold & Stolzenberg GmbH FACTORY: EINBECK – Renold Manifold GmbH
Holland	Renold Continental Limited (incorporated in the United Kingdom)
Sweden	Renold Transmission AB
Switzerland	Renold (Switzerland) GmbH

NORTH AMERICA

Canada	Renold Canada Limited
USA	Renold Holdings Inc – Renold Inc FACTORY: WESTFIELD, NY – Renold Power Transmission Corporation Jones & Shipman Inc Edgetek Machine Corporation (80%) FACTORY: MERIDEN, CT

OTHER COUNTRIES

Australia	Renold Australia Proprietary Limited FACTORY: MELBOURNE
Malaysia	Renold (Malaysia) Sdn Bhd
New Zealand	Renold Christian Limited FACTORY: AUCKLAND
Singapore	Renold Overseas Limited (incorporated in the United Kingdom)
South Africa	Renold Crofts (Pty) Limited FACTORY: BENONI

*Direct subsidiary of Renold plc

Subsidiary companies listed above are those which, in the opinion of the directors, principally contributed to the results and assets of the Group. Companies of minor importance are omitted by virtue of Section 231 and Schedule 5 of the Companies Act 1985.
All companies are direct or indirect wholly owned subsidiaries of Renold plc except where otherwise indicated. Renold Power Transmission Limited and Renold International Holdings Limited are registered in England and Wales. Overseas companies are incorporated in the countries in which they operate except where otherwise stated.

Group Five Year Financial Review

Profit and loss account

£m		**1999**	1998	1997	1996	1995
Turnover		**171·6**	183·6	180·3	179·3	148·7
Trading profit before exceptional redundancy and restructuring costs		**14·0**	22·4	22·0	19·9	13·3
Profit on ordinary activities before tax		**12·4**	22·5	21·5	18·7	11·6
Profit after tax for ordinary shareholders		**7·7**	17·6	15·5	14·0	9·0

Balance sheet

£m	**1999**	1998	1997	1996	1995
Fixed assets	**53·6**	45·8	44·4	45·7	41·7
Stocks	**46·6**	39·8	41·8	44·6	38·6
Debtors	**31·7**	31·3	34·0	33·3	29·7
Creditors	**(42·2)**	(38·0)	(38·5)	(41·9)	(36·5)
Trading assets	**89·7**	78·9	81·7	81·7	73·5
Goodwill	**2·9**				
Properties held for sale	**5·0**	5·0	5·0	5·0	5·6
Cash (net of borrowings including finance leases)	**10·8**	22·3	12·8	10·4	4·4
Dividends and tax	**(7·1)**	(8·5)	(9·0)	(8·6)	(5·1)
Provisions for pensions	**(12·6)**	(11·7)	(13·0)	(14·8)	(14·4)
Net assets	**88·7**	86·0	77·5	73·7	64·0

Key data		**1999**	1998	1997	1996	1995
Trading return on average trading assets [1 2]	%	**17·1**	27·9	26·9	25·6	18·5
Trading profit on turnover [1]	%	**8·2**	12·2	12·2	11·1	8·9
Capital expenditure	£m	**11·3**	9·6	7·4	9·7	7·8
Basic earnings per share	p	**11·1**	25·7	22·7	20·8	13·6
Dividends per ordinary share	p	**9·25**	9·0	8·0	7·0	4·5
Employees at year end		**2,881**	2,912	2,825	2,848	2,751

[1] Based on trading profit before exceptional redundancy and restructuring costs.

[2] Average trading assets are the average of opening and closing trading assets; for 1999 the average includes the assets of Jones & Shipman p.l.c. for the period since acquisition.

Notice of Meeting

Notice is hereby given that the sixty-ninth Annual General Meeting of Renold plc will be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Friday 23 July 1999 at 2.30 pm for the following purposes:

As Ordinary Business

1. To receive and to consider the Accounts and the Reports of the Directors and of the Auditors in respect of the financial year ended 3 April 1999.

2. To declare a final dividend on the issued ordinary shares.

3. To elect Mr R F Leverton as a director.

4. To re-elect Mr D Cotterill as a director.

5. To re-elect Mr J H B Allan as a director.

6. Special notice having been given of the intention to propose the resolution as an ordinary resolution: to re-appoint PricewaterhouseCoopers as auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Price Waterhouse), to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the directors to fix their remuneration.

As Special Business

To consider and, if thought fit, pass the following resolutions of which Resolution 7 will be proposed as an Ordinary Resolution and Resolutions 8 and 9 as Special Resolutions:-

7. THAT the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £5,765,995 provided that this authority shall expire on 22 October 2000 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

8. THAT subject to the passing of the Ordinary Resolution numbered 7 above, the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of that Act) pursuant to the authority conferred by the said Ordinary Resolution as if sub-section (1) of Section 89 of that Act did not apply to any such allotment provided that this power shall be limited to:

(a) the allotment of equity securities in connection with or pursuant to an offer by way of rights to ordinary shareholders and other persons entitled to participate therein, in proportion as nearly as may be to their holdings of such shares (or, as appropriate, to the number of ordinary shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body in any territory;

(b) the allotment of equity securities under the Renold Employee Share Scheme, the Renold (1995) Executive Share Option Scheme and the Renold (1995) Savings Related Share Option Scheme; and

(c) the allotment of equity securities (otherwise than pursuant to paragraphs (a) and (b) above) up to an aggregate nominal amount of £864,899 (being equal to approximately 5% of the aggregate nominal amount of the Company's ordinary share capital currently in issue at the date of passing this resolution) and shall expire on 22 October 2000 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

Notice of Meeting

9. THAT the Articles of Association set out in the document produced to the meeting (and signed by the Chairman for the purpose of identification) be hereby amended by the deletion of the words "(by virtue of the Finance Acts 1972 and 1976 dividends payable on or after 6 April 1973 are payable at the rate of 4.2% per annum without any tax deduction)." from the second paragraph of Article 7.1 of the Articles of Association.

By Order of the Board
G R Newton
Secretary

23 June 1999

Registered Office:
Renold House
Styal Road
Wythenshawe
Manchester M22 5WL

Only the holders of ordinary shares are entitled as members to attend or be represented at the meeting.

To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at close of business on 21 July 1999 ("the specified time"). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If however the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

A member entitled to attend and vote may appoint one or more proxies, who need not be members, to attend and vote instead of such member. A proxy may vote only on a poll. To be valid the instrument appointing a proxy must be duly executed and deposited at the Registrars of the Company not later than 48 hours before the due time of the meeting.

The dividend recommended, if approved, will be paid on 5 August 1999 to members appearing on the register on 25 June 1999.

Copies of contracts of service of directors of the Company, other than contracts expiring, or determinable by the Company without payment of compensation, within one year, together with the existing Articles of Association and the amended Articles of Association, will be available for inspection at the Company's registered office and at the offices of Eversheds, Senator House, 85 Queen Victoria Street, London EC4V 4JL during the usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting, and will be available for inspection at the place of the Annual General Meeting from 2.15 pm until close of meeting.

Financial Calendar

	1999
Annual General Meeting	23 July
Final ordinary dividend for 1998/9 - payment date	5 August
Half year end 1999/00	2 October
Half year 1999/00 results published	mid November

	2000
Interim ordinary dividend for 1999/00 payable	end January
Year end 1999/00	1 April
Preliminary announcement of annual results 1999/00	early June

Other dividend payments

Preference dividends:	1 July and 1 January

RENOLD

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