ANNUAL REPORT 2000

RENOLD

Contents

RENOLD

Financial Summary

for the financial year ended 1 April 2000

	2000 **£m**	1999 £m
Turnover	**174·2**	171·6
Trading profit before goodwill amortisation and exceptional redundancy and restructuring costs	**11·0**	14·0
Profit before tax, goodwill amortisation and exceptional redundancy and restructuring costs	**10·2**	14·2
Profit before tax	**9·6**	12·4
Adjusted earnings per share	**9·4p**	13·5p
Basic earnings per share	**8·6p**	11·1p
Dividends per ordinary share, paid or proposed	**9·25p**	9·25p
Capital expenditure	**10·3**	11·3
Business acquisitions	**36·2**	5·7
Gearing (net borrowings to net tangible assets)	**56%**	(13)%

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 principal activities of the Group are the manufacture and sale of power transmission products including transmission and conveyor chains, gearboxes and mechanical variable speed drives, clutches, couplings and spindles; and the manufacture and sale of specialist machine tools and compressor rotors.

Chairman's Statement

It has been another challenging year for the Group, with trading conditions remaining difficult, particularly in the UK. Whilst the results for the full year are lower than last year, profits in the second half improved in line with our expectations, and were ahead of each of the two previous half years.

Profit before tax (and before redundancy costs and goodwill amortisation) was £10·2 million (1998/9 – £14·2 million) on a turnover of £174·2 million (1998/9 – £171·6 million). Adjusted earnings per share were 9·4 pence (1998/9 – 13·5 pence). The Board is recommending the payment of an unchanged final dividend of 6·15 pence per share. Together with the interim dividend of 3·1 pence per share paid on 28 January 2000, this gives total dividends for the year of 9·25 pence, the same level as last year. This reflects the Board's confidence in the Group's strategy and the commitment to recovery.

During the year the core chain business has continued to perform well, benefiting from its strong market position and significant manufacturing operations in mainland Europe.
The acquisition of Jeffrey Chain in the USA presents a number of exciting growth opportunities and reinforces our position as a major player in the global industrial chain market. The UK engineering products businesses have suffered from reduced domestic demand and competition from manufacturers enjoying the benefits of the weak Euro, and further action has been taken to strengthen their competitive position. The machine tool and rotor businesses achieved a turnround to a small profit in the second half on the back of a higher order intake, although the Jones & Shipman businesses continued to be affected by the weakness of the international machine tool industry. Overall, as the year progressed, the gathering pace of economic recovery in the Far East benefited a number of our operations, both through growth in direct sales, particularly to Korea and Malaysia, and in higher deliveries to US customers serving Far Eastern markets. A detailed review of the Group's operations is contained in the Chief Executive's Review.

Renold supplied a new chain for Big Ben replacing one installed 70 years earlier.

Jeffrey Chain

We have been seeking for some time to develop our successful chain business by investment in areas which complement our existing strengths in product range and geographical coverage. A major step forward in this strategy was taken with the purchase of Jeffrey Chain of Morristown, Tennessee, USA for $55 million in cash on 31 March 2000. Jeffrey is one of the largest US manufacturers and suppliers of industrial chain, with an extensive range of engineered and precision roller chain. It has strong US brands and established relationships with major US distributors of power transmission equipment, as well as with original equipment manufacturers and users serving a diversity of markets including timber, environmental, construction and automotive conveyor lines.
The Morristown plant is a substantial, well resourced manufacturing facility with the potential for increasing capacity.

Renold's chain business has a leading market position in Europe, and is also

Chairman's Statement

a major supplier to the Canadian and Australian markets, but it had a relatively low share of the large US industrial chain market. With the acquisition of Jeffrey, the Renold Group has become one of the largest suppliers of industrial chain in the USA. Jeffrey's customer relationships provide a significant opportunity to increase our penetration of the US market, through the supply of transmission chain and other Renold products manufactured in Europe. Similarly, outside the USA, the ability to sell Jeffrey's products through Renold's extensive world-wide sales network will extend our overall product offering. Plans are in place and actions already being taken to exploit these opportunities. In summary, the acquisition of Jeffrey provides us with a strong foothold in the world's largest single market for power transmission products, and is an excellent fit with our existing chain business.

The purchase of Jeffrey Chain has been financed from new borrowing facilities, which enable the Group to make use of its hitherto underutilised gearing capacity. Following this acquisition, group borrowings at 1 April 2000 rose to £33·5 million, representing 56% of net tangible assets.

Renold's innovative Smartlink® has been awarded Millennium Product status.

Directors

I am pleased to announce that Tony Brown, Group Financial Controller, is to succeed John Allan as Group Finance Director with effect from 1 August 2000. Tony, who joined the Group in 1990 and has been Group Financial Controller since 1991, has an extensive knowledge of the business and will be of great assistance in our pursuit of opportunities for further growth.

John Allan is to retire from the Board and the Group at the end of July. He joined the Group in 1987 and has made a significant contribution to the Group's well being in his thirteen years as Group Finance Director. I thank him for his committed service and wish him well in retirement.

Employees

We are very dependent on the abilities and commitment of our employees, and I thank them for their efforts in what has been a challenging year. I should also like to welcome our new colleagues at Jeffrey Chain to the Renold Group.

Prospects

Order intake in our important markets in mainland Europe has improved, although trading conditions in the UK remain patchy. In addition, stronger demand in North America and economic recovery in the Far East are providing opportunities for a number of our businesses. With the acquisition of Jeffrey Chain, the core chain business will benefit from Jeffrey's strong and well established position in the huge US market. Good progress has already been made in integrating Jeffrey and in starting to achieve the expected synergies from the acquisition. Benefits will also be realised from the actions taken to reduce unit costs and strengthen the engineering products and machine tool businesses. Overall, we expect to see improving performance as the year progresses.

Roger Leverton

Chief Executive's Review

A rise in the order intake from November onwards sparked a modest recovery in profits in the second half of the financial year. An increase in demand for North America and the Far East provided an improved load for the factories and, in particular, the coupling, chain, machine tool and rotor product groups produced good last quarter results.

Before November, only strong orders for automotive timing systems and increasing activity in the Far East and Australasian markets provided any comfort. For most of our businesses demand was at best subdued compared with the low levels of activity of the previous year. The aerospace, air conditioning, food processing, packaging, textile equipment, escalators, elevator and warehousing industries appeared to be in near recession yet the country economies were said to be thriving. The fork lift truck, leisure rides and mass transit markets maintained some strength despite this apparent "recession". It seems likely that the economic crisis in the Far East which began towards the end of 1997 had a far greater impact on our customers than had been anticipated, particularly so in the USA. The Malaysia and Singapore operations picked up in the first half and these strengthening market conditions in the Far East benefited our North American customers in the second half. Certainly the demand for air conditioning and refrigeration rotors has changed from famine to feast during the year and an increased level of enquiries is now being received for machine tools for aerospace applications.

Although the acquisition was not completed until 31 March 2000, the highlight of the year was the acquisition of Jeffrey Chain. We have been seeking to make a step change with the core chain business since 1996, by which time we were satisfied that we had reshaped the business into a position of global strength. However, we lacked a platform to develop further the North American market, and, in particular, the US distributor market - Jeffrey provides this platform. Not only has it a good share of the US distributor market, in the 'Jeffrey' and 'Whitney' brands it also enjoys strong brand recognition. Also, whereas Renold's prime manufacturing strength is in transmission chain, Jeffrey's strength is in engineered or conveyor chain. These respective strengths will be exploited in the new financial year, particularly in the supply of transmission chain to the USA from our European factories. The acquisition provides the Group with a meaningful share of the US market, established relationships with a substantial customer base and an excellent manufacturing facility, which allows the opportunity to develop sales of Jeffrey products through Renold's existing outlets. Also, it will change the geographical shape of the Group's turnover increasing sales in North America from a quarter to over one-third of total sales.

The team at the Jeffrey Chain plant in Morristown, Tennessee, USA.

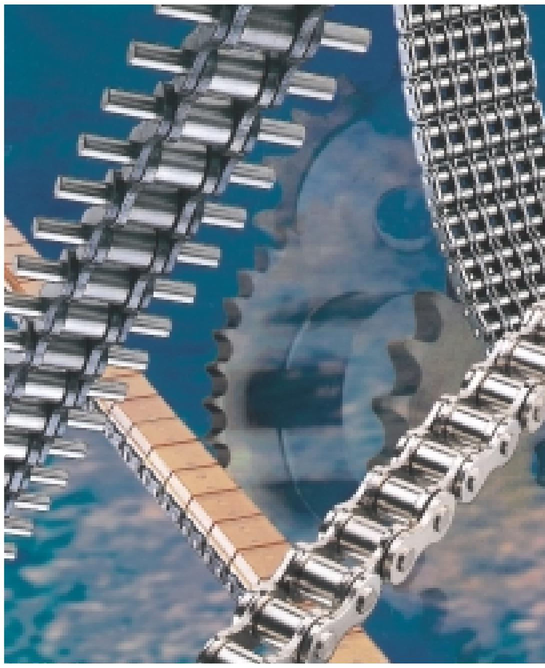
Power Transmission

In the power transmission businesses, the chain operations again performed soundly. They withstood the pressures of the strong pound and weak Euro the best. Only one-third of European chain production is in the UK, and the two-thirds manufactured in Germany and France provided a cushion against the currency movements. The pound's strength impacted adversely the UK manufacturing economy and, in particular, machinery and equipment builders, whilst there was also a lack of large projects. Direct exports were also down but were much improved in the second half following the uplift in demand in the Far East. Inevitably UK profits were lower but, in the circumstances, the UK chain business produced a respectable profit performance.

In France, the Calais Automotive Systems business had a mixed year. Demand for timing systems rose throughout the year but only in the last quarter was the business able to achieve the profit levels required from the considerable investment in new manufacturing equipment. For the greater part of the year the management struggled to cope with the commissioning of new plant to produce increased customer requirements, with a consequent increase in overtime and air freight costs. Additional manufacturing capacity came on stream to supply a system for a world engine to General Motors and at the year end a further assembly line was introduced for direct supplies to a manufacturer in Japan for a new engine. Further investment is planned for the current year but at a slightly slower pace than in the last two. This business will continue to grow as existing contracts gather pace and further new contracts commence.

Sales in the French market for power transmission products were disappointing and this impacted profitability. There was a similar trend in other mainland European markets as industrial demand was generally a little easier, with the Belgian market particularly poor after the dioxin scare. However, orders came back strongly in Belgium in the last quarter.

The small conveyor chain factory in France benefited from increased exports during the year, but the main beneficiary of the weak Euro was the German chain factory, where a strong export market more than compensated for weaker local demand. Sales of new and recently introduced chain products have grown steadily, with stainless steel sales particularly good. The factory benefited from the transfer of the manufacturing of industrial chain from Calais. Manufacturing efficiency increased, helped by additional investment in automated assembly equipment, and further investment in an automated heat treatment line is currently taking place. The German chain business had a most successful year and earned record profits.



Some of the wide range of chains for industrial applications produced at the transmission chain factory at Einbeck, Germany.

In North America, the power transmission businesses reported slightly lower profits. The Renold Ajax coupling business in the USA had a good year with strong sales of mass transit railcar drive couplings and a second half recovery in orders for spindle couplings for the steel industry. Chain and other power transmission product sales were softer overall in North America in the year but strengthened considerably in the second half.

Renold Automotive Systems supply the camshaft and balance shaft drive systems of the ECOTEC GM New Global 4 cylinder engine for the new Saturn Large Sedan.

Renold PM40 gearbox installed in a palm oil mill in Malaysia.

The two UK coupling businesses also enjoyed a strong second half performance with increased orders from North America and the Far East, and produced a good outcome for the full year. Particularly pleasing is the success of the newly launched Hi-Tec HTB coupling for use on diesel railcar drives. The other UK power transmission businesses had a more difficult time. The strength of the pound bit hard into the margins of Manifold where the customer base is mainly in Euroland. Although not quite seamless, the relocation of the business from Leyton to a purpose built factory in Loughton went well. Current work includes a new tool changer for one of the largest German machine tool manufacturers and the manufacture of a new trunnion system which will provide a fifth axis to four axis machining centres. Orders have increased in recent months, and the challenge now is to increase manufacturing efficiency to return to the excellent margins of three years ago.

The gearbox business at Milnrow also had a difficult year. The home market was depressed and there was a lack of orders for major projects, particularly in the escalator market. Strenuous action has been taken to reduce unit costs, both of own manufacture and of bought in components, and to strengthen management where necessary. However, the key issue is to increase the order intake. The product range has been upgraded, introducing new helical and bevel helical gear boxes to complement its redesigned wormgear products, and this has been well received by customers. A special gearbox has been developed for a world leading manufacturer of textile equipment in Switzerland for a new generation of high speed machines.

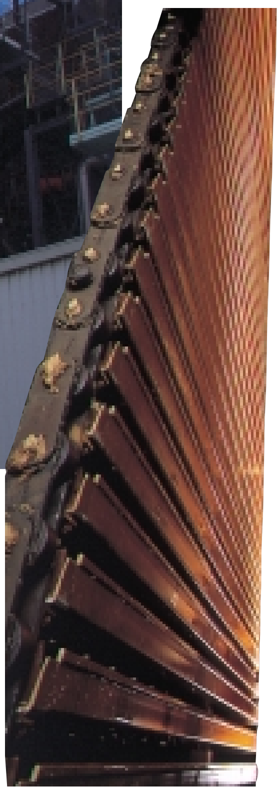
The power transmission sales operations in Malaysia and Singapore had a good year, with order intake climbing steeply, recovering from the collapse of local markets two years ago. The New Zealand business also benefited from a sharp rise in orders over the past twelve months. Like all our overseas operations, these businesses not only distribute the Renold range of power transmission products but provide technical advice to customers on specification and application engineering. With the termination of the lease of the Auckland head office and distribution centre, the operations in the North Island are being consolidated in new warehouse and office facilities at the manufacturing plant. The Australian business continued to have a tough time in difficult market conditions. The Australian manufacturing economy usually lags twelve months behind that of New Zealand, but so far there are few signs of recovery. In October 1999 we purchased Ace Chains, a manufacturer of conveyor chain in Melbourne to strengthen our market position in Australia. Ace's manufacturing will shortly be transferred to our nearby plant. As in Australia the demise of the mining sector did little for our South African business, which was further reduced in size in the year.

Machine Tool and Rotor

Holroyd's machine tool and rotor business has in the past been contrary to the economic cycle of the power transmission business but in this recession Holroyd has also been adversely affected. A large section of the customer base, the air conditioning manufacturers in the USA, was seriously impacted by the economic depression in the Far East. During the year there was a marked upturn in the order intake leading to a strong second half performance. Machine tool orders for a range of different applications were won against European competition, and delivery was made of the major part of a large machine tool order, incorporating substantial process automation, to a US air conditioning customer. Sales of rotors to this market also rose sharply and the business is pursuing several interesting opportunities in vacuum and metering applications offering strong growth opportunities. Prospects for the current year are good.

Good timing is the essence of investment and, with the wisdom of hindsight, the timing of the purchase of the Jones & Shipman machine tool businesses could have been better. One of the main markets for the new range of Jones & Shipman and Edgetek high speed, high accuracy, superabrasive machine tools is the aerospace industry. This market was flat last year and the machine tool market worldwide

Chief Executive's Review



A sterilizer conveyor chain specially developed by Renold Australia for a canned food factory.

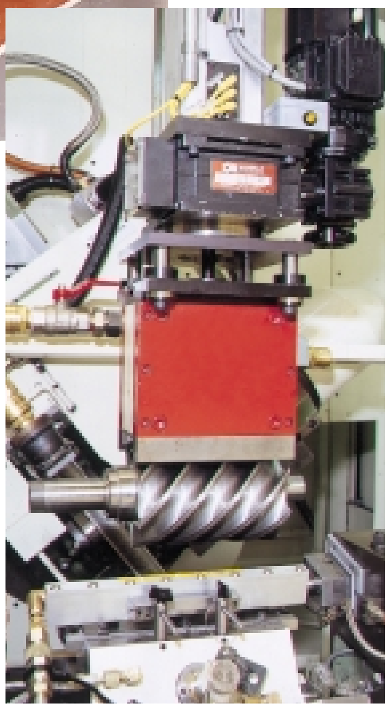
was depressed. The result was that Jones & Shipman and Edgetek sales were well down on the previous year's sales. Costs were cut and rationalisation has taken place with Holroyd, but the trading environment has made it impractical to achieve the progress in turning round the businesses in the time frame envisaged when the acquisition was made. Despite a significant improvement in performance in the last quarter, the businesses sustained a substantial loss in the year.

Product development continued at Jones & Shipman during the year, including research programmes with European partners. A larger version of the Dominator creep feed machine was introduced and the machining capability has been extended to further exotic materials in the high accuracy high precision market. A significant order was won from a major Far East electronics manufacturer for a lens grinding machine, with a further order later in the year. More business is expected for these applications. In addition a programme for re-engineering customers' existing machines has been launched. Although the Jones & Shipman and Edgetek businesses have not yet experienced the upturn that Holroyd has felt in its markets, there are signs, especially in the USA, of increasing demand, particularly from the aero engine sector.

Rotor manufacturing at Holroyd is a significant and profitable part of the business and it is the intention to develop similar subcontract facilities within Jones & Shipman and Edgetek to exploit the expertise of precision machining applications and materials at high speed. Not every potential customer can afford a substantial machine tool package and some customers prefer to buy in finished components. We aim to transfer this successful formula from Holroyd to Jones & Shipman and Edgetek.

Each year new products are launched to add to our power transmission and high precision machine tool offerings, but this year is special in that we are launching **the** new Renold Chain. **Renold Synergy** ® utilises the basic design of a bush roller transmission chain invented by Hans Renold 120 years ago but incorporates the benefits of recent developments made for demanding automotive applications. Through extensive use of finite element analysis and computer modelling techniques, combined with advances in materials and surface technology, new **Renold Synergy** ® offers even better fatigue and wear performance, excellent bedding-in characteristics and extended performance under high bearing pressures, with enhanced corrosion resistance. In short it doubles the performance of Renold brand chain. It is difficult to reinvent chain but we believe we have just done so, and **Renold Synergy** ® will keep Renold at the top of the tree for the supply of the best value in chain.

Renold's group-wide expertise at work. New automated production line including Holroyd and Jones & Shipman machine tools, using Manifold indexers for work placement.



The introduction of the Euro and Y2K are now behind us. Neither caused any problems of significance and in the new financial year our Euroland subsidiaries are reporting their monthly results in Euros. The "over" strength of the pound is causing some major irritations and it is worth noting that the weakness of the Euro does not seem to be causing too many problems to our Euroland competitors or to our own Euroland businesses - apart that is, from having to purchase any over-valued supplies from the UK.

As reported last year, the use of electronic network systems is being exploited in all areas of the business. Whilst the concepts of e-business are not new, the rapid extension of the Internet means that the use of electronic trading, or e-business, is developing quickly. Renold has been trading electronically with several automotive OEMs for many years and is now applying these concepts in other areas. A project team is working on ways of improving customer service and developing new business opportunities using e-business technologies. The first application is now live which allows authorised users to access our main ERP system from an internet browser in order to place and progress orders, and view stocks. Currently we are talking with various trading partners to develop further initiatives in growth areas such as internet portals and e-commerce trading as well as traditional areas like EDI and vendor managed inventories. At the same time the number of "hits" at www.renold.com continues to increase exponentially. Our web site has also grown in size. It has now over 300 pages, the majority of which contain detailed catalogue information.

It is disappointing to report a second year of poor results but this is a reflection of the difficult manufacturing environment, particularly in the UK. There is now more light at the end of the tunnel with one or two businesses clearly recovering towards their past levels of achievement. We are having to live with the current strength of the pound against the Euro and are determined to resolve the problems of competitiveness of the businesses particularly affected. The purchase of Jeffrey Chain provides immediate tangible benefits of an increased workload for the European chain factories, as well as providing an important bridgehead into the US distributor market. The automotive business is becoming stronger as new manufacturing equipment beds down and efficiencies improve. The performance in the last quarter showed that a slight upturn in orders at the machine tool business makes a significant improvement to results.

David Cotterill

Financial Review

Profit and loss account

Sales turnover of £174·2 million was £2·6 million higher than last year but included a full year impact of the Jones & Shipman businesses acquired in December 1998; excluding this and the adverse effects of exchange translation, sales were down 4%. The analysis of activities (Note 1 to the accounts) sets out the performance of the two sectors in which the Group operates, power transmission, comprising the chain, coupling and gear businesses, and machine tool and rotor, which includes Holroyd and the Jones & Shipman businesses. These results do not include any contribution from Jeffrey Chain which was acquired at the end of the year. Power transmission sales were 6% lower at constant exchange rates; further growth in Automotive Systems and recovery in the Far East were more than offset by lower sales in the UK and other European markets. Machine tool and rotor sales included a full year of the Jones & Shipman businesses, and benefited from a strong second half year at Holroyd.

Trading profit, before goodwill amortisation and redundancy and restructuring costs, was £11·0 million, compared with £14·0 million in 1998/9. The power transmission businesses achieved operating margins of 8·1% compared with 9·0% last year, a creditable performance in a difficult year. The machine tool and rotor businesses were in loss for the full year, although recovering to a small profit in the second half. Higher profits at Holroyd were more than offset by losses at the Jones & Shipman businesses. The results by geographical region highlight the excellent profit performance in Germany where the chain business had a record year. However, profits were down in the UK, France and the rest of Europe on lower demand for power transmission products. North America suffered from losses in the machine tool business, but in the rest of the world there were higher profits in the Far East and New Zealand. Redundancy costs were £0·4 million in the year, mainly in the UK where manning levels were further reduced.

The return on average trading assets for the Group was 12%; within this the power transmission businesses achieved a 17% return on average trading assets. Net interest payable was £0·8 million, compared with £0·2 million receivable in 1998/9. Profit before tax for the year, before goodwill and redundancy and restructuring costs, was £10·2 million compared with £14·2 million last year.

The taxation charge amounted to £3·5 million, representing an effective rate of 36%, compared with 38% in the previous year. The tax charge arises wholly overseas where rates are higher than in the UK. There is no charge in the UK following the decision last year to accelerate taxable income into that year to utilise Advance Corporation Tax prior to its abolition on 6 April 1999.

Reported profit after tax was £6·1 million compared with £7·7 million last year. Excluding goodwill amortisation and redundancy and restructuring costs, this represented earnings per share of 9·4 pence, compared with 13·5 pence earnings per share last year. Total dividends paid and proposed of 9·25 pence per share are unchanged.

Balance sheet

Goodwill of £26·3 million now includes the goodwill arising on the acquisitions of Jeffrey Chain and Ace Chains, which is being amortised over twenty years.

Group trading assets at the year end were £105·1 million including £12·8 million for Jeffrey Chain acquired on 31 March 2000;

Germany's fastest ICT class diesel train powered by Renold Hi-Tec couplings.

excluding this, trading assets rose by £2·6 million during the year. Fixed assets at £58·7 million were £5·1 million up including £4·6 million of assets acquired. Capital expenditure was £10·3 million, slightly down on 1998/9, and compared with depreciation of £8·0 million. Major new investment continued to be made in additional manufacturing capacity at the fast growing Automotive Systems business and there was further expenditure on updating production facilities in other businesses.

The property held for sale is the former chain factory site in Burnage, Manchester. On 30 March 2000, the Manchester City Council Planning Committee approved the application for the development by Asda of two-thirds of the site, and the application is now under review by the Government Office North West. The sale is conditional on the grant of satisfactory planning permission for the premises to be developed into a retail store, for which the consideration is £4·75 million. Negotiations are ongoing for the sale of the balance of the site for residential housing.

Shareholders' funds stood at £86·4 million at the year end.

Cash flow and borrowings

Cash flow from operating activities was £12·7 million, compared with £23·8 million in the previous year. Working capital rose by £5·3 million compared with a reduction of £3·8 million in 1998/9. This was principally due to an increase in debtors of £6·4 million arising from higher sales in the final quarter, whilst stocks were slightly down. Payments for fixed assets amounted to £9·5 million, whilst tax and dividends cost £11·2 million.

The cash outflow on acquisitions was £35·2 million, with the purchase of Jeffrey Chain financed by new borrowing facilities. At the year end net debt was £33·5 million representing 56% of net tangible assets.

New funding arrangements

As part of the funding in March 2000 of Jeffrey Chain, new banking arrangements were provided to the Company and certain of its subsidiaries by Barclays Bank PLC. These facilities included a multi-currency syndicated facility comprising term loans of US $40 million and £11 million, and a revolving credit facility totalling £12 million, together with a working capital facility of £14 million. The new facilities replaced existing UK facilities and provide ongoing working capital for the Group.

Treasury and financial instruments

The Group Treasury policy, approved by the directors, is to manage its funding requirements and treasury risks without undertaking any speculative risks. 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 Group's net debt of £33·5 million at 1 April 2000 is represented by gross debt of £47·8 million less cash and short term deposits of £14·3 million. The financing of the acquisition of Jeffrey Chain included US $45 million and the interest on these US dollars was swapped into a fixed rate. The interest on Aus. $ 1·2 million borrowings to acquire Ace Chains was also swapped into a fixed rate. The purpose of borrowing in the currency of the assets and locking in the interest rates is to protect the Group against risks arising from adverse movement in interest rates and currency exposures.

At 1 April 2000 the Group had 76% of its gross debt at fixed interest rates. All borrowings in the UK are now secured. The undrawn committed borrowing facilities are more than adequate to meet the foreseeable requirements of the Group. 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

Renold Hydraulics & Variators, Bradford, produced this very large hydraulic excavation support system for work at Birmingham International Airport.

Directors

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

Roger Leverton (age 61)
Chairman
was appointed to the Board 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.

David Cotterill (age 57)
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 plc. He is a non-executive Director of British Vita PLC.

John Allan (age 59)
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 54)
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 56)
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.

Tim Fortune (age 61)
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 61)
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.

Directors and Officers

Chairman
R F Leverton

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)*
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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Merchant Bankers
Schroder Salomon Smith Barney

Stockbrokers
UBS Warburg

Registrar
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Report of the Directors

for the financial year ended 1 April 2000

To be presented to the seventieth Annual General Meeting of RENOLD plc to be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday, 20 July 2000 at 2.30 p.m.

The Notice of Meeting is included on pages 46 and 47.

Group results

The profit for the year on ordinary activities before tax was £9·6 million compared with £12·4 million for the previous year. After taxation, the profit attributable to ordinary shareholders was £6·1 million compared with £7·7 million last year.

There was a loss of £0·4 million after charging the cost of dividends of £6·5 million. Last year there was a retained profit of £1·3 million after dividends of £6·4 million.

The principal activities of the Group are the manufacture and sale of power transmission products and the manufacture and sale of specialist machine tools and rotors. A review of the development of the business is contained in the Chief Executive's Review on pages 4 to 8.

An indication of future developments is also given in those pages and in the Chairman's Statement on pages 2 and 3.

Dividends

An interim dividend of 3·1 pence per ordinary share was paid on 28 January 2000.

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 the same as for the year 1998/9. If approved, the final dividend will be paid on 10 August 2000 to members appearing on the register on 14 July 2000.

Preference dividend payments were made on 1 July 1999 and 1 January 2000.

Acquisitions

On 4 October 1999 the Group acquired the assets and goodwill of Ace Chains Pty Ltd for a consideration of £0·8 million paid in cash. On 31 March 2000 the Group acquired all of the partnership interests in Jeffrey Chain LP and all of the common stock of Jeffrey Chain Corporation for a cash consideration of £35·4 million, inclusive of costs. Details of these acquisitions are given on page 40.

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 12.

Mr M A Smith and Mr R B Kershaw retire by rotation and, being eligible, offer themselves for re-election. Mr Smith does not have a service contract and Mr Kershaw has a service contract which can be terminated by the Company giving two years' notice.

Biographical details of the directors are on page 11.

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.

Special business – Annual General Meeting

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 19 October 2001, 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 £5,775,989 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 £866,398 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 6 and 7 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 36.

As at 2 June 2000, 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 plc	23·25
(ii)	"Material interests" equal to or more than 3%	
	Britannic Investment Managers Limited	6·89
	Aegon UK plc Group of Companies	4·72
	Lloyds TSB Group Plc	3·52
	Britel Fund Trustees Limited	3·48
	Phillips & Drew Life Limited	3·17
	Legal & General Investment Management Limited	3·07

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.

Environmental policy

The Company is committed to managing its activities so as to provide proper levels of care and safety for the environment, and for its customers and employees. Local management is responsible for ensuring that the appropriate systems and organisations are implemented, maintained and monitored in the areas for which they are responsible.

Report of the Directors

Employees

At 1 April 2000 the Renold Group employed 3,187 people, including 1,496 in the UK and 910 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 1999/00 amounted to £2·5 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 1 April 2000 trade creditors of the Group's businesses in the UK and overseas represented 69 days' purchases, compared with 67 last year.

Donations

During the year contributions to UK organisations for charitable purposes amounted to £1,400 (1998/9 - £500). There were no contributions made to political parties.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

Year 2000

As a result of the Group's programme to address Year 2000 issues no material business interruptions or systems problems have been experienced. The capital cost of new computer hardware and software purchased to replace non-compliant systems over the last three years has been £3·1 million. Other work to implement action plans has, in the main, been carried out by in-house personnel, the cost of which is not separately identifiable.

By order of the Board
G R Newton
Secretary

12 June 2000

Corporate Governance

The Combined Code

The Company is required, under the Listing Rules of the Financial Services Authority, to include in its accounts statements as to how it has applied the principles set out in the Combined Code of Corporate Governance 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 1 April 2000 with the provisions set out in Section 1 of the Combined Code, with the exception of the notice periods under the service contracts of executive directors as described in the Remuneration Report on page 20.

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 11.

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. Mr M A Smith acts as the senior independent director.

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 normally 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 financial 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 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.

Risk Monitoring Committee

In March 2000, a Risk Monitoring Committee comprised of the executive directors was established. Its role is to oversee risk management and to ensure that appropriate internal controls are in place. This Committee will report to the Board at least twice a year.

Corporate Governance

Internal control

The Combined Code has introduced a requirement that the directors review the effectiveness of the Group's systems of internal controls. In September 1999 the Turnbull Report was published to provide guidance to listed companies for full compliance with the Code. However, in accordance with the Financial Services Authority's transitional rules, we continue to report solely on our review of internal financial controls. In the meantime the Board has established the necessary procedures to implement the requirements of the Turnbull Report with effect from 2 April 2000.

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's website at www.renold.com 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.

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 has, until 2 April 2000, been capped at 40% of basic salary.

The Committee has reviewed the operation of the scheme and has introduced amendments to achieve greater alignment with shareholders' interests and to bring it into line with market practice. For the year commencing 2 April 2000, the maximum potential award will be increased from 40% to 60% with one-third of the award paid in Renold shares which would be held in trust for three years. The release of the shares is conditional upon the executive director still being employed at the end of the three year period.

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

	2000				1999
	Salaries & Fees £000	Annual Bonus £000	Benefits £000	Total £000	Total £000
Executive directors					
D Cotterill	172		9	181	176
J H B Allan	121		12	133	126
R B Kershaw	121		11	132	129
I R Trotter	121		13	134	126
	535		45	580	557
Non-executive directors					
Chairman					
R F Leverton	65			65	24
J P Frost (to 3 December 1998)					72
T B Fortune	18			18	17
M A Smith	20			20	18
R G J Telfer (to 20 November 1998)					31
	638		45	683	719

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.

Remuneration Report

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	57	8	6	3	24	34
J H B Allan	59	12	8	5	51	
R B Kershaw	53	37	8	4	77	
I R Trotter	56	9	6	3	27	14

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.

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 the 1985 and 1995 Executive Share Option Schemes and the 1995 Savings Related Share Option Scheme 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:

	1 April 2000		3 April 1999	
	Shares	Options	Shares	Options
R F Leverton	8,000			
D Cotterill	243,183	108,902	233,183	75,000
J H B Allan	151,456	146,650	151,456	116,650
T B Fortune	4,376		2,000	
R B Kershaw	26,473	158,843	21,473	125,721
M A Smith	20,000		5,000	
I R Trotter	112,170	150,106	108,170	116,204

The only non-beneficial interest in the ordinary shares of Renold plc at the end of the year was 307,824 shares (3 April 1999 - 415,501 shares) held by Mr D Cotterill and Mr J H B Allan as trustees of the Renold Employee Share Scheme. At 2 June 2000 the number of shares held by the trustees of the scheme was 307,824.

At 1 April 2000 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 2 June 2000.

Share options

	Number of share options					Option price	Date from	Expiry
	At 3·4·99	Granted	Exercised	At 1·4·00		(pence per share)	which exercisable	date
D Cotterill								
Executive scheme		30,000		30,000	(a)	137·83	16·7·02	15·7·09
	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		3,902		3,902		89·36	1·2·03	31·7·03
J H B Allan								
Executive scheme		30,000		30,000	(a)	137·83	16·7·02	15·7·09
	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	1,650			1,650		200·8	1·2·00	31·7·00
R B Kershaw								
Executive scheme		30,000		30,000	(a)	137·83	16·7·02	15·7·09
	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		3,122		3,122		89·36	1·2·03	31·7·03
	721			721		200·8	1·2·02	31·7·02
I R Trotter								
Executive scheme		30,000		30,000	(a)	137·83	16·7·02	15·7·09
	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		3,902		3,902		89·36	1·2·03	31·7·03
	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 1 April 2000 was 101 pence and the range of prices during the year was 82·5 pence to 191 pence.

Service contracts

Service contracts for the executive directors are subject to two years' notice. The service contract of Mr D Cotterill, Chief Executive, which previously was subject to three years' notice, has been reduced to two years' notice during the year at no cost to the Company. The Committee believes it is appropriate to retain these notice periods for the executive directors. However, following a review, the Committee 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 43, 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 43.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described above, this includes responsibility for preparing the accounts, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority 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 United Kingdom 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 the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if they do not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

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'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 1 April 2000 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
12 June 2000

Accounting Policies

A summary of the principal Group accounting policies is set out below. These have been applied on a consistent basis other than the adoption of FRS 15 'Tangible Fixed Assets' as noted below.

Basis of consolidation – The Group accounts set out on pages 22 to 43, 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.

Following the adoption of FRS 10, goodwill arising on acquisitions prior to 29 March 1998 remains eliminated against reserves. 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.

Financial instruments – Derivative financial instruments are used by the Group to manage foreign currency and interest rate exposures. Gains and losses on forward foreign exchange and option contracts are recognised in the profit and loss account when the hedged transaction occurs. In the balance sheet, contract rates are used to record the hedged item to which they relate. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to the interest expense over the relevant period.

Tangible assets represented by properties and equipment are stated at cost. FRS 15 'Tangible Fixed Assets' has been adopted with effect from 4 April 1999. The book values of certain assets which were the subject of past revaluations have been retained as permitted by the transitional arrangements. Depreciation is calculated by reference to original cost 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 the 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.

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 1 April 2000

	Note	2000 £m	1999 £m
Turnover	1	**174·2**	171·6
Trading costs	2		
– normal operating costs		**(163·2)**	(157·6)
– goodwill amortisation		**(0·2)**	
– exceptional redundancy and restructuring costs		**(0·4)**	(1·8)
		(163·8)	(159·4)
Trading profit		**10·4**	12·2
Interest (payable)/receivable	3	**(0·8)**	0·2
Profit on ordinary activities before tax		**9·6**	12·4
Taxation	4	**(3·5)**	(4·7)
Profit for the financial year		**6·1**	7·7
Dividends (including non-equity)	5	**(6·5)**	(6·4)
Retained (loss)/profit for the year	16	**(0·4)**	1·3
Adjusted earnings per share	6	**9·4p**	13·5p
Basic and diluted earnings per share	6	**8·6p**	11·1p

The profit and loss account should be read in conjunction with the notes on pages 28 to 43.

Balance Sheets

as at 1 April 2000

	Note	Group 2000 £m	Group 1999 £m	Renold plc 2000 £m	Renold plc 1999 £m
Fixed assets					
Intangible asset – goodwill	8	**26·3**	2·9		
Tangible assets	9	**58·7**	53·6	**0·3**	0·3
Investments	10			**125·7**	89·1
		85·0	56·5	**126·0**	89·4
Current assets	11				
Stocks		**50·1**	46·6		
Debtors		**45·7**	36·7	**8·7**	8·9
Cash and short term deposits		**14·3**	22·6		4·3
		110·1	105·9	**8·7**	13·2
Creditors					
– amounts falling due within one year					
Loans and overdrafts	12	**(11·4)**	(5·8)	**(7·5)**	(0·2)
Other creditors	13	**(49·9)**	(49·0)	**(6·6)**	(5·7)
Net current assets/(liabilities)		**48·8**	51·1	**(5·4)**	7·3
Total assets less current liabilities		**133·8**	107·6	**120·6**	96·7
Creditors					
– amounts falling due after more than one year					
Loans	12	**(36·1)**	(5·5)	**(32·7)**	(5·5)
Other creditors	13	**(0·5)**	(0·8)		
Provisions for pensions	14	**(10·8)**	(12·6)	**(1·5)**	(2·5)
Net assets		**86·4**	88·7	**86·4**	88·7
Capital and reserves					
(including non-equity interests)					
Called up share capital	15	**17·9**	17·9	**17·9**	17·9
Share premium	16	**6·0**	5·9	**6·0**	5·9
Revaluation reserve	16	**4·9**	6·3	**19·3**	21·5
Other reserves	16	**1·1**	1·3		
Profit and loss account	16	**56·5**	57·3	**43·2**	43·4
Shareholders' funds		**86·4**	88·7	**86·4**	88·7

Approved by the Board on 12 June 2000 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 43.

Group Cash Flow Statement

for the financial year ended 1 April 2000

	Note	2000 £m	2000 £m	1999 £m	1999 £m
Cash flow from operating activities	21		**12·7**		23·8
Servicing of finance	22		**(0·6)**		
Taxation			**(4·7)**		(6·5)
Capital expenditure					
– Purchase of tangible fixed assets			**(9·5)**		(11·5)
Acquisitions					
– Purchase consideration including costs		**(35·3)**		(5·7)	
– Cash/(net overdrafts) acquired with subsidiary		**0·1**		(1·7)	
			(35·2)		(7·4)
Equity dividends paid			**(6·5)**		(6·2)
Cash outflow before use of liquid resources and financing			**(43·8)**		(7·8)
Management of liquid resources					
Transfers from short term deposits			**11·1**		11·2
Financing	22				
Issue of shares		**0·1**		0·7	
Increase/(decrease) in debt and lease financing		**32·2**		(5·6)	
			32·3		(4·9)
Decrease in cash in the year			**(0·4)**		(1·5)
Reconciliation of net cash flow to movement in net (debt)/funds	23				
Decrease in cash in the year		**(0·4)**		(1·5)	
Cash flow from (increase)/decrease in debt and lease financing		**(32·2)**		5·6	
Cash flow from decrease in liquid resources		**(11·1)**		(11·2)	
Change in net (debt)/funds resulting from cash flows			**(43·7)**		(7·1)
Loans and finance leases acquired with subsidiary					(4·7)
Exchange translation difference			**(0·6)**		0·3
Movement in net (debt)/funds in the year			**(44·3)**		(11·5)
Net funds at beginning of year			**10·8**		22·3
Net (debt)/funds at end of year			**(33·5)**		10·8

The cash flow statement should be read in conjunction with the notes on pages 38 and 39.

Other Group Statements

for the financial year ended 1 April 2000

Statement of total recognised gains and losses

	2000 £m	1999 £m
Profit for the financial year	**6·1**	7·7
Exchange translation differences on net assets of overseas subsidiaries	**(2·0)**	0·7
Total recognised gains relating to the financial year	**4·1**	8·4

Reconciliation of movements in shareholders' funds

	2000 £m	1999 £m
Profit for the financial year	**6·1**	7·7
Dividends	**(6·5)**	(6·4)
Retained (loss)/profit for the year	**(0·4)**	1·3
Issue of ordinary shares	**0·1**	0·7
Exchange translation differences on net assets of overseas subsidiaries	**(2·0)**	0·7
Net (reduction in)/addition to shareholders' funds	**(2·3)**	2·7
Opening shareholders' funds	**88·7**	86·0
Closing shareholders' funds	**86·4**	88·7

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 business segment:

	2000 Turnover £m	2000 Trading profit £m	2000 Trading assets £m	1999 Turnover £m	1999 Trading profit £m	1999 Trading assets £m
Power transmission	**145·2**	**11·8**	**83·4***	157·0	14·2	68·4
Machine tool and rotor	**31·2**	**(0·8)**	**21·7**	15·9	(0·2)	21·3
	176·4	**11·0**	**105·1**	172·9	14·0	89·7
Less:						
Inter activity sales	**2·2**			1·3		
Goodwill amortisation		**0·2**				
Exceptional redundancy and restructuring costs		**0·4**			1·8	
	174·2	**10·4**	**105·1**	171·6	12·2	89·7

* Includes £12·8 million trading assets of Jeffrey Chain LP acquired on 31 March 2000.

The acquisition of Jones & Shipman p.l.c. in the prior year has led to a significant increase in machine tool activity. As a consequence the power transmission and machine tool and rotor segments have been identified as separate activities.

Activities classified by geographical region of operation:

	2000 Turnover £m	2000 Trading profit £m	2000 Trading assets £m	1999 Turnover £m	1999 Trading profit £m	1999 Trading assets £m
United Kingdom	**85·1**	**3·4**	**52·9**	81·4	4·8	52·3
Germany	**32·8**	**4·2**	**9·7**	36·7	3·7	10·9
France	**31·5**	**1·4**	**9·9**	31·0	2·0	7·5
Rest of Europe	**15·4**	**1·0**	**3·9**	17·9	1·7	4·1
North America	**33·3**	**0·6**	**22·7***	30·7	1·7	9·5
Other countries	**17·5**	**0·4**	**6·0**	16·1	0·1	5·4
	215·6	**11·0**	**105·1**	213·8	14·0	89·7
Less:						
Intra Group sales	**41·4**			42·2		
Goodwill amortisation		**0·2**				
Exceptional redundancy and restructuring costs		**0·4**			1·8	
	174·2	**10·4**	**105·1**	171·6	12·2	89·7

* Includes £12·8 million trading assets of Jeffrey Chain LP acquired on 31 March 2000.

Turnover by geographical region includes intra group sales as follows: United Kingdom £28·2 million (1998/9 - £28·2 million), Germany £9·5 million (1998/9 - £9·8 million) and France £2·8 million (1998/9 - £3·3 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.

Notes on the Accounts

1. Analysis of activities (continued)

Geographical analysis of external turnover by market area:

	2000	1999
	£m	£m
United Kingdom	**35·8**	35·3
Germany	**28·5**	30·1
Rest of Europe	**40·6**	44·7
North and South America	**46·3**	40·2
Other countries	**23·0**	21·3
	174·2	171·6

2. Trading costs

	2000		1999	
	£m	**£m**	£m	£m
Change in stocks of finished goods and work in progress		**2·5**		1·0
Raw materials and consumables		**57·3**		57·1
Own work capitalised		**(0·5)**		(1·4)
Staff costs				
Gross wages and salaries	**58·2**		56·1	
Social security costs	**7·7**		7·5	
Other pension costs (Note 14)	**3·6**		3·1	
Redundancy and restructuring costs	**0·4**		1·8	
		69·9		68·5
Depreciation				
Owned assets	**7·9**		7·3	
Assets acquired under finance leases	**0·1**		0·2	
Amortisation of goodwill	**0·2**			
		8·2		7·5
Operating lease rentals				
Equipment	**0·6**		0·5	
Other	**1·2**		1·1	
		1·8		1·6
Remuneration of auditors for audit work		**0·4**		0·4
Other external charges		**27·6**		27·4
Other operating income		**(3·4)**		(2·7)
		163·8		159·4

The remuneration of the auditors for the parent company was £23,000 (1998/9 - £24,000). Remuneration of the auditors for non-audit work amounted to £657,000 (1998/9 - £87,000) of which £622,000 (1998/9 - £38,000) was incurred in the UK. Of this amount, £533,000 was in relation to acquisitions and was not charged in trading costs above.

Expenditure on research and development charged against trading profit amounted to £2·5 million (1998/9 - £1·9 million).

Notes on the Accounts

continued

2. Trading costs (continued)

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

	2000	1999
United Kingdom	**1,440**	1,489
Germany	**403**	415
France	**410**	326
Rest of Europe	**88**	91
North America	**209**	195
Other countries	**260**	302
	2,810	2,818

3. Interest (payable)/receivable

	2000 £m	1999 £m
Interest receivable	**0·4**	1·4
Less: interest payable on loans and overdrafts	**(1·2)**	(1·2)
	(0·8)	0·2

4. Taxation

	2000 £m	2000 £m	1999 £m	1999 £m
UK corporation tax based on profit of the year at the rate of 30% (1998/9 - 31%)	**2·0**		7·6	
Less: double taxation relief	**(2·0)**		(2·3)	
			5·3	
Advance corporation tax recovered			(3·5)	
				1.8
Overseas taxes		**3·5**		2·9
		3·5		4·7

5. Dividends

	2000 £m	1999 £m
Ordinary shares		
Interim dividend paid of 3·1p (1998/9 - 3·1p)	**2·2**	2·1
Final dividend proposed 6·15p (1998/9 - 6·15p)	**4·3**	4·3
	6·5	6·4

The 1998/9 interim dividend was paid as a Foreign Income Dividend.

Dividends on the cumulative preference stock amounted to £35,000 (1998/9 - £27,000).

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:

	2000 £m	1999 £m
Basic and diluted earnings	**6·1**	7·7
Adjustment for goodwill amortisation, exceptional redundancy and restructuring costs after tax relief	**0·5**	1·6
Adjusted earnings	**6·6**	9·3

	Thousands	Thousands
Weighted average number of shares in issue – basic and adjusted	**69,288**	68,889
Dilutive potential of employee share options	**53**	292
Weighted average number of shares in issue – diluted	**69,341**	69,181

7. Directors' emoluments

	2000 £000	1999 £000
Aggregate emoluments	**683**	670
Gains made on exercise of share options		19
Amounts provided but not paid in respect of unfunded pension obligations	**48**	41
Payments to former directors		49

During the year, retirement benefits accrued to four directors (1998/9 - four) under a defined benefits scheme and to two directors (1998/9 - two) under unfunded obligations in respect of salary in excess of the earnings cap.

Highest paid director	2000 £000	1999 £000
Aggregate emoluments	**181**	176
Gains made on exercise of share options		9
Aggregate emoluments, including gains made on exercise of share options	**181**	185
Amounts provided but not paid in respect of unfunded pension obligations	**34**	31
Accrued pension at end of year under defined benefits pension scheme	**24**	20

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.

8. Intangible asset – goodwill

	Group £m
Cost	
At beginning of year	2·9
Additions	23·6
At end of year	**26·5**
Amortisation	
At beginning of year	
Charge for the year	(0·2)
At end of year	**(0·2)**
Net book value at end of year	**26·3**
Net book value at beginning of year	2·9

9. Tangible assets

	Group			Renold plc		
	Properties £m	Equipment £m	Total £m	Properties £m	Equipment £m	Total £m
Cost						
At beginning of year	20·1	100·1	120·2	0·1	0·7	0·8
Exchange adjustment	(0·6)	(3·2)	(3·8)			
Additions at cost	0·1	10·2	10·3		0·1	0·1
Acquisition of subsidiaries	0·9	3·7	4·6			
Disposals		(1·6)	(1·6)		(0·1)	(0·1)
At end of year	**20·5**	**109·2**	**129·7**	**0·1**	**0·7**	**0·8**
Depreciation						
At beginning of year	7·2	59·4	66·6		0·5	0·5
Exchange adjustment	(0·3)	(2·1)	(2·4)			
Depreciation for the year	0·4	7·6	8·0		0·1	0·1
Disposals		(1·2)	(1·2)		(0·1)	(0·1)
At end of year	**7·3**	**63·7**	**71·0**		**0·5**	**0·5**
Net book value at end of year	**13·2**	**45·5**	**58·7**	**0·1**	**0·2**	**0·3**
Net book value at beginning of year	12·9	40·7	53·6	0·1	0·2	0·3

Net book value at the end of the year includes £3·9 million (1998/9 - £4·5 million) in respect of leased assets (land and buildings £3·5 million (1998/9 - £3·7 million), equipment £0·4 million (1998/9 - £0·8 million)).

The total cost or valuation of properties at 1 April 2000 comprises £14·8 million (1998/9 - £14·4 million) for freehold land and buildings and £5·7 million (1998/9 - £5·7 million) for leasehold land and buildings which relates to leases where the period unexpired is less than 50 years.

Included in cost above are properties of £3.8million (1998/9 – £4·0 million) revalued in 1971, and equipment of £4·4 million (1998/9 – £4·7 million), revalued in 1974. Following the adoption of FRS 15, these revalued assets are included in cost under the transitional arrangements of this accounting standard.

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 1 April 2000 capital expenditure contracted for but not provided for in these accounts amounted to £2·1 million (1998/9 - £2·3 million).

Notes on the Accounts

10. Investments

Renold plc	Shares £m	Advances £m	Total £m
Subsidiary companies			
Cost or valuation			
At beginning of year	61·0	28·1	89·1
Net advances		38·8	38·8
Deficit on revaluation	(2·2)		(2·2)
At end of year	**58·8**	**66·9**	**125·7**

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 1 April 2000 are set out on page 44.

11. Current assets

	Group		Renold plc	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Stocks				
Materials	**9·5**	8·9		
Work in progress	**13·0**	12·9		
Finished products	**27·6**	24·8		
	50·1	46·6		
Debtors				
Trade debtors	**34·3**	28·3		
Amounts owed by group subsidiaries			**7·9**	7·7
Corporate tax recoverable			**0·2**	1·0
Contract debtors	**1·5**			
Other debtors	**3·1**	2·3	**0·5**	
Property held for sale	**5·0**	5·0		
Prepayments and accrued income	**1·8**	1·1	**0·1**	0·2
	45·7	36·7	**8·7**	8·9
Cash and short term deposits				
Cash at bank	**8·9**	5·4		
Short term deposits	**5·4**	17·2		4·3
	14·3	22·6		4·3
	110·1	105·9	**8·7**	13·2

The Group figures for other debtors include £0·8 million (1998/9 - £0·9 million) of amounts falling due after more than one year.

12. Loans and overdrafts

	Group 2000 £m	Group 1999 £m	Renold plc 2000 £m	Renold plc 1999 £m
Total borrowings	**47·5**	11·3	**40·2**	5·7
Less: repayable within one year or on demand	**11·4**	5·8	**7·5**	0·2
Amounts falling due after more than one year	**36·1**	5·5	**32·7**	5·5
Repayable:				
In more than one year but not more than two years	**3·9**	0·2	**3·5**	0·2
In more than two years but not more than five years	**18·0**	4·0	**16·0**	4·0
In more than five years	**14·2**	1·3	**13·2**	1·3
	36·1	5·5	**32·7**	5·5
Loans comprise:				
UK term loans 1998-2006		5·7		5·7
UK term loans 2000-2007	**34·7**		**34·7**	
Bank loans - overseas	**3·4**			
	38·1	5·7	**34·7**	5·7
Less: repayable within one year	**2·0**	0·2	**2·0**	0·2
	36·1	5·5	**32·7**	5·5

Included in Group borrowings are secured borrowings of £42·5 million (1998/9 - £3·1 million). Security is provided on UK assets and those of certain overseas subsidiaries.

13. Creditors

	Group 2000 £m	Group 1999 £m	Renold plc 2000 £m	Renold plc 1999 £m
Amounts falling due within one year				
Trade creditors	**25·4**	23·3	**1·2**	0·5
Dividends payable	**4·3**	4·3	**4·3**	4·3
Corporate taxes	**1·4**	2·8		
Other taxation and social security	**3·5**	3·9	**0·2**	0·1
Advance payments from customers	**1·2**	1·5		
Other creditors	**5·5**	4·8	**0·2**	0·2
Accruals	**8·4**	8·2	**0·7**	0·6
Finance lease obligations	**0·2**	0·2		
	49·9	49·0	**6·6**	5·7
Amounts falling due after more than one year				
Finance lease obligations				
Between one and five years	**0·1**	0·3		
Other creditors	**0·4**	0·5		
	0·5	0·8		

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:

	2000	1999
	£m	£m
UK	1·6	1·3
Overseas	2·0	1·8
	3·6	3·1

The UK cost for 1999/00 reflects the regular contribution rate less £0·7 million (1998/9 - £0·9 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 1999.

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., 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 £1·1 million (1998/9 - £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:

	2000	1999
	£m	£m
UK schemes	1·5	2·5
Overseas schemes	9·3	10·1
	10·8	12·6

The movement in the year was as follows:	£m
At beginning of year	12·6
Exchange translation differences	(1·1)
Profit and loss account	3·6
Utilised	(4·3)
At end of year	**10·8**

15. Called up share capital

	Authorised		Issued	
	2000	1999	**2000**	1999
	£m	£m	**£m**	£m
Equity interests				
Ordinary shares of 25p each	**23·1**	23·1	**17·3**	17·3
Non-equity interests				
6% Cumulative Preference Stock (£1 units)	**0·6**	0·6	**0·6**	0·6
	23·7	23·7	**17·9**	17·9

The Company issued 119,921 ordinary shares of 25p each for a cash consideration of £114,564 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 1 April 2000 the issued Ordinary Share Capital comprised 69,311,871 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 reserve £m	Profit and loss account £m	Total reserves £m
Group					
At beginning of year	5·9	6·3	1·3	57·3	70·8
Exchange translation differences on net assets of overseas subsidiaries				(2·0)	(2·0)
Share premium	0·1				0·1
Loss for the year				(0·4)	(0·4)
Reclassification of reserves		(1·4)	(0·2)	1·6	
At end of year	**6·0**	**4·9**	**1·1**	**56·5**	**68·5**
Renold plc					
At beginning of year	5·9	21·5		43·4	70·8
Share premium	0·1				0·1
Loss for the year				(0·2)	(0·2)
Deficit on revaluation of shares in subsidiaries		(2·2)			(2·2)
At end of year	**6·0**	**19·3**		**43·2**	**68·5**

The consolidated profit for the financial year includes a profit of £6·3 million (1998/9 - £6·6 million) which is dealt with in the accounts of the parent company.

Cumulative goodwill written off to Group reserves at 1 April 2000, subsequent to the capital reorganisation in January 1985, amounted to £3·6 million (1998/9 - £3·6 million).

17. Deferred taxation

No provision has been made for deferred taxation. At 1 April 2000, there were UK fixed asset and other timing differences, at the corporate tax rate, as follows:

	2000	1999
	£m	£m
Fixed assets	**0·6**	(0·4)
Other	**(1·3)**	(1·6)
	(0·7)	(2·0)

In addition, there are tax losses in certain UK subsidiaries amounting to £2·6 million (1998/9 - £2·2 million).

Surplus advance corporation tax written off amounts to £2·1 million (1998/9 - £2·1 million) which is available for future relief, under the shadow ACT rules.

Overseas timing differences amounted, at the relevant corporation tax rates, to £2·2 million (1998/9 - £2·9 million) which relate principally to fixed asset revaluations.

Distributions by overseas companies would in most cases be subject to additional taxation, which is not expected to be significant in the foreseeable future.

18. Operating lease obligations

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

	2000		1999	
	Properties	**Equipment**	Properties	Equipment
	£m	**£m**	£m	£m
Leases expiring:				
Within one year	**0·2**	**0·2**	0·1	0·2
Between two and five years	**0·3**	**0·6**	0·2	0·6
Over five years	**0·8**		1·0	
Total annual commitments	**1·3**	**0·8**	1·3	0·8

19. Contingent liabilities

Contingent liabilities at 1 April 2000 in respect of guarantees amounted to £2·4 million (1998/9 - £1·4 million) for the Group.

As disclosed in the Circular sent to shareholders dated 29 February 2000, in connection with the acquisition of Jeffrey Chain, Jeffrey Chain LP is a co-defendant in an action commenced by the City of New York on 5 November 1999. The case is at a preliminary stage and it is not possible to assess reliably the potential outcome. The Group has the benefit of an indemnity up to a maximum of US $1·8 million from previous owners of Jeffrey Chain. The directors believe that the outcome of this case will not have a material adverse effect on the Group's financial position or results of its operations.

20. Share options

Share options have been granted under the Executive Share Option Schemes and the Savings Related Share Option Schemes. At 1 April 2000 unexercised options for ordinary shares amounted to 2,672,054 (1998/9 - 1,829,871) made up as follows:

Date normally exercisable	Option price (pence per share)	**Number of shares 2000**	Number of shares 1999
Executive Share Option Schemes			
Within seven years from:			
24 November 1995	52·5	**30,000**	40,000
30 November 1996	120·3	**230,000**	240,000
1 December 1997	184·3	**85,000**	85,000
16 July 1999 (1995 Scheme)	293·83	**82,182**	91,511
18 July 2000 (1995 Scheme)	242·67	**45,647**	45,647
17 July 2001 (1995 Scheme)	237·33	**330,000**	330,000
16 July 2002 (1995 Scheme)	137·83	**395,000**	
Within four years from:			
16 July 1999 (1995 Scheme)	293·83	**312,818**	323,489
18 July 2000 (1995 Scheme)	242·67	**249,353**	249,353
		1,760,000	1,405,000
Savings Related Share Option Schemes			
Within six months from:			
1 February 1999	97·36		99,921
1 February 2000 (1995 Scheme)	200·8	**92,451**	107,796
1 February 2002 (1995 Scheme)	200·8	**124,866**	217,154
1 February 2003 (1995 Scheme)	89·36	**405,886**	
1 February 2005 (1995 Scheme)	89·36	**288,851**	
		912,054	424,871

21. Reconciliation of trading profit to operating cash flows

	2000 £m	1999 £m
Trading profit	**10·4**	12·2
Depreciation charges	**8·0**	7·5
Goodwill amortisation	**0·2**	
Pension costs provision	**(0·6)**	0·3
Decrease in stocks	**1·5**	2·4
(Increase)/decrease in debtors	**(6·4)**	4·1
(Decrease) in creditors	**(0·4)**	(2·7)
Net cash inflow from operating activities	**12·7**	23·8

Net cash flow from operating activities includes an outflow of £0·4 million (1998/9 - £1·6 million) which relates to exceptional redundancy and restructuring costs; an amount of £0·1 million (1998/9 - £0·2 million) was retained in creditors.

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

	2000 **£m**	1999 £m
Servicing of finance		
Interest received	**0·4**	1·5
Interest paid	**(0·9)**	(1·4)
Interest element of finance lease rental payments	**(0·1)**	(0·1)
Net cash outflow for servicing of finance	**(0·6)**	
Financing		
Issue of ordinary share capital	**0·1**	0·7
Debt due within a year: increase/(decrease) in short-term borrowings	**1·8**	(3·9)
Debt due beyond a year: increase/(decrease) in loans	**30·6**	(1·3)
Capital element of finance lease rental payments	**(0·2)**	(0·4)
Net cash inflow/(outflow) from financing	**32·3**	(4·9)

23. Analysis of net (debt)/funds

	At beginning of year £m	Cash flow £m	Exchange movement £m	**At end of year £m**
Cash in hand, at bank	5·4	3·7	(0·2)	**8·9**
Overdrafts	(5·6)	(4·1)	0·3	**(9·4)**
	(0·2)	(0·4)	0·1	**(0·5)**
Debt due after one year	(5·5)	(30·6)		**(36·1)**
Debt due within one year	(0·2)	(1·8)		**(2·0)**
Finance leases	(0·5)	0·2		**(0·3)**
	(6·2)	(32·2)		**(38·4)**
Short term deposits	17·2	(11·1)	(0·7)	**5·4**
Total	10·8	(43·7)	(0·6)	**(33·5)**

24. Acquisitions

During the year the Group made two acquisitions. On 4 October 1999 the goodwill and trading assets of Ace Chains Pty Ltd were acquired for a total consideration of £0·8 million, and on 31 March 2000 Jeffrey Chain LP and Jeffrey Chain Corporation were acquired for a total consideration of £35·4 million.

The effect of the acquisition of Jeffrey Chain LP and Jeffrey Chain Corporation at 31 March 2000 was as follows:

	Book value £m	Provisional fair value adjustments £m	Provisional fair value to the Group £m
Intangible asset - goodwill	4·7	(4·7)	
Fixed assets	4·3		4·3
Stocks	7·3	(1·0)	6·3
Debtors	4·1	(0·1)	4·0
Creditors	(1·9)		(1·9)
Cash	0·1		0·1
	18·6	(5·8)	12·8
Goodwill			22·6
Consideration - cash paid and costs			35·4

The book value of assets and liabilities have been converted at the year end exchange rate. Intangible assets acquired have been written off and adjustments have been made to stock and debtor valuations following a review of the realisable value of the assets.

	£m
Cash paid and costs	35·4
Less: cash acquired	0·1
	35·3
Costs incurred not yet paid	0·9
Cash outflow net of cash acquired	34·4

For the period 1 January 2000 to 30 March 2000 Jeffrey Chain LP had sales of £7·9 million (year to 31 December 1999 £29·0 million) and a trading profit of £0·9 million (year to 31 December 1999 £3·5 million), loss before taxation was £0·2 million and taxation Nil (year to 31 December 1999 profit after tax £2·0 million). There was no difference between the result after tax and the recognised gains and losses for the period.

As this acquisition took place at 31 March 2000, there was no impact on the Group's operating results or operating cashflows in the year.

The effect of the acquisition of the trading assets of Ace Chains Pty Ltd at 4 October 1999 was as follows:

	£m
Book value of assets acquired	0·4
Goodwill	0·4
Cash consideration	0·8

24. Acquisitions (continued)

The Group acquired Jones & Shipman p.l.c. on 31 December 1998. Provisional fair values were established in the accounts at 3 April 1999. In the year to 1 April 2000 the following additional fair value adjustments have been made:

	Provisional fair value to the Group 1999 £m	Adjustments 2000 £m	Final fair value to the Group 2000 £m
Fixed assets	3·3		3·3
Stocks	8·8	(0·3)	8·5
Debtors	4·1		4·1
Creditors	(7·0)	(0·3)	(7·3)
Loans, overdrafts and finance leases	(6·4)		(6·4)
	2·8	(0·6)	2·2
Goodwill	2·9	0·6	3·5
Consideration, including costs	5·7		5·7

The principal adjustments to the fair value to the Group are in respect of additional provisions against the carrying value of stock at acquisition and warranty liabilities existing at the acquisition date.

25. Financial instruments

These notes should be read in conjunction with the narrative disclosures in the Financial Review on page 10.

(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 of the Group**

Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Fixed rate £m	Floating rate £m	Total £m
2000					
Sterling					
- Financial liabilities	**9·5**	**7·0**	**5·8**	**6·4**	**12·2**
- Preference shares	**6·0**	*****	**0·6**		**0·6**
US Dollar	**8·3**	**2·8**	**28·2**	**1·7**	**29·9**
Euro	**4·1**	**3·2**	**1·4**	**2·7**	**4·1**
Other	**8·0**	**3·0**	**0·9**	**0·7**	**1·6**
			36·9	**11·5**	**48·4**
1999					
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 and US dollar 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.

25. Financial instruments (continued)

(d) Currency and interest rate profile of financial assets at 1 April 2000

Currency	**2000** Cash at bank and in hand £m	**2000** Short term deposits £m	**2000** Total £m	1999 Cash at bank and in hand £m	1999 Short term deposits £m	1999 Total £m
Sterling	**6·2**		**6·2**	2·0	10·1	12·1
Euro	**1·4**	**5·3**	**6·7**	1·5	6·8	8·3
Other	**1·3**	**0·1**	**1·4**	1·9	0·3	2·2
	8·9	**5·4**	**14·3**	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 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:

	2000 Debt £m	**2000** Finance leases £m	**2000** Total £m	1999 Debt £m	1999 Finance leases £m	1999 Total £m
In one year or less, or on demand	**11·4**	**0·2**	**11·6**	5·8	0·2	6·0
In more than one year but not more than two years	**3·9**	**0·1**	**4·0**	0·2	0·1	0·3
In more than two years but not more than five years	**18·0**		**18·0**	4·0	0·2	4·2
In more than five years	**14·8**		**14·8**	1·9		1·9
	48·1	**0·3**	**48·4**	11·9	0·5	12·4

Debt due in more than five years includes £0·6 million (1998/9 - £0·6 million) in respect of Renold plc's preference shares.

(f) Borrowing facilities

At the end of the year there were the following undrawn committed borrowing facilities available.

	2000 £m	1999 £m
Expiring within one year or less, or on demand	**22·5**	21·4
Expiring in more than one year but not more than two years	**0·3**	0·3
Expiring in more than two years	**9·0**	6·2
	31·8	27·9

The facilities expiring in one year or less, or on demand, are primarily annual facilities subject to review at various dates during 2000/2001.

25. Financial instruments (continued)

(g) Fair values of financial assets and financial liabilities

	2000		1999	
	Book value £m	**Fair value £m**	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)	**(11·6)**	**(11·6)**	(6·1)	(6·1)
Long-term borrowings	**(36·2)**	**(36·2)**	(5·7)	(5·7)
Preference shares	**(0·6)**	**(0·5)**	(0·6)	(0·5)
Short-term deposits	**5·4**	**5·4**	17·2	17·2
Cash at bank and in hand	**8·9**	**8·9**	5·4	5·4
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps		**(0·5)**		(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 unhedged 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
2000					
Functional currency of companies					
Sterling			**0·5**	**0·3**	**0·8**
US dollars	**(0·8)**		**(0·4)**		**(1·2)**
Euro	**(1·0)**	**0·7**			**(0·3)**
Other currencies	**(0·8)**	**(0·1)**	**(0·2)**		**(1·1)**
	(2·6)	**0·6**	**(0·1)**	**0·3**	**(1·8)**
1999					
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 1 April 2000 or at 3 April 1999.

Principal Subsidiary Companies

as at 1 April 2000

UNITED KINGDOM

Renold Power Transmission Limited*
FACTORIES: BRADFORD, BREDBURY, BURTON, CARDIFF, HALIFAX, LOUGHTON, 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 Engineering Products (Deutschland) 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
	– Jeffrey Chain Acquisition Company Inc
	    – Jeffrey Chain Corporation
	    – Jeffrey Chain LP FACTORY: MORRISTOWN, TN

OTHER COUNTRIES

Australia	Renold Australia Proprietary Limited FACTORY: MELBOURNE
Malaysia	Renold (Malaysia) Sdn Bhd
New Zealand	Renold Christian Limited FACTORY: AUCKLAND
Singapore	Renold Transmission 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 subsidiaries of Renold plc, the parent company ultimately holding a 100% interest in the equity shares and voting rights, 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	**2000**	1999	1998	1997	1996
Turnover	**174·2**	171·6	183·6	180·3	179·3
Trading profit before goodwill amortisation and exceptional redundancy and restructuring costs	**11·0**	14·0	22·4	22·0	19·9
Profit on ordinary activities before tax	**9·6**	12·4	22·5	21·5	18·7
Profit after tax for ordinary shareholders	**6·1**	7·7	17·6	15·5	14·0

Balance sheet

£m	**2000**	1999	1998	1997	1996
Tangible fixed assets	**58·7**	53·6	45·8	44·4	45·7
Stocks	**50·1**	46·6	39·8	41·8	44·6
Debtors	**40·7**	31·7	31·3	34·0	33·3
Creditors	**(44·4)**	(42·2)	(38·0)	(38·5)	(41·9)
Trading assets	**105·1**	89·7	78·9	81·7	81·7
Goodwill	**26·3**	2·9			
Properties held for sale	**5·0**	5·0	5·0	5·0	5·0
Net (borrowings)/cash – including finance leases	**(33·5)**	10·8	22·3	12·8	10·4
Dividends and tax	**(5·7)**	(7·1)	(8·5)	(9·0)	(8·6)
Provisions for pensions	**(10·8)**	(12·6)	(11·7)	(13·0)	(14·8)
Net assets	**86·4**	88·7	86·0	77·5	73·7

Key data		**2000**	1999	1998	1997	1996
Trading return on average trading assets [1 2]	%	**12·1**	17·1	27·9	26·9	25·6
Trading profit on turnover [1]	%	**6·3**	8·2	12·2	12·2	11·1
Capital expenditure	£m	**10·3**	11·3	9·6	7·4	9·7
Basic earnings per share	p	**8·6**	11·1	25·7	22·7	20·8
Dividends per ordinary share	p	**9·25**	9·25	9·0	8·0	7·0
Employees at year end		**3,187**	2,881	2,912	2,825	2,848

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

[2] The calculation of average trading assets for 2000 (being the average of opening and closing trading assets) has been adjusted to exclude £12·8 million trading assets of Jeffrey Chain LP acquired on 31 March 2000.

Notice of Meeting

Notice is hereby given that the seventieth Annual General Meeting of Renold plc will be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday 20 July 2000 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 1 April 2000.

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

3. To re-elect Mr M A Smith as a director.

4. To re-elect Mr R B Kershaw as a director.

5. To re-appoint PricewaterhouseCoopers as auditors of the Company, 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 6 will be proposed as an Ordinary Resolution and Resolution 7 as a Special Resolution:-

6. 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 £5,775,989 provided that this authority shall expire on 19 October 2001 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.

7. THAT subject to the passing of the Ordinary Resolution numbered 6 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

Notice of Meeting

(c) the allotment of equity securities (otherwise than pursuant to paragraphs (a) and (b) above) up to an aggregate nominal amount of £866,398 (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 19 October 2001 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.

By Order of the Board
G R Newton
Secretary

20 June 2000

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 18 July 2000 ("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 10 August 2000 to members appearing on the register on 14 July 2000.

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

	2000
Annual General Meeting	20 July
Final ordinary dividend for 1999/00 - payment date	10 August
Half year end 2000/01	30 September
Half year 2000/01 results published	mid November
	2001
Interim ordinary dividend for 2000/01 payable	end January
Year end 2000/01	31 March
Preliminary announcement of annual results 2000/01	early June

Other dividend payments

Preference dividends:	1 July and 1 January

RENOLD
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