Annual Report 2001

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RENOLD

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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.

Financial Summary

for the financial year ended 31 March 2001

	2001 £m	2000 £m	Change %
Turnover	**216·7**	174·2	+24
Trading profit before goodwill amortisation and exceptional items	**16·1**	11·0	+46
Profit before tax, goodwill amortisation and exceptional items	**12·2**	10·2	+20
Profit before tax	**11·1**	9·6	+16
Adjusted earnings per share	**11·4p**	9·4p	+21
Basic earnings per share	**10·5p**	8·6p	+22
Dividends per ordinary share, paid or proposed	**9·25p**	9·25p	
Capital expenditure	**9·5**	10·3	–8
Gearing (net borrowings to shareholders' funds)	**32%**	39%	

Chairman's Statement

Group results and dividend

I am pleased to report that the Group achieved a 20% increase in pre-exceptional profits in the year to 31 March 2001. This was an encouraging performance in markets which became more testing as the year progressed. Jeffrey Chain, which was acquired on 31 March 2000, has been successfully integrated into the Group and made a positive contribution.

Profit before tax (and before profit on sale of land, redundancy and restructuring costs and goodwill amortisation) was £12·2 million (1999/2000 - £10·2 million) on turnover up 24% at £216·7 million (1999/2000 - £174·2 million). On a like for like basis, at constant exchange rates, turnover was 8% higher. Operating margins improved to 7·4% compared with 6·3% the previous year. Adjusted earnings per share were 11·4 pence (1999/2000 - 9·4 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 26 January 2001, this gives total dividends for the year of 9·25 pence, the same level as last year.

Cash flow and borrowings

The Group achieved a cash inflow of £8·7 million in the year, with cash flow from operating activities of £25·5 million, double that of the previous year. Capital spending, mainly on new plant and equipment for the chain factories, was £10·4 million in the year (£9·5 million in 1999/2000). The former chain factory site at Burnage, Manchester was sold in October 2000 for £7·7 million net. Borrowings at 31 March 2001 were £28·3 million, compared with £33·5 million last year, and gearing at the year end was 32% compared with 39% last year.

Comment

Within the power transmission sector, the Group's chain businesses in mainland Europe performed strongly with Germany again achieving record results. Automotive Systems' sales and margins grew as the benefits of new model programmes and capital investment were realised. The North American businesses, which with the addition of Jeffrey Chain now represent a significant proportion of the Group, suffered a marked slow down in demand in the latter part of the year. However, the Ajax coupling business and the merchanting operations produced good results. The UK power transmission businesses continue to operate in an environment of weak domestic demand and of pressure on export margins. The UK chain factories have been supported by demand from Jeffrey and performed well overall. However, further action has been necessary to rationalise the UK gear and coupling businesses including provision for closure of the Bradford factory. The £2·4 million redundancy and restructuring charge relates almost wholly to this part of the Group.

The machine tool and rotor business continued its recovery and achieved an operating profit on sales which were 18% up on last year. Sales by both Holroyd and Jones & Shipman were well ahead, and the new Jones & Shipman TechMaster® range was launched successfully. A more detailed review of the Group's operations is contained in the Chief Executive's Review.

Renold Stanza®, is a revolutionary new optimised range of fork lift truck mast chain.

Directors

I was pleased to announce in April that Ian Trotter had been appointed as Chief Executive with effect from 1 May 2001, to succeed David Cotterill who had elected to take early retirement.

Ian has been a Director for ten years and has an outstanding track record in turning around and developing our Chain Businesses. His wide understanding of the business makes him well equipped to continue the Group's development.

David Cotterill played an important part in re-shaping the Group in the face of challenging and rapidly changing market conditions since his appointment as Group Chief Executive nine years ago. Renold is a much stronger company as a result. The Board thanks him for what he has achieved and wishes him a long and happy retirement.

Employees

I would like to thank all the Group's employees for their contribution to the progress we have made in the past year.

We constantly face new challenges to meet our customers' needs, and it is the enthusiasm and energy of our employees which enables us to succeed in meeting them.

Prospects

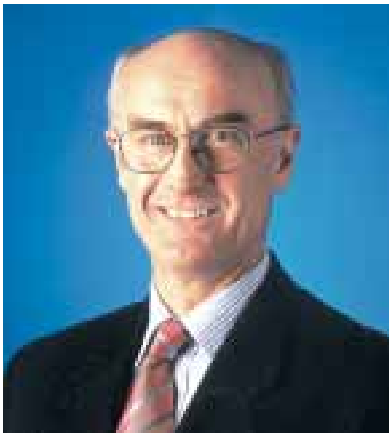
Our strategic focus continues to be on growth markets and growth customers. We continue to invest, in line with this strategy, in order to enhance our capability to provide the products required and technologies to support them.

The Group derives great strength from its geographical spread and from its diverse customer base across a wide range of industries. Nevertheless we are not immune to the effects of the current slowdown in the US economy, the impact of which has made the outlook for our markets less predictable.

We enter the new financial year with order intake in the UK and mainland Europe remaining steady but North American markets performing less well. Through a combination of new business initiatives and cost saving actions taken and in hand, we would expect the Group to return a satsifactory performance over the coming year.

Roger Leverton

Chief Executive's Review



The continuing strength of demand in mainland Europe and a significant increase in machine tool sales were the main reasons for the increase in profits. Jeffrey Chain, acquired on 31 March 2000, made a positive contribution to Group performance; the synergistic benefits of the incremental load it provided for our UK and German Chain factories enhanced the returns from these businesses.

Orders rose 5% from the previous year on a like for like basis. The increase in demand for machine tools, and the general buoyancy of the mainland European market for power transmission products was, in part, offset by a slowdown in demand from the US market in the second half of the year. Orders in the UK declined slightly from the previous year, reflecting the general malaise of UK manufacturing industry and the continuing strength of the pound compared to the Euro. The Australian market remained depressed but there was an increase in demand from the Far East.

Unlike the experience of many suppliers to the automotive industry, orders for Automotive Systems continued to increase as production of the new engine programmes which Renold supply increased. Marine diesel chain orders were strong as were orders for fork lift truck, leisure park rides and mass transit rail systems. The air conditioning market returned to its strength of three years ago and in the second half of the year activity in the aerospace and power generation segments improved. However, there was little increase in orders from machine builders for the packaging, textile and warehousing industries and little activity in orders for escalators, exacerbated by the continuing unresolved debate on the financing of London Underground.

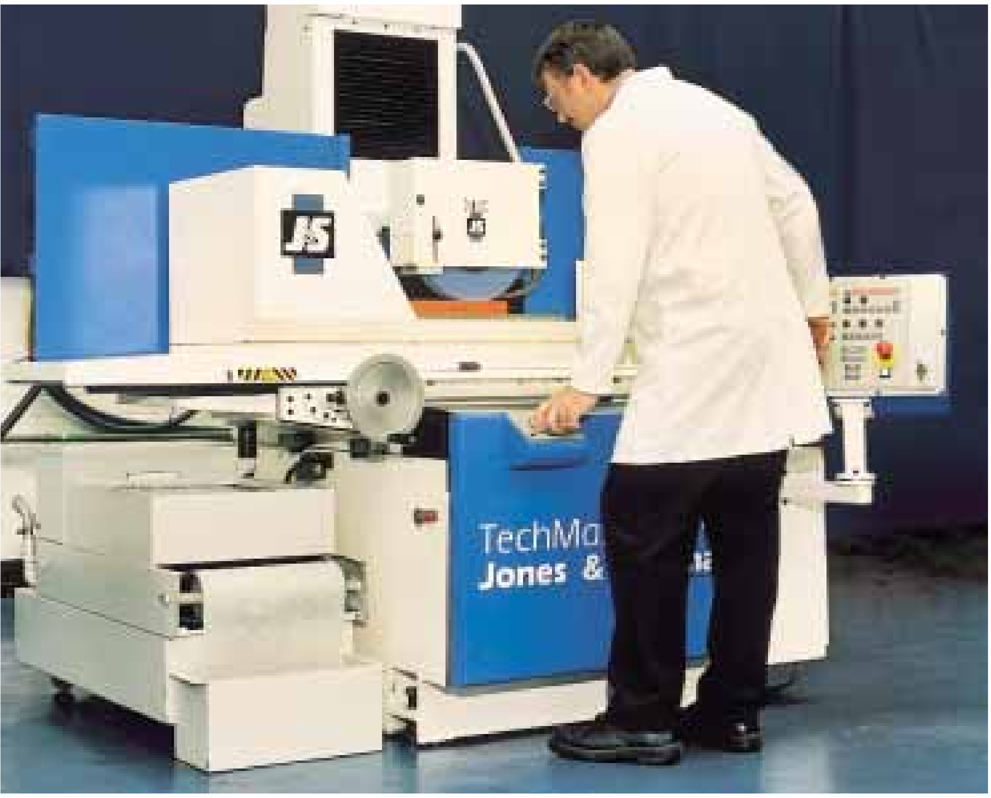
Power Transmission

The major change in the year was the positive impact of the acquisition of the Jeffrey Chain business and its beneficial effect on European factory activity. Jeffrey manufactures conveyor or "engineering" chain (as it is known in the US market) at its factory in Morristown, Tennessee but, prior to acquisition, bought in chain for its Whitney brand power transmission chain from an outside supplier. The chain is made to Jeffrey's specification which has been further enhanced during the year as supplies were switched from the external supplier to the Renold factories in the UK and Germany. The re-sourcing process has moved forward rapidly and is on schedule to meet our target. The benefits of increased efficiency and higher utilisation of capital equipment were felt immediately but further incremental profits will be realised in the new year.

Prior to acquisition, Jeffrey's export business was virtually non-existent. During the year sales of Jeffrey products through the Renold international network of sales companies have gained pace. The Renold and Jeffrey power transmission sales teams have been integrated in the USA and Renold products have been introduced to what were previously only Jeffrey product customers. Particularly important to the Group is Jeffrey's strong position in the US distributor market and with large original equipment manufacturers. Jeffrey's orders did ease in the second half of the year as the US economy slowed, and a cost reduction programme was implemented to counter this.

With the increase in load from the Jeffrey transmission chain business the two transmission chain factories in the UK and Germany had a busy year and the local management teams responded speedily to introduce new tooling and working patterns to cope with these higher levels of product demand. It is particularly pleasing to report that engineering tests have shown that the performance of the Whitney brand chain has been significantly upgraded since it has been manufactured 'in-house'. The German factory had an excellent year, but profits in the UK suffered a little from margin pressures in both the local and export markets.

Similar price pressures were experienced by the UK conveyor chain factory but a substantial increase in manufacturing efficiencies helped overcome the margin effects. Orders remained depressed largely as a result



One of the new Jones & Shipman TechMaster® range of high precision surface grinders.

Special mention must be made of the German chain business which once again made record profits. This was helped by the increased factory load from the new demand for transmission chain to Jeffrey, the transfer of transmission chain previously manufactured at Automotive Systems at Calais, and from the automation of an increasing volume of manufacture of fork lift truck mast chain. However, it would not have been achieved if there had not existed such good co-operation between management and workforce through the Works Council in arranging a flexible and productive working hours system. This environment has encouraged a significant investment at Einbeck over the past few years.

of continuing poor UK market activity and from the low level of business emanating from London Underground; "next week" became "next month" and it continues to be "next month" as escalator suppliers await the release of long overdue refurbishment contracts.

Whilst the UK chain manufacturing businesses were cushioned by the increase in factory load for Jeffrey, the other UK power transmission product factories suffered from the slackness of the UK market and margin pressure on exports. Cost reduction programmes continued and by the year end the proposed closure of the Bradford factory was announced, with the consequent transfer of mechanical variator manufacturing to the gears factory in Milnrow. This transfer will significantly improve prospects for the Milnrow factory, which together with the Manifold Indexing operation, has had a difficult time. The coupling businesses, which have been resilient in recent years, have had to introduce redundancy programmes to counter the effects of lower market demand.

In France the local market conditions improved and particularly encouraging was the winning of some large original equipment orders as local business has been mainly distributor orientated in the past. The German market remained healthy and the rest of mainland Europe also enjoyed good market conditions. All of the merchanting businesses in Europe increased profits with the Swiss business producing record results.

The Automotive Systems business in France had a good year. A significant increase in sales volume was matched by increasing manufacturing efficiency. As a result the business generated a good rate of return on the substantial investment in new production equipment installed over the past three years.

In North America the power transmission merchanting businesses in the USA and Canada produced excellent results despite a tightening in the market. The Renold Ajax coupling business had a record year with strong sales of mass transit couplings and materials handling products. Weakening demand for spindle couplings for steel mills was more than compensated by new spindle drive maintenance contracts.

Chief Executive's Review

continued

Jeffrey Chain produces a wide range of engineering chain at its US factory.

The Australian business had a tough year hampered by problems in the Queensland agricultural market where a cyclone wiped out the harvest last year and therefore no replacement harvester chains were needed for the new season. There are now signs of a recovery in the Australian minerals extraction market which should result in an increase in orders. Profits from New Zealand were on budget and there was a positive impact from the successful relocation of the HQ and Distribution Centre to purpose built facilities at the Auckland factory. The Malaysian and Singapore merchanting businesses produced record profits, an excellent performance matching that of their European counterparts.

After a number of disappointing years some good progress was made towards restoring profitability in the South African power transmission business, where the number of employees has been reduced by two thirds during the last four years.

Renold is one of the world's foremost suppliers of industrial chain manufacturing and selling a broad range of transmission, conveyor, special engineered chain, and cam drive systems for automotive engines. Over recent years the chain businesses have achieved significant growth in profit contribution and enjoyed strong margins. Sales of chain products represent almost 60% of Group turnover in the year to 31 March 2001.

The Group's principal chain brands, Renold Synergy, A&S, Brampton, Jeffrey and Whitney are supported and developed by targeted marketing initiatives and by new product introductions. Through these strong brands we believe that we are market leaders in Germany, the UK, Belgium and the Netherlands, and have powerful positions in France, Italy, Spain, Canada and Australia. With the acquisition of Jeffrey we now have a leading position in the US, the world's biggest single market for industrial chain.

The gear and coupling businesses are niche suppliers focused on specific market sectors; they enhance the overall power transmission product portfolio, and in many areas they complement the Group's chain products. The coupling businesses have performed well in recent years. However the gear businesses, which are UK based, have found life particularly difficult and almost all the redundancy and restructuring charge relates to them.

Our strategy is to continue to develop the power transmission businesses through growth products and growth markets where, through our technological capabilities and product innovation, we add value for our customers.

Machine Tool and Rotor

In March of this year the businesses of Holroyd, Jones & Shipman and Edgetek were integrated under one management team to form Renold Precision Technologies. Since the acquisition of Jones & Shipman there has been some rationalisation of manufacturing and design processes but the formation of Renold Precision Technologies will allow greater integration to take place.

Good progress was made in the year. Orders increased by 17%, sales by 18% and there was an improvement of £1·7 million in trading profit from the previous year. At Holroyd, orders for both machine tools and rotors increased, with only a slight softening in the increase in rotor orders in the second half as customers commissioned their recently purchased machine tools to increase their own manufacture of rotors. Other markets showed signs of increased activity with sales of both machine tools and rotors for screw pump and vacuum pump customers. The Holroyd factory also produces precision gear sets for its own machine tools and sells these sets to other OEMs requiring high precision gears in Europe and North America. The year end order book remains strong.

Jones & Shipman had a much improved year and produced a good last quarter result. Sales to the USA improved and sales via the French subsidiary increased strongly. In the UK there was an increase in sales to the aerospace component industry and greater interest in the purchase of Jones & Shipman machines as customers sought to improve productivity through new capital investment. Subcontract machining for customers was introduced during the year and, although it is in its infancy, some interesting applications have been accomplished which should lead to more business opportunities both for high precision component manufacture or additional machine tool sales. Good progress is also being made by the new re-manufacturing business which generated worthwhile sales growth in its first full year of operation.

In the USA, Edgetek continued to find orders difficult to come by despite its superabrasive technology being at the forefront of high speed, high accuracy machining. Applications activity is high and the customer base in aerospace, power generation and sintered products markets is busy. The opportunities are there and customers are steadily realising the benefits of Edgetek's technology.

New Products

As mentioned in last year's Report our policy of continued differentiation from our competitors is supported by a strong commitment to product development and innovation. **Renold Synergy®**, our new high performance, high specification transmission chain was launched during the year and is being progressively introduced in the worldwide Renold brand market. It has been well received in the UK and mainland Europe and is about to be launched in the Far East and Australasia.

Renold Smartlink® technology is gaining more and more applications and sales have been secured in the leisure and mass transit industries. Further technological enhancements will widen its application to an entirely new opportunity for condition monitoring in demanding drive applications. Smartlink will be combined with chain and gear products to offer customers self-supervised package drive and motion systems, thereby eliminating the need for expensive maintenance support.

Two new products were launched at the recent Hanover Fair. **Renold Stanza®** is a revolutionary new optimised range of fork lift truck mast chain which will enable customers to minimise the cost per unit, while maximising through-mast visibility and minimising inventories. The **ePM** series of Renold Gears is a right angled hollow shaft gear unit available in three variants - single worm; helical worm; and helical-bevel-helical. A distributor friendly modular product it offers customers a 30% increase in performance ratings over existing gear drives and has been enthusiastically received by distributors and OEM customers alike.

Recently launched from Renold Precision Technologies is the new **TechMaster®** range of surface grinders. Incorporating new designs of operator-friendly control systems, this modular range of high precision machine tools is aimed at niche markets in both Europe and the USA.

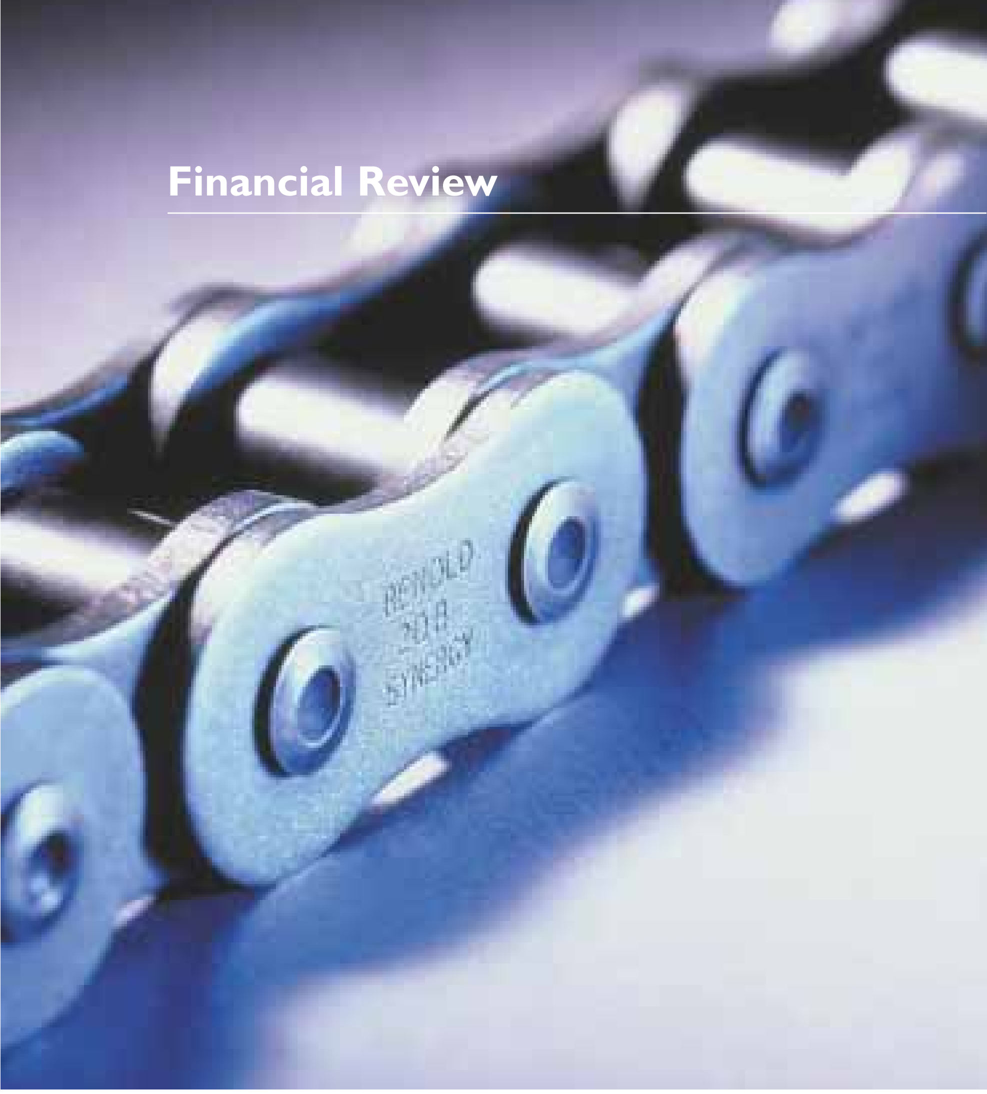
Electronic trading, or e-business, is continuing to develop at a fast pace. Most inter company communications are made via the Internet and more customers are trading electronically with Renold. Renold products are now available through a number of Internet portals. The Group is now beginning to "manage" the inventory of some of its customers via EDI links.

It is pleasing to report an improvement in profits particularly when the UK manufacturing environment continues to be difficult. Investment to enhance the competitiveness of our manufacturing processes is bearing fruit, and there is a continuing drive to source components and raw materials from lower cost areas. Despite the slow down in the US economy the core chain operations in the power transmission business remain strong and the machine tool operations continue to benefit from increasing market activity in important market sectors such as power generation.

Ian Trotter

The new ePM series of Renold Gears, distributor friendly modular product with improved performance ratings.

Financial Review



Renold Synergy®, high performance, high specification, transmission chain.

Profit and loss account

Sales turnover increased by £42·5 million to £216·7 million; this included the full year benefit of the Jeffrey Chain business; excluding this and the adverse effects of exchange translation, like for like sales were 8% higher. 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. Power transmission sales were 5% higher at constant exchange rates, excluding Jeffrey Chain; further growth in Automotive Systems and European markets was partially offset by flat UK and Australasian sales. Machine tool and rotor sales were 18% higher, with strong performances by both the Holroyd and Jones & Shipman businesses.

Trading profit, before goodwill amortisation and exceptional items, was £16·1 million, compared with £11·0 million in 1999/2000. Jeffrey Chain, acquired on 31 March 2000, has been successfully integrated into the Group and made a positive contribution during the year. The power transmission businesses increased operating margins to 8·3% compared with 8·1% last year. The machine tool and rotor businesses moved into profit with a 2·5% operating margin, compared with a loss the previous year, the results of the Jones & Shipman businesses improving markedly. The analysis of trading profit by geographical region highlights the record performance in Germany, whilst France too showed good improvement as the Automotive business continued its profitable growth. In the UK, the continued difficult trading conditions led to a deterioration in the results. North America had a good year although signs of economic slowdown became apparent towards the end of the year. In the rest of the world there were slightly higher profits in the Far East and New Zealand offset by a weaker performance in Australia. Redundancy and restructuring costs were £2·4 million in the year and comprised £1·2 million accelerated depreciation and £1·2 million redundancy and other costs. These arose almost wholly in the UK where rationalisation of the gear and coupling businesses is continuing, and include provision for the announced closure of the Bradford site.

The return on average trading assets for the Group was 15%, up from 12% last year; the power transmission businesses achieved an 18% return on average trading assets and machine tool and rotor 4%. Net interest payable increased to £3·9 million, compared with £0·8 million in 1999/2000, mainly as a result of the new borrowings to fund the Jeffrey acquisition. Profit before tax for the year, before goodwill amortisation and exceptional items, was 20% higher at £12·2 million compared with £10·2 million last year.

The taxation charge amounted to £3·8 million, representing an effective rate of 34%, compared with 36% in the previous year. The tax charge arises wholly overseas where rates are higher than in the UK. There was no tax charge in the UK due to the level of profitability and the availability of capital allowances; the gain on the sale of the Burnage site was sheltered by capital losses brought forward.

Reported profit after tax was £7·3 million compared with £6·1 million last year. Excluding goodwill amortisation and exceptional items, this represented earnings per share of 11·4 pence, an increase of 21%, compared with 9·4 pence earnings per share last year. Total dividends paid and proposed of 9·25 pence per share are unchanged.

Balance sheet

Goodwill stands at £27·7 million after an amortisation charge of £1·4 million in the year, and exchange adjustments of £2·8 million which arise because goodwill is in the main dollar denominated relating to Jeffrey Chain.

Group trading assets at the year end were £107·9 million and rose by £2·8 million during the year. Fixed assets at £59·2 million were £0·5 million higher. Capital additions totalled £9·5 million, compared with a pre-exceptional depreciation charge of £9·2 million. New investment was mainly focused on production equipment for the chain manufacturing businesses in the UK, Germany and Automotive Systems, France.

On 31 October 2000, the former chain factory site at Burnage, Manchester, was sold to Tesco Stores Limited realising net proceeds of £7·7 million. This asset had been included in debtors at £5·0 million last year, generating a profit of £2·7 million on disposal.

Shareholders' funds stood at £89·5 million at the year end.

Cash flow and borrowings

There was a strong cash flow from operating activities, which at £25·5 million was double the £12·7 million of the previous year. Working capital was reduced by £1·8 million compared with an increase of £5·3 million in 1999/2000, as stock and debtor levels, at constant exchange rates, were little changed during the year, and there was an increase in creditors. Payments for fixed assets amounted to £10·4 million, whilst tax and dividends cost £9·0 million.

There was a net cash inflow of £8·7 million and after an exchange adjustment of £3·5 million, relating principally to the US dollar borrowings which funded the Jeffrey acquisition, year end net debt was £28·3 million. This represented 32% of shareholders' funds or 46% of net tangible assets.

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 £28·3 million at 31 March 2001 is represented by gross debt of £35·4 million less cash and short term deposits of £7·1 million.

At 31 March 2001 the Group had 91% of its gross debt at fixed interest rates. All borrowings in the UK are 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.

Introduction of the Euro

The Group's businesses within the Euro zone are well advanced in their preparations for the introduction of the Euro. A proportion of transactions with both customers and suppliers is already carried out in Euro. Businesses' accounting systems will be converted to Euro-accounting over coming months, in good time for the transition to the use of the Euro for all transactions in January 2002.

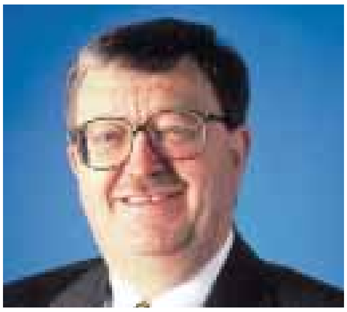
Tony Brown

Renold Hi-Tec couplings are used to power this diesel electric ice-breaker.

Directors

Roger Leverton

Ian Trotter



Ronnie Kershaw

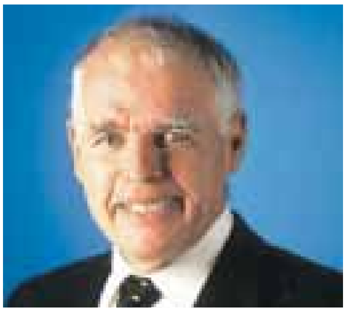
Roger Leverton (age 62)
Chairman
was appointed to the Board and became Chairman in 1998.
He is also Chairman of Infast Group plc, Chairman of Betts Group Holdings Limited and was previously Group Chief Executive of Pilkington plc from 1992 to 1997.

Ian Trotter (age 57)
Chief Executive
joined the Group and was appointed a Director in 1991 and Chief Executive in May 2001.
He has been Managing Director - Chain Businesses for the past ten years. A chartered engineer, he had previously held senior management positions within ACI Limited and Trinova/Vickers Systems Limited.

Ronnie Kershaw (age 55)
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.

Tony Brown

Mark Smith



Tim Fortune

Tony Brown (age 54)
Finance Director
joined the Group in 1990 as Chain Division Finance Director. In 1991 he became Group Financial Controller and was appointed a Director in August 2000.
A chartered management accountant, he had previously held a number of senior financial positions at Courtaulds PLC both in the UK and in North America.

Mark Smith (age 62)
Non-Executive Director
was appointed to the Board in 1994.
He is also a Director of The Laird Group PLC, Bradford & Bingley plc and was formerly a Director and Vice Chairman of S G Warburg & Co Ltd.

Tim Fortune (age 62)
Non-Executive Director
was appointed to the Board in 1997. He is also Chairman and was formerly Chief Executive of Spirax-Sarco Engineering plc.

Directors and Officers

Chairman
R F Leverton

Executive Directors
I R Trotter *Chief Executive*
D A Brown *Finance Director*
R B Kershaw

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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ING Barings

Stockbrokers
UBS Warburg

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Website: www.northernregistrars.co.uk

Report of the Directors

for the financial year ended 31 March 2001

To be presented to the seventy first Annual General Meeting of RENOLD plc to be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday, 19 July 2001 at 2.30 p.m.

The Notice of Meeting is included on pages 45 and 46.

Group results

The profit for the year on ordinary activities before tax was £11·1 million compared with £9·6 million for the previous year. After taxation, the profit attributable to ordinary shareholders was £7·3 million compared with £6·1 million last year.

There was a profit of £0·8 million after charging the cost of dividends of £6·5 million. Last year there was a loss of £0·4 million after dividends of £6·5 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 26 January 2001.

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 1999/2000. If approved, the final dividend will be paid on 9 August 2001 to members appearing on the register on 13 July 2001.

Preference dividend payments were made on 1 July 2000 and 1 January 2001.

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 I R Trotter was appointed Chief Executive on 1 May 2001 following the early retirement of Mr D Cotterill on 30 April 2001.

As reported last year, Mr J H B Allan retired as a director on 31 July 2000.

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

Mr D A Brown was appointed a director on 1 August 2000 and, being eligible, offers himself for election at the Annual General Meeting. He has a service contract which can be terminated by the Company giving one year's 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 18 October 2002, 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 £5,776,047 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 £866,407 representing 5% of the current issued ordinary share capital of the Company. Except for the issue of shares pursuant to the Company's employee share schemes the directors have no present intention of issuing any part of the unissued share capital. Resolutions 7 and 8 will be proposed to give effect to these measures.

Share capital

Changes in share capital during the year are set out in Note 15 to the Accounts on page 36.

As at 1 June 2001, 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	17·11
(ii)	"Material interests" equal to or more than 3%	
	Britannic Investment Managers Limited	6·73
	Acorn Income Fund Limited	3·90
	Aegon UK plc Group of Companies	3·57
	Phillips & Drew Life Limited	3·52
	Britel Fund Trustees Limited	3·48
	Legal & General Investment Management Limited	3·29

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.

Employment policies are designed to provide equal opportunities irrespective of race, caste, national origin, religion, age, disability, gender, marital status, sexual orientation or political affiliation. Further information is published on the Company's website.

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

Report of the Directors

Environmental policy

The Board has overall responsibility for the environmental policy and during the year appointed the Chief Executive as the director with specific responsibility for health, safety and environmental matters. The Group's environmental policy is published on the Company's website.

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. In line with this policy, local management is responsible for ensuring that appropriate systems and organisations are implemented, maintained and monitored in the areas for which they are responsible. Each business has issued a local environmental statement which complies with Group policy and local legislation.

A number of our key manufacturing locations are currently in the process of completing certification for ISO 14001 Standard which covers environmental management systems.

Employees

At 31 March 2001 the Renold Group employed 3,238 people, including 1,542 in the UK and 952 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 2000/01 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 31 March 2001 trade creditors of the Group's businesses in the UK and overseas represented 64 days' purchases, compared with 69 last year.

Donations

During the year contributions to UK organisations for charitable purposes amounted to £1,300 (1999/00 - £1,400). 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.

By order of the Board
G R Newton
Secretary

11 June 2001

Corporate Governance

The Combined Code

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 31 March 2001 with the provisions set out in Section 1 of the Combined Code on Corporate Governance, with the exception of the notice periods under the service contracts of certain 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 three 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 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. The Senior Independent Director is Mr M A Smith.

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 opportunity 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

The Risk Monitoring Committee is a committee of the Board comprised of the executive directors and is chaired by the Chief Executive. Its role is to oversee risk management and to ensure that appropriate internal controls are in place.

Corporate Governance

Internal control

The directors have the overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Management is accountable to the directors for implementing Board policies on risk and control and for monitoring and reporting to the Board that it has done so. The review of the system of internal controls has been completed for the year ended 31 March 2001, as required by the UK Listing Authority and in accordance with the guidance issued by the Turnbull Committee.

Internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The key features of the Group's internal control system are

- the Risk Monitoring Committee which meets quarterly to review how business risks are being managed and to ensure that policies are in place and are being applied. The minutes of this Committee are available to Board members so that any significant control issues are brought to their attention and a formal report is made at least annually to the Board so that it can review how business risks have and are being managed;
- risk assessments completed by senior management at each operating unit who undertake a continuous process of risk assessments and reporting which are reviewed by the Risk Monitoring Committee;
- 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 financial controls questionnaires supported by internal audit reviews. The results of this work are reported to the Audit Committee.

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.

All shareholders are invited to participate in the Annual General Meeting where the Chairman of the Board and of the Audit, Remuneration and Nomination Committees, together with the executive directors, are available to answer questions.

The Company's website at www.renold.com presents information about the Group and includes the posting of the interim and final preliminary results on the day they are announced.

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 been capped at 60% of basic salary 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

	2001				2000
	Salaries & fees £000	Annual bonus £000	Benefits £000	Total £000	Total £000
Executive directors					
D Cotterill (retired 30.4.01)	183		10	193	181
I R Trotter	129	20	14	163	134
D A Brown (appointed 1.8.00)	71	10	9	90	
R B Kershaw	129		14	143	132
J H B Allan (retired 31.7.00)	46		4	50	133
	558	30	51	639	580
Non-executive directors					
R F Leverton – Chairman	66			66	65
T B Fortune	19			19	18
M A Smith	21			21	20
	664	30	51	745	683

A payment of £50,000 was made to J H B Allan following his retirement in recognition of his valuable services to the Group over the past thirteen years.

Directors' pensions

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

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

No element of remuneration other than salary is pensionable.

Details of pension benefits earned in respect of each director in office at 31 March 2001 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	58	9	6	3	28	35
I R Trotter	56	10	6	3	30	13
D A Brown	54	11	4	2	34	1
R B Kershaw	54	38	8	8	87	

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 existing options require 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 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, who held office at 31 March 2001, in the ordinary shares of the Company, as appearing in the Register of Directors' Interests maintained under the Companies Act 1985, were as follows:

	31 March 2001		1 April 2000	
	Shares	Options	Shares	Options
R F Leverton	8,000		8,000	
D Cotterill	253,183	128,902	243,183	108,902
I R Trotter	112,170	168,902	112,170	150,106
D A Brown	65,502	78,902	65,207*	78,902*
T B Fortune	4,376		4,376	
R B Kershaw	26,473	178,843	26,473	158,843
M A Smith	20,000		20,000	

* As at date of appointment on 1 August 2000.

The only non-beneficial interest in the ordinary shares of Renold plc at the end of the year was 176,045 shares (1 April 2000 - 307,824 shares) held by Mr D Cotterill and Mr D A Brown as trustees of the Renold Employee Share Scheme. At 1 June 2001 the number of shares held by the trustees of the scheme was 175,493.

At 31 March 2001 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 1 June 2001.

Remuneration Report

continued

Share options

	At 1.4.00		Granted	Exercised	At 31.3.01		Option price (pence per share)	Date from which exercisable	Expiry date
			Number of share options						
D Cotterill									
Executive scheme			20,000		20,000	(a)	118·50	19.7.03	18.7.10
	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
I R Trotter									
Executive scheme			20,000		20,000	(a)	118·50	19.7.03	18.7.10
	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		120·30	30.11.96	29.11.03
Savings related scheme	3,902				3,902		89·36	1.2.03	31.7.03
	1,204	(c)							
D A Brown									
Executive scheme	20,000	(b)			20,000	(a)	118·50	19.7.03	18.7.10
	10,000	(b)			10,000	(a)	137·83	16.7.02	15.7.09
	10,000	(b)			10,000	(a)	237·33	17.7.01	16.7.08
	10,000	(b)			10,000	(a)	242·67	18.7.00	17.7.04
	15,000	(b)			15,000	(a)	293·83	16.7.99	15.7.03
	10,000	(b)			10,000		120·30	30.11.96	29.11.03
Savings related scheme	3,902	(b)			3,902		89·36	1.2.03	31.7.03
R B Kershaw									
Executive scheme			20,000		20,000	(a)	118·50	19.7.03	18.7.10
	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		120·30	30.11.96	29.11.03
	30,000				30,000		52·50	24.11.95	23.11.02
Savings related scheme	3,122				3,122		89·36	1.2.03	31.7.03
	721				721		200·80	1.2.02	31.7.02

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

(b) as at date of appointment on 1 August 2000.

(c) lapsed unexercised during the year.

The middle market price of ordinary shares at 31 March 2001 was 87 pence and the range of prices during the year was 81·5 pence to 122·5 pence.

Service contracts

Service contracts for Mr I R Trotter and Mr R B Kershaw are subject to two years' notice and that for Mr D A Brown is subject to one year's notice. The Committee believes it is appropriate to retain two year notice periods for Mr I R Trotter and Mr R B Kershaw. However, 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.

Shareholder approval of policy

The Committee has considered whether shareholders should be invited to approve the policy set out in this Report but believes that as no material change has taken place during the last financial year, there is no requirement to submit this for separate approval at the Annual General Meeting on 19 July 2001.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Independent 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 42, 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.

The directors intend to publish the accounts on the Group's website, www.renold.com. The directors are responsible for the maintenance and integrity of the accounts on the website in accordance with UK legislation governing the preparation and dissemination of accounts. Access to the website is available from outside the UK, where comparable legislation may be different.

Report of the Independent Auditors

To the members of Renold plc

We have audited the accounts on pages 22 to 42.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 Listing Rules, 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 31 March 2001 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
11 June 2001

Accounting Policies

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

Basis of consolidation – The Group accounts set out on pages 22 to 42, 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. The book values of certain assets which were the subject of past revaluations have been retained as permitted by the transitional arrangements of FRS15 'Tangible Fixed Assets'. Depreciation is normally 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

Adjustments may be made to the remaining effective useful lives of assets to reflect changes in circumstances to those envisaged when the asset was brought into use.

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.

Investments – Shares in subsidiary companies are stated at their net asset value at the end of the year. This basis has been adopted because it is considered that it more fairly represents the value of the investment to Renold plc.

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 31 March 2001

	Note	2001 £m	2000 £m
Turnover	1	**216·7**	174·2
Trading costs	2		
– normal operating costs		**(200·6)**	(163·2)
– goodwill amortisation		**(1·4)**	(0·2)
– exceptional redundancy and restructuring costs		**(2·4)**	(0·4)
– exceptional gain on disposal of asset held for sale		**2·7**	
		(201·7)	(163·8)
Trading profit		**15·0**	10·4
Net interest payable	3	**(3·9)**	(0·8)
Profit on ordinary activities before tax		**11·1**	9·6
Taxation	4	**(3·8)**	(3·5)
Profit for the financial year		**7·3**	6·1
Dividends (including non-equity)	5	**(6·5)**	(6·5)
Retained profit/(loss) for the year	16	**0·8**	(0·4)
Adjusted earnings per share	6	**11·4p**	9·4p
Basic and diluted earnings per share	6	**10·5p**	8·6p

The profit and loss account should be read in conjunction with the notes on pages 28 to 42.

Balance Sheets

as at 31 March 2001

	Note	Group		Renold plc	
		2001	2000	**2001**	2000
		£m	£m	**£m**	£m
Fixed assets					
Intangible asset – goodwill	8	**27·7**	26·3		
Tangible assets	9	**59·2**	58·7	**0·3**	0·3
Investments	10			**111·2**	125·7
		86·9	85·0	**111·5**	126·0
Current assets	11				
Stocks		**52·0**	50·1		
Debtors		**41·7**	45·7	**13·8**	8·7
Cash and short term deposits		**7·1**	14·3		
		100·8	110·1	**13·8**	8·7
Creditors					
– amounts falling due within one year					
Loans and overdrafts	12	**(7·1)**	(11·4)	**(3·8)**	(7·5)
Other creditors	13	**(51·8)**	(49·9)	**(5·8)**	(6·6)
Net current assets/(liabilities)		**41·9**	48·8	**4·2**	(5·4)
Total assets less current liabilities		**128·8**	133·8	**115·7**	120·6
Creditors					
– amounts falling due after more than one year					
Loans	12	**(28·2)**	(36·1)	**(25·5)**	(32·7)
Other creditors	13	**(0·4)**	(0·5)		
Provisions for pensions	14	**(10·7)**	(10·8)	**(0·7)**	(1·5)
Net assets		**89·5**	86·4	**89·5**	86·4
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**	6·0	**6·0**	6·0
Revaluation reserve	16	**7·1**	4·9	**16·4**	19·3
Other reserves	16	**1·2**	1·1		
Profit and loss account	16	**57·3**	56·5	**49·2**	43·2
Shareholders' funds		**89·5**	86·4	**89·5**	86·4

Approved by the Board on 11 June 2001 and signed on its behalf by:

Roger Leverton
Ian Trotter
} Directors

The balance sheets should be read in conjunction with the notes on pages 28 to 42.

Group Cash Flow Statement

for the financial year ended 31 March 2001

	Note	2001 £m	2001 £m	2000 £m	2000 £m
Net cash flow from operating activities	21		**25·5**		12·7
Servicing of finance	22		**(4·2)**		(0·6)
Taxation			**(2·5)**		(4·7)
Capital expenditure and financial investment					
– Purchase of tangible fixed assets		**(10·4)**		(9·5)	
– Proceeds from disposal of asset held for sale		**7·7**			
			(2·7)		(9·5)
Acquisitions					
– Purchase consideration including costs		**(0·9)**		(35·3)	
– Cash acquired with subsidiary				0·1	
			(0·9)		(35·2)
Equity dividends paid			**(6·5)**		(6·5)
Net cash inflow/(outflow) before use of liquid resources and financing			**8·7**		(43·8)
Management of liquid resources					
Transfers from short term deposits			**1·8**		11·1
Financing	22				
Issue of shares				0·1	
(Decrease)/increase in debt and lease financing		**(9·6)**		32·2	
			(9·6)		32·3
Increase/(decrease) in cash in the year			**0·9**		(0·4)
Reconciliation of net cash flow to movement in net debt	23				
Increase/(decrease) in cash in the year		**0·9**		(0·4)	
Cash flow from decrease/(increase) in debt and lease financing		**9·6**		(32·2)	
Cash flow from decrease in liquid resources		**(1·8)**		(11·1)	
Change in net debt resulting from cash flows			**8·7**		(43·7)
Exchange translation difference			**(3·5)**		(0·6)
Movement in net debt in the year			**5·2**		(44·3)
Net (debt)/funds at beginning of year			**(33·5)**		10·8
Net debt at end of year			**(28·3)**		(33·5)

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 31 March 2001

Statement of total recognised gains and losses

	2001 £m	2000 £m
Profit for the financial year	**7·3**	6·1
Exchange translation differences on net assets of overseas subsidiaries	**2·3**	(2·0)
Total recognised gains relating to the financial year	**9·6**	4·1

Reconciliation of movements in shareholders' funds

	2001 £m	2000 £m
Profit for the financial year	**7·3**	6·1
Dividends	**(6·5)**	(6·5)
Retained profit/(loss) for the year	**0·8**	(0·4)
Issue of ordinary shares		0·1
Exchange translation differences on net assets of overseas subsidiaries	**2·3**	(2·0)
Net addition to/(reduction in) shareholders' funds	**3·1**	(2·3)
Opening shareholders' funds (including non-equity)	**86·4**	88·7
Closing shareholders' funds (including non-equity)	**89·5**	86·4

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:

	2001 Turnover £m	2001 Trading profit £m	2001 Trading assets £m	2000 Turnover £m	2000 Trading profit £m	2000 Trading assets £m
Power transmission	**182·1**	**15·2**	**87·7**	145·2	11·8	83·4
Machine tool and rotor	**36·7**	**0·9**	**20·2**	31·2	(0·8)	21·7
	218·8	**16·1**	**107·9**	176·4	11·0	105·1
Less:						
Inter activity sales	**(2·1)**			(2·2)		
Goodwill amortisation		**(1·4)**			(0·2)	
Exceptional redundancy and restructuring costs		**(2·4)**			(0·4)	
Add:						
Exceptional gain on disposal of asset held for sale		**2·7**				
	216·7	**15·0**	**107·9**	174·2	10·4	105·1

Activities classified by geographical region of operation:

	2001 Turnover £m	2001 Trading profit £m	2001 Trading assets £m	2000 Turnover £m	2000 Trading profit £m	2000 Trading assets £m
United Kingdom	**91·9**	**2·5**	**49·8**	85·1	3·4	52·9
Germany	**33·7**	**4·8**	**11·3**	32·8	4·2	9·7
France	**34·3**	**2·5**	**11·2**	31·5	1·4	9·9
Rest of Europe	**16·5**	**1·3**	**4·4**	15·4	1·0	3·9
North America	**68·3**	**4·5**	**25·0**	33·3	0·6	22·7
Other countries	**17·4**	**0·5**	**6·2**	17·5	0·4	6·0
	262·1	**16·1**	**107·9**	215·6	11·0	105·1
Less:						
Intra Group sales	**(45·4)**			(41·4)		
Goodwill amortisation		**(1·4)**			(0·2)	
Exceptional redundancy and restructuring costs		**(2·4)**			(0·4)	
Add:						
Exceptional gain on disposal of asset held for sale		**2·7**				
	216·7	**15·0**	**107·9**	174·2	10·4	105·1

The exceptional items are attributable to the Power Transmission segment and relate to the UK businesses.

Turnover by geographical region includes intra group sales as follows: United Kingdom £30·2 million (1999/00 - £28·2 million), Germany £10·8 million (1999/00 - £9·5 million) and France £2·3 million (1999/00 - £2·8 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.

1. Analysis of activities (continued)

Geographical analysis of external turnover by market area:

	2001 **£m**	2000 £m
United Kingdom	**36·0**	35·8
Germany	**26·7**	28·5
France	**12·0**	10·4
Rest of Europe	**33·6**	30·2
North and South America	**83·1**	46·3
Other countries	**25·3**	23·0
	216·7	174·2

2. Trading costs

	2001 **£m**	**2001** **£m**	2000 £m	2000 £m
Change in stocks of finished goods and work in progress		**(0·2)**		2·5
Raw materials and consumables		**81·1**		57·3
Own work capitalised		**(0·5)**		(0·5)
Staff costs				
Gross wages and salaries	**69·7**		58·2	
Social security costs	**8·4**		7·7	
Other pension costs (Note 14)	**3·8**		3·6	
Redundancy and restructuring costs	**1·2**		0·4	
		83·1		69·9
Depreciation				
Owned assets	**9·1**		7·9	
Accelerated depreciation on owned assets	**1·2**			
Assets acquired under finance leases	**0·1**		0·1	
		10·4		8·0
Amortisation of goodwill		**1·4**		0·2
Operating lease rentals				
Equipment	**0·8**		0·6	
Other	**1·4**		1·2	
		2·2		1·8
Remuneration of auditors for audit work		**0·4**		0·4
Other external charges		**30·2**		27·6
Other operating income	**(3·7)**		(3·4)	
Exceptional gain on disposal of asset held for sale	**(2·7)**			
		(6·4)		(3·4)
		201·7		163·8

2. Trading costs (continued)

Total exceptional costs in the year are comprised as follows:

	2001 £m	2000 £m
Redundancy and restructuring	**1·2**	0·4
Accelerated depreciation	**1·2**	
	2·4	0·4

The exceptional cost of £2·4 million is in respect of rationalisation and restructuring within the UK gear and coupling businesses.

The remuneration of the auditors for the parent company was £24,000 (1999/00 - £23,000). Remuneration of the auditors for non-audit work amounted to £105,000 (1999/00 - £657,000) of which £40,000 (1999/00 - £622,000) was incurred in the UK. (£533,000 of the 1999/00 amount was in relation to acquisitions and was not charged in trading costs in that year).

Expenditure on research and development charged against trading profit amounted to £2·5 million (1999/00 - £2·5 million).

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

	2001	2000
United Kingdom	**1,553**	1,440
Germany	**403**	403
France	**446**	410
Rest of Europe	**86**	88
North America	**513**	209
Other countries	**255**	260
	3,256	2,810

3. Net interest payable

	2001 £m	2000 £m
Interest payable on loans and overdrafts	**(4·2)**	(1·2)
Less: interest receivable	**0·3**	0·4
	(3·9)	(0·8)

4. Taxation

	2001 £m	2000 £m
UK corporation tax based on profit for the year at the rate of 30% (1999/00 - 30%)	**2·5**	2·0
Less: double taxation relief	**(2·5)**	(2·0)
Overseas taxes	**3·8**	3·5
	3·8	3·5

Due to the availability of capital losses brought forward, no tax charge has arisen on the profit of £2·7 million on the disposal of the asset held for sale.

Notes on the Accounts

5. Dividends

	2001 £m	2000 £m
Ordinary shares		
Interim dividend paid of 3·1p (1999/00 - 3·1p)	**2·2**	2·2
Final dividend proposed 6·15p (1999/00 - 6·15p)	**4·3**	4·3
	6·5	6·5

Dividends on the cumulative preference stock amounted to £35,000 (1999/00 - £35,000).

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:

	2001 £m	2000 £m
Basic and diluted earnings	**7·3**	6·1
Adjustment for goodwill amortisation and exceptional items after tax relief	**0·6**	0·5
Adjusted earnings	**7·9**	6·6

	Thousands	Thousands
Weighted average number of shares in issue – basic and adjusted	**69,312**	69,288
Dilutive potential of employee share options	**148**	53
Weighted average number of shares in issue – diluted	**69,460**	69,341

7. Directors' emoluments

	2001 £000	2000 £000
Aggregate emoluments	**745**	683
Amounts provided but not paid in respect of unfunded pension obligations	**49**	48
Payments to former director	**50**	

During the year, retirement benefits accrued to five directors (1999/00 - four) under a defined benefits scheme and to three directors (1999/00 - two) under unfunded obligations in respect of salary in excess of the earnings cap.

Highest paid director

	2001	2000
Aggregate emoluments	**193**	181
Amounts provided but not paid in respect of unfunded pension obligations	**35**	34
Accrued pension at end of year under defined benefits pension scheme	**28**	24

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	26·5
Exchange adjustments	2·9
At end of year	**29·4**
Amortisation	
At beginning of year	(0·2)
Exchange adjustments	(0·1)
Charge for the year	(1·4)
At end of year	**(1·7)**
Net book value at end of year	**27·7**
Net book value at beginning of year	26·3

9. Tangible assets

	Group			Renold plc		
	Properties £m	Equipment £m	Total £m	Properties £m	Equipment £m	Total £m
Cost						
At beginning of year	20·5	109·2	129·7	0·1	0·7	0·8
Exchange adjustment	0·4	2·4	2·8			
Additions at cost	0·4	9·1	9·5		0·1	0·1
Disposals		(0·9)	(0·9)			
At end of year	**21·3**	**119·8**	**141·1**	**0·1**	**0·8**	**0·9**
Depreciation						
At beginning of year	7·3	63·7	71·0		0·5	0·5
Exchange adjustment	0·2	1·1	1·3			
Depreciation for the year	0·4	10·0	10·4		0·1	0·1
Disposals		(0·8)	(0·8)			
At end of year	**7·9**	**74·0**	**81·9**		**0·6**	**0·6**
Net book value at end of year	**13·4**	**45·8**	**59·2**	**0·1**	**0·2**	**0·3**
Net book value at beginning of year	13·2	45·5	58·7	0·1	0·2	0·3

Net book value at the end of the year includes £3·9 million (1999/00 - £3·9 million) in respect of leased assets (land and buildings £3·3 million (1999/00 - £3·5 million), equipment £0·6 million (1999/00 - £0·4 million)).

The total cost of properties at 31 March 2001 comprises £15·7 million (1999/00 - £14·8 million) for freehold land and buildings and £5·7 million (1999/00 - £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 £3·8 million (1999/00 - £3·8 million) revalued in 1971, and equipment of £4·4 million (1999/00 - £4·4 million), revalued in 1974.

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 31 March 2001 capital expenditure contracted for but not provided for in these accounts amounted to £1·8 million (1999/00 - £2·1 million).

10. Investments

Renold plc	Shares £m	Advances £m	Total £m
Subsidiary companies			
Cost or valuation			
At beginning of year	58·8	66·9	125·7
Net repayments		(11·6)	(11·6)
Deficit on revaluation	(2·9)		(2·9)
At end of year	**55·9**	**55·3**	**111·2**

The principal subsidiary companies of Renold plc at 31 March 2001 are set out on page 43.

11. Current assets

	Group		Renold plc	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Stocks				
Materials	**10·5**	9·5		
Work in progress	**12·8**	13·0		
Finished products	**28·7**	27·6		
	52·0	50·1		
Debtors				
Trade debtors	**36·1**	34·3		
Amounts owed by Group subsidiaries			**13·6**	7·9
Corporate tax recoverable				0·2
Contract debtors	**0·9**	1·5		
Other debtors	**3·4**	3·1	**0·1**	0·5
Property held for sale		5·0		
Prepayments and accrued income	**1·3**	1·8	**0·1**	0·1
	41·7	45·7	**13.8**	8·7
Cash and short term deposits				
Cash at bank	**3.3**	8·9		
Short term deposits	**3.8**	5·4		
	7.1	14·3		
	100.8	110·1	**13.8**	8·7

The Group figures for other debtors include £0·8 million (1999/00 - £0·8 million) of amounts falling due after more than one year.

12. Loans and overdrafts

	Group		Renold plc	
	2001	2000	**2001**	2000
	£m	£m	**£m**	£m
Total borrowings	**35·3**	47·5	**29·3**	40·2
Less: repayable within one year or on demand	**7·1**	11·4	**3·8**	7·5
Amounts falling due after more than one year	**28·2**	36·1	**25·5**	32·7
Repayable:				
In more than one year but not more than two years	**5·3**	3·9	**4·7**	3·5
In more than two years but not more than five years	**22·5**	18·0	**20·8**	16·0
In more than five years	**0·4**	14·2		13·2
	28·2	36·1	**25·5**	32·7
Loans comprise:				
UK term loans 2000-2007	**29·3**	34·7	**29·3**	34·7
Bank loans - overseas	**3·0**	3·4		
	32·3	38·1	**29·3**	34·7
Less: repayable within one year	**4·1**	2·0	**3·8**	2·0
	28·2	36·1	**25·5**	32·7

Included in Group borrowings are secured borrowings of £32·8 million (1999/00 - £42·5 million). Security is provided on UK assets and those of certain overseas subsidiaries.

13. Creditors

	Group		Renold plc	
	2001	2000	**2001**	2000
	£m	£m	**£m**	£m
Amounts falling due within one year				
Trade creditors	**24·1**	25·4	**0·4**	1·2
Dividends payable	**4·3**	4·3	**4·3**	4·3
Corporate taxes	**2·8**	1·4		
Other taxation and social security	**4·1**	3·5	**0·2**	0·2
Advance payments from customers	**1·1**	1·2		
Other creditors	**6·8**	5·5	**0·2**	0·2
Accruals	**8·5**	8·4	**0·7**	0·7
Finance lease obligations	**0·1**	0·2		
	51·8	49·9	**5·8**	6·6
Amounts falling due after more than one year				
Finance lease obligations				
Between one and five years		0·1		
Other creditors	**0·4**	0·4		
	0·4	0·5		

Notes on the Accounts

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:

	2001 £m	2000 £m
UK	**1·6**	1·6
Overseas	**2·2**	2·0
	3·8	3·6

The UK cost for 2000/01 reflects the regular contribution rate less £0·7 million (1999/00 - £0·7 million) in respect of the actuarial surplus, calculated in accordance with SSAP 24, which is being recognised over the average expected remaining service life of active scheme members of approximately 15 years from 5 April 1998.

The majority of UK employees are eligible to join one of two schemes, the Renold Group Pension Scheme and the Renold Supplementary Pension Scheme 1967. 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 the Jones & Shipman business, including a defined benefits scheme for UK employees. At the time of the last actuarial valuation in April 2000 the actuarial value of the assets of this scheme was £36·0 million which represented 105% of the liabilities in respect of benefits accrued to members.

Overseas pension costs include £1·2 million (1999/00 - £1·1 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:

	2001 £m	2000 £m
UK schemes	**0·7**	1·5
Overseas schemes	**10·0**	9·3
	10·7	10·8

The movement in the year was as follows:	**£m**
At beginning of year	10·8
Exchange translation differences	0·2
Profit and loss account	3·8
Utilised	(4·1)
At end of year	**10·7**

Notes on the Accounts

continued

15. Called up share capital

	Authorised		Issued	
	2001	2000	**2001**	2000
	£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 703 ordinary shares of 25p each for a cash consideration of £659 during the year by the exercise of options under the 1985 Renold Executive Share Option Scheme and the 1985 Renold Savings Related Share Option Scheme.

At 31 March 2001 the issued Ordinary Share Capital comprised 69,312,574 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% 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	6·0	4·9	1·1	56·5	68·5
Exchange translation differences on net assets of overseas subsidiaries				2·3	2·3
Profit for the year				0·8	0·8
Reclassification of reserves		2·2	0·1	(2·3)	
At end of year	**6·0**	**7·1**	**1·2**	**57·3**	**71·6**
Renold plc					
At beginning of year	6·0	19·3		43·2	68·5
Exchange adjustments				0·5	0·5
Profit for the year				5·5	5·5
Deficit on revaluation of shares in subsidiaries		(2·9)			(2·9)
At end of year	**6·0**	**16·4**		**49·2**	**71·6**

The consolidated profit for the financial year includes a profit of £12·0 million (1999/00 - £6·3 million) which is dealt with in the accounts of the parent company.

Cumulative goodwill written off to Group reserves at 31 March 2001, subsequent to the capital reorganisation in January 1985, amounted to £3·6 million (1999/00 - £3·6 million).

17. Deferred taxation

No provision has been made for deferred taxation. At 31 March 2001, there were UK fixed asset and other timing differences, at the corporate tax rate, as follows:

	2001	2000
	£m	£m
Fixed assets	**0·1**	0·6
Other	**(1·0)**	(1·3)
	(0·9)	(0·7)

In addition, there are tax losses in certain UK subsidiaries amounting to £2·9 million (1999/00 - £2·6 million).

Surplus advance corporation tax written off amounts to £2·1 million (1999/00 - £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 £3·3 million (1999/00 - £2·2 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:

	2001		2000	
	Properties	**Equipment**	Properties	Equipment
	£m	**£m**	£m	£m
Leases expiring:				
Within one year	**0·2**	**0·2**	0·2	0·2
Between two and five years	**0·2**	**0·7**	0·3	0·6
Over five years	**0·8**	**0·1**	0·8	
Total annual commitments	**1·2**	**1·0**	1·3	0·8

19. Contingent liabilities

Contingent liabilities at 31 March 2001 in respect of guarantees amounted to £2·1 million (1999/00 - £2·4 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. Although developments have been positive during the year, it is still not possible to quantify with reasonable certainty 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 31 March 2001 unexercised options for ordinary shares amounted to 2,606,451 (1999/00 - 2,672,054) made up as follows:

Date normally exercisable	Option price (pence per share)	**Number of shares 2001**	Number of shares 2000
Executive Share Option Schemes			
Within seven years from:			
24 November 1995	52·50	**30,000**	30,000
30 November 1996	120·30	**189,900**	230,000
1 December 1997	184·30	**60,000**	85,000
16 July 1999 (1995 Scheme)	293·83	**77,052**	82,182
18 July 2000 (1995 Scheme)	242·67	**45,647**	45,647
17 July 2001 (1995 Scheme)	237·33	**310,000**	330,000
16 July 2002 (1995 Scheme)	137·83	**385,000**	395,000
19 July 2003 (1995 Scheme)	118·50	**190,000**	
22 December 2003 (1995 Scheme)	94·50	**20,000**	
Within four years from:			
16 July 1999 (1995 Scheme)	293·83	**287,948**	312,818
18 July 2000 (1995 Scheme)	242·67	**224,353**	249,353
		1,819,900	1,760,000
Savings Related Share Option Schemes			
Within six months from:			
1 February 2000 (1995 Scheme)	200·80		92,451
1 February 2002 (1995 Scheme)	200·80	**115,699**	124,866
1 February 2003 (1995 Scheme)	89·36	**394,009**	405,886
1 February 2005 (1995 Scheme)	89·36	**276,843**	288,851
		786,551	912,054

21. Reconciliation of trading profit to net cash inflow from operating activities

	2001 £m	2000 £m
Trading profit	**15·0**	10·4
Depreciation charges	**10·4**	8·0
Goodwill amortisation	**1·4**	0·2
Pension costs provision	**(0·4)**	(0·6)
(Increase)/decrease in stocks	**(0·1)**	1·5
Decrease/(increase) in debtors	**0·3**	(6·4)
Increase/(decrease) in creditors	**1·6**	(0·4)
Exceptional gain on disposal of asset held for sale	**(2·7)**	
Net cash inflow from operating activities	**25·5**	12·7

Net cash flow from operating activities includes an outflow of £0·4 million (1999/00 - £0·4 million) which relates to exceptional redundancy and restructuring costs; an amount of £0·8 million (1999/00 - £0·1 million) was retained in creditors.

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

	2001 £m	2000 £m
Servicing of finance		
Interest received	**0·3**	0·4
Interest paid	**(4·5)**	(0·9)
Interest element of finance lease rental payments		(0·1)
Net cash outflow for servicing of finance	**(4·2)**	(0·6)
Financing		
Issue of ordinary share capital		0·1
Debt due within a year: increase in short-term borrowings	**1·8**	1·8
Debt due beyond a year: (decrease)/increase in loans	**(11·2)**	30·6
Capital element of finance lease rental payments	**(0·2)**	(0·2)
Net cash (outflow)/inflow from financing	**(9·6)**	32·3

23. Analysis of net debt

	At beginning of year £m	Cash flow £m	Exchange movement £m	**At end of year £m**
Cash in hand and at bank	8·9	(5·7)	0·1	**3·3**
Overdrafts	(9·4)	6·6	(0·2)	**(3·0)**
	(0·5)	0·9	(0·1)	**0·3**
Debt due after one year	(36·1)	11·2	(3·3)	**(28·2)**
Debt due within one year	(2·0)	(1·8)	(0·3)	**(4·1)**
Finance leases	(0·3)	0·2		**(0·1)**
	(38·4)	9·6	(3·6)	**(32·4)**
Short term deposits	5·4	(1·8)	0·2	**3·8**
Total	(33·5)	8·7	(3·5)	**(28·3)**

Notes on the Accounts

continued

24. 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
2001					
Sterling					
- Financial liabilities	**9·5**	**6·0**	**0·3**		**0·3**
- Preference shares	**6·0**	*****	**0·6**		**0·6**
US Dollar	**8·3**	**2·3**	**29·0**	**2·0**	**31·0**
Euro	**4·5**	**2·6**	**2·0**	**0·7**	**2·7**
Other	**8·1**	**2·3**	**1·0**	**0·4**	**1·4**
			32·9	**3·1**	**36·0**
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

* 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.

(d) **Currency and interest rate profile of financial assets at 31 March 2001**

Currency	**2001** Cash at bank and in hand £m	**2001** Short term deposits £m	**2001** Total £m	2000 Cash at bank and in hand £m	2000 Short term deposits £m	2000 Total £m
Sterling	**0·5**		**0·5**	6·2		6·2
Euro	**1·8**	**3·8**	**5·6**	1·4	5·3	6·7
Other	**1·0**		**1·0**	1·3	0·1	1·4
	3·3	**3·8**	**7·1**	8·9	5·4	14·3

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.

24. Financial instruments (continued)

(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:

	2001 Debt £m	**2001 Finance leases £m**	**2001 Total £m**	2000 Debt £m	2000 Finance leases £m	2000 Total £m
In one year or less, or on demand	**7·1**	**0·1**	**7·2**	11·4	0·2	11·6
In more than one year but not more than two years	**5·3**		**5·3**	3·9	0·1	4·0
In more than two years but not more than five years	**22·5**		**22·5**	18·0		18·0
In more than five years	**1·0**		**1·0**	14·8		14·8
	35·9	**0·1**	**36·0**	48·1	0·3	48·4

Debt due in more than five years includes £0·6 million (1999/00 - £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:

	2001 £m	2000 £m
Expiring within one year or less, or on demand	**25·1**	22·5
Expiring in more than one year but not more than two years	**0·4**	0·3
Expiring in more than two years	**13·6**	9·0
	39·1	31·8

The facilities expiring in one year or less, or on demand, are primarily annual facilities subject to review at various dates during 2001/02.

24. Financial instruments (continued)

(g) Fair values of financial assets and financial liabilities

	2001 Book value £m	**2001** Fair value £m	2000 Book value £m	2000 Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings (up to one year)	**(7·2)**	**(7·2)**	(11·6)	(11·6)
Long-term borrowings	**(28·2)**	**(28·2)**	(36·2)	(36·2)
Preference shares	**(0·6)**	**(0·5)**	(0·6)	(0·5)
Short-term deposits	**3·8**	**3·8**	5·4	5·4
Cash at bank and in hand	**3·3**	**3·3**	8·9	8·9
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps		**(2·2)**		(0·5)

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
2001					
Functional currency of companies					
Sterling			**0·1**	**0·6**	**0·7**
US dollars	**(0·4)**		**0·1**		**(0·3)**
Euro	**(0·4)**	**0·1**			**(0·3)**
Other currencies	**(0·2)**	**(0·1)**	**(0·1)**	**(0·1)**	**(0·5)**
	(1·0)		**0·1**	**0·5**	**(0·4)**
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)

(i) Gains and losses on instruments used for hedging

There were no significant unrecognised or deferred gains and losses on hedges at 31 March 2001 or at 1 April 2000.

Principal Subsidiary Companies

as at 31 March 2001

UNITED KINGDOM

Renold Power Transmission Limited*
FACTORIES: BRADFORD, BREDBURY, BROMBOROUGH, BURTON, CARDIFF, HALIFAX, LEICESTER, LOUGHTON, MILNROW

Renold International Holdings Limited*

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 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 New Zealand 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. 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		**2001**	2000	1999	1998	1997
Turnover		**216·7**	174·2	171·6	183·6	180·3
Trading profit before goodwill amortisation and exceptional items		**16·1**	11·0	14·0	22·4	22·0
Profit on ordinary activities before tax		**11·1**	9·6	12·4	22·5	21·5
Profit after tax for ordinary shareholders		**7·3**	6·1	7·7	17·6	15·5

Balance sheet

£m		**2001**	2000	1999	1998	1997
Tangible fixed assets		**59·2**	58·7	53·6	45·8	44·4
Stocks		**52·0**	50·1	46·6	39·8	41·8
Debtors		**41·7**	40·7	31·7	31·3	34·0
Creditors		**(45·0)**	(44·4)	(42·2)	(38·0)	(38·5)
Trading assets		**107·9**	105·1	89·7	78·9	81·7
Goodwill		**27·7**	26·3	2·9		
Properties held for sale			5·0	5·0	5·0	5·0
Net (borrowings)/cash – including finance leases		**(28·3)**	(33·5)	10·8	22·3	12·8
Dividends and tax		**(7·1)**	(5·7)	(7·1)	(8·5)	(9·0)
Provisions for pensions		**(10·7)**	(10·8)	(12·6)	(11·7)	(13·0)
Net assets		**89·5**	86·4	88·7	86·0	77·5

Key data		**2001**	2000	1999	1998	1997
Trading return on average trading assets [1]	%	**15·1**	12·1	17·1	27·9	26·9
Trading profit on turnover [1]	%	**7·4**	6·3	8·2	12·2	12·2
Capital expenditure	£m	**9·5**	10·3	11·3	9·6	7·4
Basic earnings per share	p	**10·5**	8·6	11·1	25·7	22·7
Dividends per ordinary share	p	**9·25**	9·25	9·25	9·0	8·0
Employees at year end		**3,238**	3,187	2,881	2,912	2,825

[1] Based on trading profit before goodwill amortisation and exceptional items.

Notice of Meeting

Notice is hereby given that the seventy-first Annual General Meeting of Renold plc will be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday 19 July 2001 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 31 March 2001.

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

3. To re-elect Mr T B Fortune as a director.

4. To re-elect Mr I R Trotter as a director.

5. To elect Mr D A Brown as a director.

6. 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 7 will be proposed as an Ordinary Resolution and Resolution 8 as a Special Resolution:-

7. THAT the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £5,776,047 provided that this authority shall expire on 18 October 2002 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

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

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

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

Notice of Meeting

continued

(c) the allotment of equity securities (otherwise than pursuant to paragraphs (a) and (b) above) up to an aggregate nominal amount of £866,407 (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 18 October 2002 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

19 June 2001

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 17 July 2001 ("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 9 August 2001 to members appearing on the register on 13 July 2001.

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

	2001
Annual General Meeting	19 July
Final ordinary dividend for 2000/01 - payment date	9 August
Half year end 2001/02	29 September
Half year 2001/02 results published	mid November

	2002
Interim ordinary dividend for 2001/02 payable	end January
Year end 2001/02	30 March
Preliminary announcement of annual results 2001/02	early June

Other dividend payments

Preference dividends	1 July and 1 January

Shareholders' Notes

RENOLD

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