

Annual Report 2002

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RENOLD

Principal Activities

Renold plc is an international engineering group, producing a wide range of precision engineering products, operating in seventeen countries worldwide.

The principal activities of the Group are the manufacture and sale of industrial chains and related power transmission products, automotive cam drive systems and specialist machine tools and rotors.

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Financial Summary

for the financial year ended 30 March 2002

	2002	2001
	£m	as restated £m
Turnover	190.2	216.7
Trading profit before goodwill amortisation and exceptional items	7.8	16.1
Profit before tax, goodwill amortisation and exceptional items	4.2	12.2
(Loss)/profit before tax	(5.6)	11.1
Adjusted earnings per share	3.8p	11.5p
Basic and diluted earnings per share	(7.2)p	10.7p
Dividends per ordinary share, paid or proposed	4.5p	9.25p
Capital expenditure	5.4	9.5
Gearing (net borrowings to shareholders' funds)	35%	32%

Chairman's Statement



This has been a particularly challenging year for the Group with its key markets experiencing a marked deterioration as the year progressed, although with some improvement in the last quarter. The machine tool sector was particularly affected by a slump in demand for capital goods worldwide. As I indicated in my half year statement Ian Trotter, the new Chief Executive, carried out a review of the Group activities early in the year as a result of which action has been taken to address under performing operations, to reduce the Group's cost base and to refocus the ongoing business for the future. The Group's results showed some improvement in the last quarter of the year as a direct consequence of these actions.

Group Results

Turnover for the year was £190.2 million (2001 - £216.7 million), and was 12% lower than the previous year. Pre-exceptional operating margins were

4.1% compared with 7.4% the previous year and pre-exceptional profit before tax (before goodwill amortisation) was £4.2 million (2001 - £12.2 million). Exceptional redundancy and restructuring charges of £3.9 million (2001 - £2.4 million) were charged in the year, and an exceptional loss of £4.4 million was incurred for the closure of the Manifold indexer operation, of which £1.6 million related to goodwill previously written off to reserves. Adjusted earnings per share were 3.8 pence (2001 - 11.5 pence).

The Board is recommending the payment of a final dividend of 3.0 pence per share. Together with the interim dividend of 1.5 pence per share paid on 25 January 2002, this gives total dividends for the year of 4.5 pence, compared with 9.25 pence last year.

Cash flow and borrowings

There was a small increase in net borrowings of £0.8 million in the year (2001 - £8.7 million reduction).

Cash flow from operating activities was £16.5 million, compared with £25.5 million the previous year.

The reduced operating profit and exceptional costs in the year were partially offset by a reduction in working capital. Capital spending was reduced in line with activity levels

and was £6.0 million in the year (2001 - £10.4 million). Borrowings at 30 March 2002 were contained to £29.1 million, (2001 - £28.3 million), and resultant gearing at year end was 35% (2001 - 32%). Reflecting the management actions referred to earlier, net cash flow from operating activities in the second half of the year amounted to £13.3 million, close to that achieved in the similar period for the previous year.

Comment

The performance of the power transmission businesses was creditable in a difficult year, with turnover 7% lower, on a like for like basis. Jeffrey Chain in the USA maintained profitability despite lower demand from its key distributors and original equipment customers. The programme to resource Jeffrey's roller chain requirement to the Group's European factories was successfully completed during the year, and in part offset reduced demand from European customers. Despite this, markedly weaker domestic and export markets for the German chain business, particularly in the second half of the year, led to a reduction in profits from last year's record level. UK manufacturing industry generally remained weak, the UK chain business results were lower and the UK based gear and coupling businesses underwent



Renold chain and Renold sprag clutches are specified on the world's first vertical roller coaster and many of the world's major leisure rides.

Employees

The Board recognises that it is the commitment of the people within the business which will enable the Group to attain its objectives. I would thank all employees for their continued support in what has been a particularly difficult year.

Prospects

Going forward our strategy is clearly focused upon the chain operations and those niche power transmission products which complement the industrial chain business. Renold has a strong market position in Europe and North America with its industrial chains, and a growing reputation as a global supplier of automotive cam drive systems; we aim to build upon these.

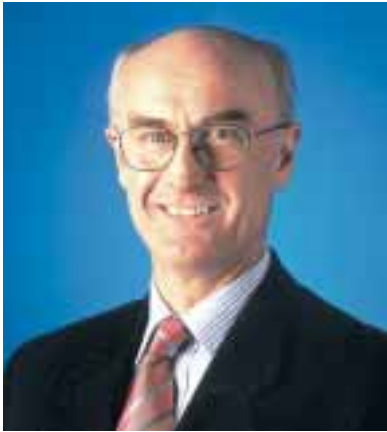
major restructuring during the year. The Manifold indexer operation was closed, and redundancies were necessary in other UK operations. However, the French industrial chain business increased market share and grew both sales and orders. Renold Automotive Systems, based in Calais, increased sales by 8%, as a result of growing demand for new engine programmes. Profitability there was constrained by weaker manufacturing performance as the one-off effect of the introduction of the 35 hour working week was absorbed.

A rapidly deteriorating capital goods market caused the machine tool and rotor business to fall back into losses on turnover which was 36% lower than last year. As announced at the half year, a major rationalisation programme has been undertaken which has substantially reduced the cost base, with all manufacturing having been consolidated into the UK.

A more detailed review of the Group's operations is contained in the Chief Executive's Review.

There are indications in both Europe and North America that the worst of the manufacturing downturn may be at an end with order intake recovering from the low point in the quarter to December towards levels achieved earlier last year. The Group's performance in 2002/3 will be underpinned by the benefits of the lower cost base feeding through in full and by the actions taken to strengthen our market position.

Roger Leverton



Rarely has the Group experienced simultaneously weak trading conditions in its major markets of Europe and North America. The fall off in demand from these regions during 2001 is the principal reason for the reduction in operating profits and order intake which was 13% lower than the previous year, on a like for like basis.

For power transmission products European markets were mixed with the buoyancy of last year turning into a distinct slow down as the year progressed. This was particularly marked in Germany whilst in other countries, including the UK, conditions remained flat. In spite of this there are strong indications that our chain business has increased its market share, most notably in France where both sales and orders were comfortably ahead of the previous year.

Customer activity in North America was lower as both original equipment manufacturers and distributors cut back purchases in response to slower trading. The sharp slow down in the quarter to December exacerbated these conditions but the final quarter in the USA showed some improvement as confidence returned and the benefits of the combined chain and power transmission sales and marketing strategy started to bear fruit.

The Australian and New Zealand markets improved as the year progressed; business picked up in the Far East in the fourth quarter with substantial demand for engineered chain products from the palm oil industry in Malaysia and Indonesia.

The Automotive Systems business saw volumes increase as production of new engine programmes, fitted with Renold cam drive systems, ramped up.

However machine tool and rotor products experienced a dramatic drop in orders from the beginning of the year and, even in the traditionally buoyant air-conditioning market, customers cut back as they suffered from lower sales and drove to reduce inventories. Mid-year statistics from the USA machine tool industry quoted shipments to be down by 60% to a 40-year low.

It was against these challenging market conditions that the Group undertook one of the most radical restructuring programmes in its recent history. The purpose was to focus on the core chain business, supported by complementary power transmission products and services, in order to maximise the market opportunities for Renold as a global chain and power transmission supplier. The actions taken included the closure of the loss making Manifold indexer business and the refocusing of the Milnrow gear business product offering. Additionally, substantial cost reduction exercises have taken place across the chain, gear and coupling operations, giving rise to a redundancy and restructuring charge of £1.2 million.

Renold Precision Technologies, the machine tool and rotor business, has undergone a major restructuring and realignment with exceptional costs of £2.7 million being incurred in the year. US manufacturing has been closed with

the Edgetek super abrasive machines now being built in the Holroyd factory. The Jones & Shipman business is currently being rationalised and relocated to a smaller site; the costs of this have been provided within the exceptional charge for 2002.

POWER TRANSMISSION Industrial Chain and Power Transmission

The positive impact that the acquisition of Jeffrey Chain has had within Renold continues to be a significant feature of the chain business. During the year a number of new initiatives have been undertaken, including the re-branding and adoption of a new corporate style for the Jeffrey business. This will more fully represent the benefits of the Renold-Jeffrey alliance, building more upon the brand reputation of both the Renold and Jeffrey names. A new roller chain *Whitney Renold*, with significantly enhanced specifications, has been developed and launched in the USA. The internal sourcing of roller chain from the Group's factories in Europe is on target with, for example, an additional three hundred chain types now supplied from the Bredbury, UK, factory and a greater number now sourced from Einbeck, Germany. It was encouraging that, within a disappointing year for our North American businesses, the Jeffrey business maintained its operating profit on lower sales turnover.

The Renold Power Transmission business at Cincinnati has been integrated with the Jeffrey business and is operating under a unified management structure. The combined sales team has made significant headway in securing additional market share for both roller and engineered chain; the European chain factories will increasingly benefit from this extra demand generated for the new *Whitney Renold* roller chain.



A wide range of applications in the timber industry utilise the strength and durability of Jeffrey chain.

The level of new order intake started to ease in the second half of the previous year and this continued through last summer; however, US orders for chain products have been steadily building since December 2001. New relationships have been developed with major US distributors which will not only benefit chain sales but will enhance sales of the full range of power transmission products.

The Renold Ajax large coupling business suffered from the turmoil in the US steel industry, one of its major markets. Although it continued to develop successfully its mass transit coupling product range, overall sales and profit were substantially lower than last year.

The UK market in general remained flat but the *Renold Synergy®* chain, launched in the spring of 2000, continued to win market share supported by the more recently introduced A&S chain brand which is gaining sales in the more competitive mid-range sector of the UK industrial chain market.

US requirements for *Whitney* roller chains provided a steady load for the Bredbury chain factory off-setting



weaker levels of activity in Europe. From the beginning of the fourth quarter demand from Europe started to recover and overall factory activity has increased. The Burton conveyor factory continued to suffer from margin pressures and from the continued delays in the London Underground escalator refurbishment programme. Overall, profitability was lower than last year for the UK chain business.

The gear and coupling businesses had a difficult year as market conditions in the UK remained soft and, at the same time, the US market weakened; over recent years the US market has become more significant for these products. The UK cost base of these

businesses has been substantially reduced, not only as a result of internal restructuring but also as more components have been sourced from low cost economies. This, together with a renewed focus on products where Renold has the opportunity for market differentiation, provides confidence of improving results given more stable market conditions in Europe and the USA.

In Germany, the year began with levels of customer activity quite buoyant but, by early summer the market weakened with both original equipment manufacturers and distributors reporting depressed demand. It is clear that the economic slow down in the USA affected German and, for that matter, Swiss machine builders some of whom have reported business down by 30% on the previous year. Coupled with a similar reduction in demand from major fork lift truck manufacturers the German factory experienced a significant shift in the work load and mix. This presented new challenges of cost management and production efficiency; management took action on the cost base, however profits were lower than last year's record level.

The French industrial chain and power transmission business fared better with both sales and orders ahead of the previous year. Indications were that the French market was more robust than other major economies in Europe. The French sales team gained new customers for both chain and gear products and this contributed to an overall year on year increase.

Elsewhere in Europe, business was patchy. The Benelux countries had a good year but in Switzerland, despite starting strongly, sales slowed significantly towards the end of the year. Activity picked up compared to last year in Eastern Europe and, in

Chief Executive's Review



consequence, the Austrian business, which serves these markets, showed welcome improvement. The Scandinavian business performed below expectations in the first half although order momentum increased later in the year following management changes.

In Australia, market conditions were much improved compared to the last two years. Demand increased for both locally manufactured engineered and conveyor chain and merchanted products sourced from the European plants. Better weather and harvests in the Queensland agricultural market helped as orders for harvester chain grew significantly. The natural resource and steel industries were also strong but, in spite of these healthier market conditions, local profitability was disappointing. This was due, in part, to the major management effort necessary to consolidate the ACE conveyor chain



Renold Powermaster gear units are used to open and close the roof structure over the courtyard of the City Hall in Vienna.

business, acquired in 1999, into our existing Mulgrave site. Additional factory space was constructed and the machinery and equipment installed in an optimised layout in the expanded facility, to provide a substantially lower cost base for the future.

Like Australia, the New Zealand economy has been more robust and results for the year were comfortably ahead on higher sales and orders.

The South African business achieved similar results to last year despite the challenges of difficult market conditions and a major devaluation of the Rand.

The Malaysian and Singapore merchanted businesses were not able to match the record performance of last year as the economy in these regions reflected the sluggish conditions in the USA. Encouragingly orders picked up during the final quarter, especially in Singapore, from where we service the markets of Indonesia and the Philippines.

We continue to develop and enhance the reputation and market position of Renold as one of the world's leading suppliers of chain products. The acquisition of Jeffrey Chain has enhanced the global presence of

Chief Executive's Review

Renold and, through its customer connections, added substantially to the potential sales of both chain and our complementary power transmission products.

The Renold name in chain is a byword for reliability and the *Renold Synergy*® chain range has become the benchmark for endurance and quality. It is pleasing that so many customers worldwide continue to value these features and the obvious benefits of the extensive range of chain brands and products available from the Renold Group.

Following the successful launch of *Renold Synergy*® marketing and sales efforts have been focused on increasing the Group's share of the mid range sector of the chain market where there are, not surprisingly, more contenders. New market share has been secured for the A&S brand which has gained popularity especially in the UK, France and Italy where distributor channels have been added. A&S chain in Europe is now the fastest growing chain brand and is positioned to be the optimum mid range chain supporting the flagship *Renold Synergy*® chain.

Further market penetration has been achieved in the US with the recently launched *Whitney Renold* brand, which is an upgrade of the previous *Whitney* brand, further enabling Renold to differentiate its product range in the US market. During the coming year this chain will be available through key distributors enabling the wider market to benefit from Renold's commitment to specification, quality and value.

The gear and coupling businesses continue to manage their product range to complement the chain products and take advantage of the customer base of chain. Technical

expertise on the "package systems" approach continues to be developed, thereby providing customers with a one stop solution to their drive and power transmission needs.

The *ePM* gearbox series, launched last year, has been well received and is now available worldwide through Renold sales operations, distributors and agents.

Renold Automotive Systems

Demand for Renold cam drive systems, produced at the Calais factory, continued to grow as the new engine programmes won during the last two years gathered momentum. Both sales and orders were ahead of last year and substantially up in the final quarter. However, whilst output grew, manufacturing efficiency did not maintain the trend of the previous year as changes to work patterns were necessary, following the introduction of the 35 hour week, and consequently overall returns dipped. Additional production equipment will be installed during the coming year with the dual purpose of providing new capacity and greater overall efficiency.

For the future, the automotive cam drive systems business will continue to be developed through investing in and leveraging Renold's technological, engineering and process skills whilst, at the same time, developing the business's global presence.

MACHINE TOOL & ROTOR

Following the progress of the previous year the machine tool and rotor business suffered one of the most severe downturns in the capital machinery sector within living memory. After finishing last year with reasonable orders for both the Holroyd and Jones & Shipman businesses, in the new year customer activity all but disappeared for machine tools and rotors alike. In the latter case regular customers in the US cut back sharply as the market for air

conditioning slowed.

As was announced at the half year the business fell back into loss as market conditions deteriorated and, following a major review, substantial restructuring has been carried out. All production has been concentrated in the UK, US manufacturing has ceased and manufacture of the Edgetek machine range has been transferred to Holroyd. Duplication of infrastructure has been eliminated and, by combining the build activities with the broadly similar Holroyd machine range, benefits will be generated from both the application of common technology and through manufacturing process efficiencies. A US sales and customer support team has been retained but has moved into smaller, more suitable premises. This team will concentrate on securing orders for the Jones & Shipman and Edgetek ranges.

As part of this restructuring Jones & Shipman will focus on the *Dominator* and *Ultramat* machine ranges providing packages and machining solutions to customers, whilst at the same time providing a competitive range of grinding machines in the recently launched *TechMaster* and *Progrind* series. A move to a new smaller site in Leicester will take place by the end of June 2002, and further headcount reduction will take place. An integral part of the strategy for the restructured business is to reduce the high cost of in-house machining so that production work can concentrate on assembly and customisation, not only reducing cost but also factory throughput time. New suppliers have been established in Eastern Europe and deliveries of the first fully finished machine bases have been approved. The relocation plan is on schedule and, just as encouragingly, orders over the last four months are on track to achieve our sales plan. The future sale of surplus land, following the

Chief Executive's Review

continued

move, is designed to reduce the capital base of this business and generate cash flow.

In addition to the growing confidence in the future demand for Jones & Shipman products, indications are that Holroyd prospects are improving, particularly in new applications for their technology. Currently the outlook for rotor orders is less certain; however the project list is full of potentially good business. It is now a matter of customers having the confidence to make the investment decision; our sales teams are working hard to ensure they make it in our favour.

SUMMARY

The difficult economic conditions of the last year placed major demands on the management team, with the closure of the loss making Manifold business, the restructuring of the machine tool, gear and coupling businesses and with many other cost reduction issues addressed. Employment numbers have been reduced by over 450 and, when the ongoing machine tool restructuring is completed, will be 16% lower than at March 2001. Despite this we have made progress in the business; we have enhanced our market share for chain in Europe and the North American markets, we have launched the new *Whitney Renold* chain in the USA, *Renold Synergy®* chain has secured the market position we had planned, the *ePM* gear range is growing in popularity worldwide, we have updated and modernised our facilities in Australia and continued to invest to enhance our opportunities in growth markets.

Our engineers have been busy too. New innovative chain products continually add to and broaden the appeal of the Renold chain range and new process methods have been

introduced into our plants as part of our constant drive for new levels of productivity and efficiency.

Whilst the financial results are disappointing they belie the huge amount of work that has been going on to reposition and restructure the Group for the future. Renold is refocused and revitalised, with the future direction of our efforts clearly targeted on the growth opportunities of our chain based industrial power transmission and Automotive Systems businesses.

In current market conditions we will be maintaining tight control on the cost base, driving productivity and managing cash resources, and continuing to invest in those projects which will fulfil our objectives and support our strategy.

Ian Trotter



Severn Trent Water has used Renold Hi-Tech couplings to link some of the UK's largest gas engines to generators in a heat and power operation fuelled by sewage waste gases.

Financial Review

Profit and loss account

Sales turnover was £190.2 million compared with £216.7 million the previous year, reflecting the challenging trading conditions in the year. 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, excluding the Manifold business which was closed in the year, were 7% lower at constant exchange rates; lower German and North American sales were only partially offset by further growth in Automotive Systems. Machine tool and rotor sales were 36% lower, reflecting the severe deterioration in the capital goods market experienced during the year.

Trading profit, before goodwill amortisation and exceptional items, was £7.8 million, compared with £16.1 million in 2001. The power transmission businesses excluding Manifold showed operating margins of

7.1% compared with 9.4% last year. The machine tool and rotor businesses recorded a loss on substantially lower activity. All geographical regions showed a reduction in trading profit, most significantly in the UK, Germany and North America. Stringent cost reduction actions were taken during the year with manpower numbers being reduced by 14% year on year. Redundancy and restructuring costs were £3.9 million in the year; of this £1.2 million related to the power transmission business and £2.7 million to the machine tool and rotor business. This included the costs of the transfer of the Edgetek manufacturing process from the USA to Holroyd in the UK and of the relocation of Jones & Shipman. In addition £4.4 million, including £1.6 million goodwill previously written off to reserves, was charged in respect of the cessation of the Manifold indexing gearbox business.

The return on average trading assets for the Group was 7.6%, down from 15% last year; the power transmission businesses, excluding Manifold, achieved a 14% return on average trading assets. Net interest payable reduced to £3.6 million, compared with £3.9 million

in 2001. Profit before tax for the year, before goodwill amortisation and exceptional items, was £4.2 million compared with £12.2 million last year.

The taxation credit amounted to £0.6 million compared with a charge of £3.7 million in the previous year. The effective tax rate on profit before goodwill amortisation, exceptional redundancy and restructuring costs and loss on termination of operation was 38% compared with 34% in 2001. There is no current tax charge in the UK as a result of the significant exceptional costs incurred.

Tax has been accounted for in accordance with FRS 19 - Deferred Tax - which was adopted with effect from 1 April 2001; the prior period accounts have been restated to reflect the impact of the new standard. The impact of FRS 19 in the year has been to include a deferred tax credit of £2.0 million in the profit and loss account largely as a consequence of timing differences, particularly in the UK and USA.

Reported loss after tax was £5.0 million compared with a £7.4 million profit last

A & S klik-top polymer block chain guarantees the precise and parallel transportation of card boxes – without damage – through a continuous breakfast cereal packaging process at a rate of 6,000 boxes per hour.



Financial Review

continued

year. Excluding goodwill amortisation and exceptional items, this represented earnings per share of 3.8 pence, compared with 11.5 pence earnings per share last year. Total dividends paid and proposed of 4.5 pence per share compared with 9.25 pence per share last year.

Balance sheet

Goodwill stands at £26.2 million after an amortisation charge of £1.5 million in the year:

Group trading assets at the year end of £97.3 million were £10.6 million lower than last year. Fixed assets at £54.6 million were £4.6 million lower. Capital additions totalled £5.4 million compared with £9.5 million last year; the depreciation charge was £9.0 million compared with £9.2 million normal depreciation last year. New investment was mainly focused on production equipment for the chain manufacturing businesses in the UK, Germany and Automotive Systems, France, plus expenditure on production facilities in Australia.

Shareholders' funds stood at £82.5 million at the year end.

Cash flow and borrowings

Cash flow from operating activities was £16.5 million which compared with £25.5 million the previous year. Working capital was reduced by £4.9 million compared with a reduction of £1.8 million in 2001, as stock and debtor levels were reduced during the year by £10.8 million, offset by a reduction in creditors of £5.9 million reflecting the lower activity levels. Payments for fixed assets amounted to £6.0 million, whilst tax and dividends cost £8.9 million. There was a small increase in borrowings of £0.8 million, and year end net debt was £29.1 million. This represented 35% of shareholders' funds or 52% of net tangible assets.

The achievement of comparable net borrowings with the previous year,

despite the reduced profit levels and significant exceptional costs, was creditable and reflected determined management of working capital and of capital expenditure.

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 £29.1 million at 30 March 2002 is represented by gross debt of £35.5 million less cash and short term deposits of £6.4 million.

At 30 March 2002 the Group had 93% 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.

Pension accounting

In accordance with the transitional arrangements for the introduction of the new accounting standard FRS 17 - Retirement Benefits, the accounts have been prepared in accordance with SSAP 24 - Accounting for Pension Costs, whilst additional FRS 17 disclosures are given in note 15.

On the basis required by FRS 17 the Group's funded defined benefit schemes have a gross deficit of £8.6 million at 30 March 2002. The deficit has arisen after two years of generally poor equity market performance, although the investment profile of the Group's schemes, with some 51% held in bonds at the year end, has mitigated this.

Following the year end the main UK defined benefit pension schemes were closed to new members and a new defined contribution scheme established.

Tony Brown

Holroyd machine tools are used for advanced screw rotor and worm gear manufacturing to meet the demands of applications as diverse as fluid pumps, fluid metering, refrigeration and air compressors.



Directors



Roger Leverton

**Roger Leverton (age 63)
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

**Ian Trotter (age 58)
Chief Executive**

joined the Group as Managing Director - Chain Businesses in 1991 and was appointed a Director during that year. He was appointed Chief Executive in May 2001. A chartered engineer, he had previously held senior management positions within ACI Limited and Trinova/Vickers Systems Limited.



Tony Brown

**Tony Brown (age 55)
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

**Mark Smith (age 63)
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

**Tim Fortune (age 63)
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*

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

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Auditors

PricewaterhouseCoopers, Manchester

Report of the Directors

for the financial year ended 30 March 2002

To be presented to the seventy-second Annual General Meeting of RENOLD plc to be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday, 18 July 2002 at 2.30 p.m.

The Notice of Meeting is included on pages 47 and 48.

Group results

The loss for the year on ordinary activities before tax was £5.6 million compared with a profit of £11.1 million for the previous year. After taxation, the loss attributable to ordinary shareholders was £5.0 million compared with a profit of £7.4 million (as restated) last year.

There was a loss of £8.2 million after charging the cost of dividends of £3.2 million. Last year there was a profit of £0.9 million (as restated) 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 1.5 pence per ordinary share was paid on 25 January 2002.

A final dividend of 3.0 pence per ordinary share is now recommended which would bring the total payment for the year to 4.5 pence per share compared with 9.25 pence per share for the year 2000/01. If approved, the final dividend will be paid on 8 August 2002 to members appearing on the register on 12 July 2002.

Preference dividend payments were made on 1 July 2001 and 1 January 2002.

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.

As reported last year, Mr D Cotterill retired as a director on 30 April 2001.

Mr R B Kershaw retired as a director on 31 July 2001.

Mr R F Leverton retires by rotation and, being eligible, offers himself for re-election. Mr Leverton does not have a service contract.

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.

Report of the Directors

continued

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 17 October 2003, 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 5 and 6 will be proposed to give effect to these measures.

Share capital

There were no changes in share capital during the year:

As at 30 May 2002, 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	15.61
	Henderson Global Investors Ltd	12.62
(ii)	"Material interests" equal to or more than 3%	
	Lowland Investment Company Plc	7.21
	I&S UK Smaller Companies plc	3.60
	Aegon UK plc Group of Companies	3.57
	Britel Fund Trustees Limited	3.49

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 the Chief Executive is 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.

During the year our manufacturing locations in Germany and at Bredbury UK successfully completed certification for ISO14001 Standard which covers environmental management systems.

Employees

At 30 March 2002 the Renold Group employed 2,780 people, including 1,225 in the UK and 898 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 to 30 March 2002 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 30 March 2002 trade creditors of the Group's businesses in the UK and overseas represented 66 days' purchases, compared with 64 last year.

Donations

During the year there were no contributions to UK organisations for charitable purposes (2001 - £1,300). 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

10 June 2002

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 30 March 2002 with the provisions set out in Section I of the Combined Code on Corporate Governance, with the exception of the notice period under the service contract of Mr I R Trotter as described in the Remuneration Report on page 20.

Board

The Board comprises a non-executive Chairman, two other independent non-executive directors and two 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.

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 by the directors has been completed for the year ended 30 March 2002, as required by the UK Listing Authority and in accordance with the guidance issued by the Turnbull Committee.

Corporate Governance

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 circulated 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 profit plans covering profit and cash flow, which are approved by the Board; the review of monthly detailed reports comparing actual performance with plans, 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 benefit type schemes with assets held separately from those of the Group in trustee administered funds, managed by independent managers. Under the terms of their management agreements the investment managers of the schemes' assets are not permitted to invest in the securities of Renold plc. The Boards of Trustees of the principal schemes include employee representatives.

With effect from 6 April 2002 the Renold Group Pension Scheme and the Jones & Shipman plc Retirement Benefits Plan (1971) were closed to new entrants subject to appropriate transitional arrangements for existing eligible employees. A defined contribution scheme was established as from that date.

Neither the Chairman nor the Chief Executive is a Trustee of the defined benefit or the defined contributions schemes.

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 determination of the remuneration of non-executive directors is the responsibility of the whole Board.

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.

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 two years. The release of the shares is conditional upon the executive director still being employed at the end of the two year period.

Benefits in kind incorporate all assessable tax benefits from each director's employment and comprise mainly the provision of a fully expensed company car or an equivalent cash allowance 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

	Salaries & fees £000	2002 Annual bonus £000	Benefits £000	Total £000	2001 Total £000
Executive directors					
I R Trotter	181		16	197	163
D A Brown (from 1.8.00)	125		14	139	90
R B Kershaw (to 31.7.01)	44		4	48	143
D Cotterill (to 30.4.01)	13		1	14	193
J H B Allan (to 31.7.00)					50
	<u>363</u>		<u>35</u>	<u>398</u>	<u>639</u>
Non-executive directors					
R F Leverton - Chairman	70			70	66
T B Fortune	20			20	19
M A Smith	<u>22</u>			<u>22</u>	<u>21</u>
	<u>475</u>		<u>35</u>	<u>510</u>	<u>745</u>

Amounts payable to Mr D Cotterill and Mr R B Kershaw as compensation for loss of office totalled £196,000 and £369,000 respectively.

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 final pensionable salary up to the Inland Revenue cap, where applicable, after 20 years' service. On death in retirement, a dependant's pension of two-thirds of the member's pension is payable and, on death in service, a dependant's pension of 50% of the member's potential pension is payable together with a lump sum of four times salary. Early retirement can be taken from age 50 onwards but is subject to Company consent and actuarial adjustment where appropriate. Pensions in payment are guaranteed to increase by the lesser of 5% per annum and the rate of increase in the Retail Price Index.

Remuneration Report

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

No element of remuneration other than salary is pensionable.

Details of pension benefits earned in respect of each director in office at 30 March 2002 under the defined benefit scheme, and the cost to the Company of amounts in respect of unfunded pension obligations provided for but not paid, are set out below:

Name of director	Age at year end	Years' service at year end	Defined Benefits Scheme		Accumulated total accrued pension at year end £000	Amounts provided in the year but not paid in respect of unfunded obligations £000
			Directors' contributions in the year £000	Increase in accrued pension during the year £000		
I R Trotter	57	11	6	4	34	25
D A Brown	54	12	6	4	38	8

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 options granted under this scheme prior to June 2001 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. Options granted from June 2001 have a performance condition that requires the Group's earnings per share, before exceptional items, to increase from the year preceding the date of grant, over three or more financial years, at a rate greater than the percentage increase in the UK Retail Prices Index over the same period plus 3% per annum. 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 30 March 2002, in the ordinary shares of the Company, as appearing in the Register of Directors' Interests maintained under the Companies Act 1985, were as follows:

	30 March 2002		31 March 2001	
	Shares	Options	Shares	Options
R F Leverton	8,000		8,000	
I R Trotter	112,170	418,902	112,170	168,902
D A Brown	65,502	123,902	65,502	78,902
T B Fortune	4,376		4,376	
M A Smith	20,000		20,000	

There were no non-beneficial interests held by the directors in the ordinary shares of Renold plc at the end of the year or at 30 May 2002 (at 31 March 2001 - 176,045 shares were held by Mr D A Brown as a trustee of the Renold Employee Share Scheme).

At 30 March 2002 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 30 May 2002.

Remuneration Report

continued

Share options	Number of share options				Option price (pence per share)	Date from which exercisable	Expiry date
	At 31.3.01	Granted	Exercised	At 30.3.02			
I R Trotter							
Executive scheme		125,000		125,000 (a)	67.34	28.11.04	27.11.11
		125,000		125,000 (a)	102.00	18.6.04	17.6.11
	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
D A Brown							
Executive scheme		45,000		45,000 (a)	67.34	28.11.04	27.11.11
	20,000			20,000 (a)	118.50	19.7.03	18.7.10
	10,000			10,000 (a)	137.83	16.7.02	15.7.09
	10,000			10,000 (a)	237.33	17.7.01	16.7.08
	10,000			10,000 (a)	242.67	18.7.00	17.7.04
	6,115			6,115 (a)	293.83	16.7.99	15.7.06
	8,885			8,885 (a)	293.83	16.7.99	15.7.03
	10,000			10,000	120.30	30.11.96	29.11.03
Savings related scheme	3,902			3,902	89.36	1.2.03	31.7.03

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

The middle market price of ordinary shares at 30 March 2002 was 57.5 pence and the range of prices during the year was 44.5 pence to 111 pence. No options lapsed during the year.

Service contracts

The service contract for Mr I R Trotter is 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 a two year notice period for Mr I R Trotter. 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 18 July 2002.

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 confirm that, in preparing the accounts on pages 22 to 45, 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 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 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the accounting policies and the related notes. We have also examined the amounts disclosed relating to the emoluments and share options of the directors which form part of the Remuneration Report.

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 1985. 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. The other information comprises only the Chairman's Statement, the Chief Executive's Review, the Financial Review, the Report of the Directors, the Corporate Governance Statement, the Remuneration Report and the Group Five Year Financial Review.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does 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 30 March 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

101 Barbirolli Square
Manchester M2 3PW
10 June 2002

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

Accounting Policies

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

Impact of new accounting standards – The Group has adopted the Financial Reporting Standards listed below, following the transitional arrangements where applicable:

FRS 17 – Retirement Benefits

FRS 18 – Accounting Policies

FRS 19 – Deferred Tax

The disclosures required under the transitional arrangements of FRS 17 have been provided in note 15. There have been no material changes in the accounting policies or estimation techniques arising from adoption of FRS 18. On adoption of FRS 19, the Group has changed its accounting policy in respect of deferred taxation and restated the comparative figures for the year ended 31 March 2001 accordingly. Details of the new policy are set out below and note 17 provides details of the effect of adopting the new standard.

Basis of consolidation - The Group accounts set out on pages 22 to 45, 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 and classified as an intangible asset on the balance sheet. The intangible asset is then amortised on a straight line basis over a period not exceeding 20 years, such periods being chosen to reflect the expected useful economic life.

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 in overseas subsidiaries at the beginning of the year, borrowings used to finance or provide a hedge against those investments and from the translation of the results at average rates are taken direct to reserves. Other exchange rate differences are dealt with in the profit and loss account for the year.

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, being purchase cost plus any incidental costs of acquisition, less accumulated depreciation. The book values of certain assets which were the subject of past revaluations have been retained as permitted by the transitional arrangements of FRS15 'Tangible Fixed Assets'. Depreciation is calculated by reference to original cost at fixed percentages assuming effective useful lives as follows:

Freehold properties - 80 years; land is not depreciated

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

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

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

Accounting Policies

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

Leasing – Tangible assets held under finance leases, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet and depreciated over their effective useful lives at the rates set out above. 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.

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

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 and estimated net realisable value. Cost includes all direct expenditure and attributable overhead expenditure incurred in bringing goods to their current state under normal operating conditions. The first in, first out or an average method of valuation is used. 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 tax is recognised on all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

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

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

Turnover comprises the invoiced value of goods and services provided to external customers after deducting value added tax or other sales related taxes and trade discounts. Turnover also includes 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. At, and from this point, an appropriate portion of the anticipated contract profit is recognised in the profit and loss account. If losses are envisaged then these are provided as soon as the potential loss is identified. 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. Further details are provided in note 15.

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 30 March 2002

	Note	2002	2001
		£m	as restated £m
Turnover	1	190.2	216.7
Trading costs	2		
– normal operating costs		(182.4)	(200.6)
– goodwill amortisation		(1.5)	(1.4)
– exceptional redundancy and restructuring costs		(3.9)	(2.4)
– exceptional gain on disposal of asset held for sale			2.7
		<hr/>	<hr/>
		(187.8)	(201.7)
		<hr/>	<hr/>
Trading profit		2.4	15.0
Exceptional loss on termination of operation	2	(4.4)	
		<hr/>	<hr/>
		(2.0)	15.0
Net interest payable	3	(3.6)	(3.9)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before tax		(5.6)	11.1
Taxation	4	0.6	(3.7)
		<hr/>	<hr/>
(Loss)/profit for the financial year		(5.0)	7.4
Dividends (including non-equity)	5	(3.2)	(6.5)
		<hr/>	<hr/>
Retained (loss)/profit for the year	17	(8.2)	0.9
		<hr/>	<hr/>
Adjusted earnings per share	6	3.8p	11.5p
		<hr/>	<hr/>
Basic and diluted earnings per share	6	(7.2)p	10.7p

All amounts relate to continuing operations.

The profit and loss account should be read in conjunction with the notes on pages 28 to 45.

Balance Sheets

as at 30 March 2002

	Note	Group		Renold plc	
		2002	2001	2002	2001
		£m	as restated £m	£m	as restated £m
Fixed assets					
Intangible asset – goodwill	8	26.2	27.7		
Tangible assets	9	54.6	59.2	0.3	0.3
Investments	10			108.6	110.1
		<u>80.8</u>	<u>86.9</u>	<u>108.9</u>	<u>110.4</u>
Current assets					
Stocks	11	46.9	52.0		
Debtors		38.3	43.5	5.1	14.7
Cash and short term deposits		6.4	7.1	0.1	
		<u>91.6</u>	<u>102.6</u>	<u>5.2</u>	<u>14.7</u>
Creditors					
– amounts falling due within one year					
Loans and overdrafts	12	(9.9)	(7.1)	(4.7)	(3.8)
Other creditors	13	(41.2)	(51.8)	(4.2)	(5.8)
		<u>40.5</u>	<u>43.7</u>	<u>(3.7)</u>	<u>5.1</u>
Net current assets/(liabilities)					
		<u>121.3</u>	<u>130.6</u>	<u>105.2</u>	<u>115.5</u>
Creditors					
– amounts falling due after more than one year					
Loans	12	(25.6)	(28.2)	(22.7)	(25.5)
Other creditors	13	(0.6)	(0.4)		
		<u>(12.6)</u>	<u>(12.7)</u>		<u>(0.7)</u>
Provisions for liabilities and charges					
		<u>82.5</u>	<u>89.3</u>	<u>82.5</u>	<u>89.3</u>
Capital and reserves					
(including non-equity interests)					
Called up share capital	16	17.9	17.9	17.9	17.9
Share premium	17	6.0	6.0	6.0	6.0
Revaluation reserve	17	3.8	7.1	8.9	15.3
Other reserves	17	0.9	1.2		
Profit and loss account	17	53.9	57.1	49.7	50.1
		<u>82.5</u>	<u>89.3</u>	<u>82.5</u>	<u>89.3</u>
Shareholders' funds					

Approved by the Board on 10 June 2002 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 45.

Group Cash Flow Statement

for the financial year ended 30 March 2002

	Note	2002		2001	
		£m	£m	£m	£m
Net cash inflow from operating activities	21		16.5		25.5
Servicing of finance	22		(2.9)		(4.2)
Taxation			(3.5)		(2.5)
Capital expenditure and financial investment					
– Purchase of tangible fixed assets			(6.0)	(10.4)	
– Proceeds from disposal of asset held for sale				7.7	
– Proceeds from disposal of fixed assets			0.5		
			(5.5)		(2.7)
Acquisitions					
– Purchase consideration including costs					(0.9)
Equity dividends paid			(5.4)		(6.5)
Net cash (outflow)/inflow before use of liquid resources and financing			(0.8)		8.7
Management of liquid resources					
Transfers from short term deposits			0.7		1.8
Financing					
Decrease in debt and lease financing	22		(1.8)		(9.6)
(Decrease)/increase in cash in the year	23		(1.9)		0.9
Reconciliation of net cash flow to movement in net debt	23				
(Decrease)/increase in cash in the year			(1.9)	0.9	
Cash flow from decrease in debt and lease financing			1.8	9.6	
Cash flow from decrease in liquid resources			(0.7)	(1.8)	
Change in net debt resulting from cash flows			(0.8)		8.7
Exchange translation difference					(3.5)
Movement in net debt in the year			(0.8)		5.2
Net debt at beginning of year			(28.3)		(33.5)
Net debt at end of year			(29.1)		(28.3)

The cash flow statement should be read in conjunction with the notes on pages 41 and 42.

Other Group Statements

for the financial year ended 30 March 2002

Statement of total recognised gains and losses

	2002	2001 as restated
	£m	£m
(Loss)/profit for the financial year	(5·0)	7·4
Exchange translation differences on net assets of overseas subsidiaries	(0·2)	2·2
Total recognised (losses)/gains relating to the financial year	(5·2)	9·6
Prior period adjustment	(0·2)	
Total gains and losses recognised since last Annual Report	(5·4)	

Reconciliation of movements in shareholders' funds

	2002	2001 as restated
	£m	£m
(Loss)/profit for the financial year	(5·0)	7·4
Dividends	(3·2)	(6·5)
Retained (loss)/profit for the year	(8·2)	0·9
Exchange translation differences on net assets of overseas subsidiaries	(0·2)	2·2
Goodwill resurrected on termination of operation	1·6	
Net (reduction in)/addition to shareholders' funds	(6·8)	3·1
Opening shareholders' funds (including non-equity of £0·6m) (originally £89·5m before deducting prior year adjustment of £0·2m)	89·3	86·2
Closing shareholders' funds (including non-equity of £0·6m)	82·5	89·3

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

I. Analysis of activities

(a) Activities classified by business segment:

	2002			2001		
	Turnover	Trading profit	Trading assets	Turnover	Trading profit	Trading assets
	£m	£m	£m	£m	£m	£m
Power transmission	168.0	10.8	80.9	182.1	15.2	87.7
Machine tool and rotor	23.6	(3.0)	16.4	36.7	0.9	20.2
	191.6	7.8	97.3	218.8	16.1	107.9
Less:						
Inter activity sales	(1.4)			(2.1)		
Goodwill amortisation		(1.5)			(1.4)	
Exceptional redundancy and restructuring costs		(3.9)			(2.4)	
Add:						
Exceptional gain on disposal of asset held for sale					2.7	
	190.2	2.4	97.3	216.7	15.0	107.9
Activities of terminated operation included in power transmission above	3.9	(0.8)		5.9	(1.3)	

The exceptional redundancy and restructuring cost of £3.9 million is attributed £1.2 million to the power transmission segment (2001 - £2.4 million) and £2.7 million to the machine tool and rotor segment. Of the total goodwill charge of £1.5 million, £1.3 million (2001 - £1.2 million) relates to the power transmission businesses and £0.2 million (2001 - £0.2 million) to the machine tool and rotor businesses. The exceptional gain of £2.7 million in 2001 related to the disposal of a non-trading property held for sale.

(b) Activities classified by geographical region of operation:

	2002			2001		
	Turnover	Trading profit	Trading assets	Turnover	Trading profit	Trading assets
	£m	£m	£m	£m	£m	£m
United Kingdom	74.2	(0.4)	43.7	91.9	2.5	49.8
Germany	29.0	2.4	11.5	33.7	4.8	11.3
France	35.0	1.7	10.3	34.3	2.5	11.2
Rest of Europe	16.2	1.1	4.2	16.5	1.3	4.4
North America	56.4	2.6	21.6	68.3	4.5	25.0
Other countries	16.5	0.4	6.0	17.4	0.5	6.2
	227.3	7.8	97.3	262.1	16.1	107.9
Less:						
Intra Group sales	(37.1)			(45.4)		
Goodwill amortisation		(1.5)			(1.4)	
Exceptional redundancy and restructuring costs		(3.9)			(2.4)	
Add:						
Exceptional gain on disposal of asset held for sale					2.7	
	190.2	2.4	97.3	216.7	15.0	107.9

Notes on the Accounts

1. Analysis of activities (continued)

The exceptional cost of £3.9 million arises £3.1 million in the UK (2001 - £2.4 million), £0.1 million in the Rest of Europe, £0.6 million in North America and £0.1 million in other countries. The goodwill amortisation is attributed to business acquisitions in North America. The exceptional gain on disposal of the asset held for sale in 2001 arose in the United Kingdom.

Turnover by geographical region includes intra group sales as follows: United Kingdom £26.4 million (2001 - £30.2 million), Germany £7.9 million (2001 - £10.8 million) and France £2.0 million (2001 - £2.3 million).

Trading assets comprise fixed assets, current assets less creditors but exclude goodwill, cash, borrowings, dividends, current and deferred corporate tax, finance lease obligations and other provisions for liabilities and charges.

(c) Geographical analysis of external turnover by market area:	2002	2001
	£m	£m
United Kingdom	29.1	36.0
Germany	25.3	26.7
France	10.2	12.0
Rest of Europe	31.4	33.6
North and South America	68.4	83.1
Other countries	25.8	25.3
	190.2	216.7

2. Trading costs and exceptional items

(a) Trading costs	2002		2001	
	£m	£m	£m	£m
Change in stocks of finished goods and work in progress		2.2		(0.2)
Raw materials and consumables		67.7		81.1
Own work capitalised		(0.3)		(0.5)
Staff costs				
Gross wages and salaries	65.1		69.7	
Social security costs	7.8		8.4	
Other pension costs (Note 15)	4.1		3.8	
Redundancy and restructuring costs	3.9		1.2	
		80.9		83.1
Depreciation				
Owned assets	8.9		9.1	
Accelerated depreciation on owned assets			1.2	
Assets acquired under finance leases	0.1		0.1	
		9.0		10.4
Amortisation of goodwill		1.5		1.4
Operating lease rentals				
Equipment	0.7		0.8	
Other	1.4		1.4	
		2.1		2.2
Remuneration of auditors for audit work		0.4		0.4
Other external charges		27.3		30.2
Other operating income	(3.0)		(3.7)	
Exceptional gain on disposal of asset held for sale			(2.7)	
		(3.0)		(6.4)
		187.8		201.7

Notes on the Accounts

continued

2. Trading costs (continued)

The remuneration of the auditors for the parent company was £24,000 (2001 - £24,000). Remuneration of the auditors for non-audit work, principally in respect of taxation services, amounted to £106,000 (2001 - £105,000) of which £35,000 (2001 - £40,000) was incurred in the UK.

Expenditure on research and development charged against trading profit amounted to £2.5 million (2001 - £2.5 million).

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

	2002	2001
United Kingdom	1,392	1,553
Germany	378	403
France	453	446
Rest of Europe	89	86
North America	447	513
Other countries	254	255
	<u>3,013</u>	<u>3,256</u>

(b) Exceptional trading costs

Total exceptional trading costs in the year are comprised as follows:

	2002 £m	2001 £m
Redundancy and restructuring	3.9	1.2
Accelerated depreciation		1.2
	<u>3.9</u>	<u>2.4</u>

(c) Exceptional non-trading costs

The exceptional non-trading item relates to the closure in the year of the Manifold indexer operation, which was part of the power transmission business. Total closure costs amounted to £4.4 million, including £1.6 million of goodwill previously written off to reserves. The Group tax charge for the year includes a credit of £0.7 million in respect of the exceptional non-trading expenditure.

3. Net interest payable

	2002 £m	2001 £m
Interest payable on loans and overdrafts	(3.8)	(4.2)
Less: interest receivable	0.2	0.3
	<u>(3.6)</u>	<u>(3.9)</u>

Notes on the Accounts

4. Taxation

(a) Analysis of tax charge in the year

	2002	2001 as restated
	£m	£m
United Kingdom		
UK corporation tax at 30% (2001 - 30%)	1·6	2·5
Less: double taxation relief	(1·6)	(2·5)
Overseas taxes		
Corporation taxes	1·4	3·8
Total current tax	1·4	3·8
Deferred tax		
United Kingdom	(1·3)	
Overseas	(0·7)	(0·1)
Total deferred tax	(2·0)	(0·1)
Tax (credit)/charge on (loss)/profit on ordinary activities	(0·6)	3·7

(b) Factors affecting the Group tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002	2001 as restated
	£m	£m
(Loss)/profit on ordinary activities before tax	(5·6)	11·1
Tax on ordinary activities at 30% (2001: 30%)	(1·7)	3·3
Permanent differences	0·3	0·1
Overseas tax rate differences	0·1	0·7
Unrelieved tax losses	1·3	
Utilisation of brought forward tax losses		(0·3)
Capital losses covering sale of property		(0·8)
Depreciation and other timing differences	2·1	0·4
Prior year adjustments	(0·7)	0·4
Current tax charge for the year	1·4	3·8

5. Dividends

	2002	2001
	£m	£m
Ordinary shares		
Interim dividend paid of 1·5p (2001 - 3·1p)	1·1	2·2
Final dividend proposed 3·0p (2001 - 6·15p)	2·1	4·3
	3·2	6·5

Dividends on the 6% Cumulative Preference Stock amounted to £35,000 (2001 - £35,000).

Notes on the Accounts

continued

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:

	2002	2001 as restated
	£m	£m
Basic and diluted earnings	(5.0)	7.4
Adjustment for goodwill amortisation and exceptional items after tax relief	7.6	0.6
Adjusted earnings	2.6	8.0

In both 2001 and 2002 the basic and diluted earnings, and basic and diluted earnings per share, were the same value. At 30 March 2002 the weighted average number of shares in issue was 69,313,000 (2001 - 69,312,000). In 2002 the employee share options were not dilutive. In 2001 the dilutive potential of employee share options was 148,000, giving a diluted weighted average number of shares in issue of 69,460,000.

7. Directors' emoluments

	2002	2001
	£000	£000
Aggregate emoluments	510	745
Amounts provided but not paid in respect of unfunded pension obligations	33	49

An amount of £565,000 (2001 - £50,000) was payable to former directors as compensation for loss of office. During the year, retirement benefits accrued to four directors (2001 - five) under a defined benefits scheme and to three directors (2001 - three) under unfunded obligations in respect of salary in excess of the earnings cap.

Highest paid director

Aggregate emoluments	197	193
Amounts provided but not paid in respect of unfunded pension obligations	25	35
Accrued pension at end of year under defined benefits pension scheme	34	28

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 and end of year	29.4
Amortisation	
At beginning of year	(1.7)
Charge for the year	(1.5)
At end of year	(3.2)
Net book value at end of year	26.2
Net book value at beginning of year	27.7

Notes on the Accounts

9. Tangible assets

	Group			Renold plc		
	Properties £m	Equipment £m	Total £m	Properties £m	Equipment £m	Total £m
Cost						
At beginning of year	21.3	119.8	141.1	0.1	0.8	0.9
Exchange adjustment		(0.5)	(0.5)			
Additions at cost	0.6	4.8	5.4		0.1	0.1
Disposals		(3.4)	(3.4)		(0.1)	(0.1)
At end of year	21.9	120.7	142.6	0.1	0.8	0.9
Depreciation						
At beginning of year	7.9	74.0	81.9		0.6	0.6
Exchange adjustment		(0.4)	(0.4)			
Depreciation for the year	0.5	8.5	9.0		0.1	0.1
Disposals		(2.5)	(2.5)		(0.1)	(0.1)
Reclassification	(0.1)	0.1				
At end of year	8.3	79.7	88.0		0.6	0.6
Net book value at end of year	13.6	41.0	54.6	0.1	0.2	0.3
Net book value at beginning of year	13.4	45.8	59.2	0.1	0.2	0.3

Net book value at the end of the year includes £3.6 million (2001 - £3.9 million) in respect of leased assets (land and buildings £3.1 million (2001 - £3.3 million), equipment £0.5 million (2001 - £0.6 million)).

The total cost of properties at 30 March 2002 comprises £16.2 million (2001 - £15.7 million) for freehold land and buildings and £5.7 million (2001 - £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 (2001 - £3.8 million) revalued in 1971 and equipment of £4.4 million (2001 - £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 30 March 2002 capital expenditure contracted for but not provided for in these accounts amounted to £0.9 million (2001 - £1.8 million).

10. Investments

	Shares £m	Advances £m	Total £m
Renold plc			
Subsidiary companies			
Cost or valuation			
At beginning of year - as previously reported	55.9	55.3	111.2
Prior year adjustment following adoption of FRS 19	(1.1)		(1.1)
As restated	54.8	55.3	110.1
Net advances		4.9	4.9
Deficit on revaluation	(6.4)		(6.4)
At end of year	48.4	60.2	108.6

The principal subsidiary companies of Renold plc at 30 March 2002 are set out on the inner back cover.

Notes on the Accounts

continued

11. Current assets

	Group		Renold plc	
	2002	2001 as restated	2002	2001 as restated
	£m	£m	£m	£m
Stocks				
Materials	9.3	10.5		
Work in progress	11.4	12.8		
Finished products	26.2	28.7		
	46.9	52.0		
Debtors				
Trade debtors	29.5	36.1		
Amounts owed by Group subsidiaries			3.7	13.6
Deferred tax (note 14)	3.5	1.8	0.5	0.9
Contract debtors		0.9		
Other debtors	3.6	3.4	0.1	0.1
Prepayments and accrued income	1.7	1.3	0.8	0.1
	38.3	43.5	5.1	14.7
Cash and short term deposits				
Cash at bank	3.4	3.3	0.1	
Short term deposits	3.0	3.8		
	6.4	7.1	0.1	
	91.6	102.6	5.2	14.7

The Group figures for other debtors include £1.2 million (2001 - £0.8 million) of amounts falling due after more than one year.

12. Loans and overdrafts

	Group		Renold plc	
	2002	2001	2002	2001
	£m	£m	£m	£m
Total borrowings	35.5	35.3	27.4	29.3
Less: repayable within one year or on demand	9.9	7.1	4.7	3.8
Amounts falling due after more than one year	25.6	28.2	22.7	25.5
Repayable:				
In more than one year but not more than two years	6.9	5.3	6.3	4.7
In more than two years but not more than five years	18.2	22.5	16.4	20.8
In more than five years	0.5	0.4		
	25.6	28.2	22.7	25.5
Loans comprise:				
UK term loans 2000-2007	27.7	29.3	27.4	29.3
Bank loans - overseas	2.9	3.0		
	30.6	32.3	27.4	29.3
Less: repayable within one year	5.0	4.1	4.7	3.8
	25.6	28.2	22.7	25.5

Included in Group borrowings are secured borrowings of £31.3 million (2001 - £32.8 million). Security is provided by fixed and floating charges over UK assets and the assets of certain overseas subsidiaries.

Notes on the Accounts

13. Creditors

	Group		Renold plc	
	2002 £m	2001 £m	2002 £m	2001 £m
Amounts falling due within one year				
Trade creditors	20.4	24.1	0.3	0.4
Dividends payable	2.1	4.3	2.1	4.3
Corporate taxes	0.7	2.8		
Other taxation and social security	3.7	4.1	0.3	0.2
Advance payments from customers	1.0	1.1		
Other creditors	6.2	6.8	0.3	0.2
Accruals	7.1	8.5	1.2	0.7
Finance lease obligations		0.1		
	41.2	51.8	4.2	5.8
Amounts falling due after more than one year				
Other creditors	0.6	0.4		

14. Provisions for liabilities and charges

	Deferred tax provision £m	Pension provision £m	Business termination provision £m	Total £m
At beginning of year (as previously reported)		10.7		10.7
Prior year adjustment	2.0			2.0
As restated	2.0	10.7		12.7
Exchange adjustments		0.2		0.2
(Credit)/charge to profit and loss account	(0.4)	4.1	2.8	6.5
Utilised in year		(4.9)	(1.9)	(6.8)
At end of year	1.6	10.1	0.9	12.6

(a) Deferred Tax

In summary the total deferred tax shown in the Group balance sheet is as follows:

	Deferred tax asset £m	Deferred tax provision £m	Net deferred tax asset £m
At beginning of year (as restated)	(1.8)	2.0	0.2
Exchange adjustment	(0.1)		(0.1)
Deferred tax credit recognised in the profit and loss account	(1.6)	(0.4)	(2.0)
At end of year	(3.5)	1.6	(1.9)

The deferred tax credit to profit and loss account is analysed as follows:

UK	(1.5)
Overseas	(0.8)
Adjustments in respect of prior years	0.3
	(2.0)

Notes on the Accounts

continued

14. Provisions for liabilities and charges (continued)

	2002	2001
	£m	as restated £m
The analysis of Group deferred tax recognised comprises:		
Accelerated capital allowances	1·0	2·4
Other timing differences	(2·2)	(1·6)
Tax losses carried forward	(0·7)	(0·6)
	(1·9)	0·2

During the year the Group has reported a trading profit of £7·8 million before exceptional items and goodwill amortisation. The businesses in all jurisdictions where deferred tax assets have been recognised will, more likely than not, generate suitable profits from which the future reversal of the underlying timing differences can be deducted.

A deferred tax asset amounting to £2·0 million has not been recognised in respect of losses in certain overseas subsidiaries where, based on available evidence, it is considered unlikely that the losses will be recovered within the foreseeable future.

(b) Pensions

The provision in respect of pension liabilities is determined in accordance with SSAP 24 (note 15).

(c) Business termination

The provision was established during the year following the announced closure of the Manifold indexer business. It is expected that the remaining provision balance will be utilised within the next financial year.

15. Pensions

(a) Pension disclosures in respect of SSAP 24

The Group operates a number of pension schemes throughout the world. In the UK, the schemes are defined benefit 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 benefit type funded in accordance with local practice. The total pension costs for the Group were as follows:

	2002	2001
	£m	£m
UK	1·6	1·6
Overseas	2·5	2·2
	4·1	3·8

The UK cost for 2002 reflects the regular contribution rate less £0·6 million (2001 - £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 2001.

In the year to 30 March 2002 the majority of UK employees were 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 2001. 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 6·65% per annum before retirement and 5·65% per annum after retirement, that salary increases will be in the range 3·4% to 3·9% per annum and that present and future pensions will increase at a rate of 2·4% per annum. At the date of the 2001 valuations the market value of the assets of these schemes totalled £103·9 million which represented 95% of the liabilities in respect of benefits accrued to members, allowing for expected future increases in earnings.

Notes on the Accounts

15. Pensions (continued)

A third UK defined benefit scheme, the Jones & Shipman plc Retirement Benefits Plan (1971) is also operated; 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.

Following a review of pension provisions for UK employees, membership of the Renold Group Pension Scheme and Jones & Shipman plc Retirement Benefits Plan (1971) was closed to all new employees joining the Group on or after 6 April 2002. In future, employees joining the Group will be offered membership of a new defined contribution scheme.

Overseas pension costs include £1.1 million (2001 - £1.2 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:

	2002	2001
	£m	£m
UK schemes		0.7
Overseas schemes	10.1	10.0
	10.1	10.7

The movement in the year is set out in note 14. At 30 March 2002 the balance on UK schemes is an asset of £0.4 million and is therefore disclosed within prepayments (note 11).

(b) Pension disclosures in respect of FRS 17

The Group continues to account for pension arrangements in accordance with SSAP 24 "Accounting for Pension Costs". Under the transitional provisions of FRS 17 "Retirement Benefits" certain additional disclosures are required to illustrate the impact the new standard's valuation methodology has on the Group's balance sheet at 30 March 2002. The transitional disclosure information is provided below:

The valuations used for FRS 17 disclosures have been based on the most recent actuarial valuations. Where material, these have been updated to 30 March 2002 by qualified independent actuaries. The disclosures provided below are presented on a weighted average basis where appropriate.

The principal financial assumptions used to calculate scheme liabilities under FRS 17 as at 30 March 2002 were as follows:

	UK	Overseas
Rate of increase in salaries	3.9%	3.2%
Rate of increase in pensions in payment and deferred pensions	2.8%	2.3%
Discount rate	6.0%	6.6%
Inflation assumption	2.8%	2.3%

Notes on the Accounts

continued

15. Pensions (continued)

The assets and liabilities in the schemes at 30 March 2002 were:

	UK		Overseas	
	Expected long term rate of return %	Market value £m	Expected long term rate of return %	Market value £m
Equities	8.0	61.3	9.6	8.7
Bonds	5.6	70.5	7.3	4.7
Other			9.5	1.1
Total market value of assets		131.8		14.5
Present value of scheme liabilities		(138.9)		(29.6)
Deficit in the schemes		(7.1)		(15.1)
Related deferred tax asset		2.1		1.8
Net pension liability		(5.0)		(13.3)

The gross deficit disclosed above (FRS 17 basis) in respect of overseas schemes includes £13.6 million relating to unfunded arrangements in Germany and France; a pension liability of £10.0 million has been recognised in the balance sheet at 30 March 2002, under SSAP 24, in respect of these unfunded arrangements.

The effect of the FRS 17 liability on the net assets and reserves of the Group is set out below:

Net assets	£m
Net assets as stated in the balance sheet	82.5
Net pension liability recognised under SSAP 24	10.1
Net pension scheme asset recognised under SSAP 24	(0.4)
Net assets excluding defined benefit pension scheme assets/liabilities	92.2
FRS 17 net liability on UK schemes	(5.0)
FRS 17 net liability on Overseas schemes	(13.3)
Net assets including net defined benefit pension scheme liabilities assessed under FRS 17	73.9
Reserves	
Profit and loss reserves as stated in the balance sheet	53.9
Pension liability recognised under SSAP 24	10.1
Pension asset recognised under SSAP 24	(0.4)
Profit and loss reserve excluding amounts relating to defined benefit assets/liabilities	63.6
FRS 17 net pension liabilities on UK schemes	(5.0)
FRS 17 net pension liabilities on Overseas schemes	(13.3)
Profit and loss reserve including amounts relating to net defined benefit liabilities assessed under FRS 17	45.3

Notes on the Accounts

16. Called up share capital

	Authorised		Issued	
	2002 £m	2001 £m	2002 £m	2001 £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

At 30 March 2002 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.

17. Reserves

Group	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total reserves £m
At beginning of year as previously reported	6·0	7·1	1·2	57·3	71·6
Prior year adjustment - FRS 19				(0·2)	(0·2)
At beginning of year as restated	6·0	7·1	1·2	57·1	71·4
Exchange translation differences on net assets of overseas subsidiaries				(0·2)	(0·2)
Loss for the year				(8·2)	(8·2)
Goodwill resurrected on termination				1·6	1·6
Reclassification of reserves		(3·3)	(0·3)	3·6	
At end of year	6·0	3·8	0·9	53·9	64·6
Renold plc					
At beginning of year as previously reported	6·0	16·4		49·2	71·6
Prior year adjustment - FRS 19		(1·1)		0·9	(0·2)
At beginning of year as restated	6·0	15·3		50·1	71·4
Loss for the year				(0·4)	(0·4)
Deficit on revaluation of shares in subsidiaries		(6·4)			(6·4)
At end of year	6·0	8·9		49·7	64·6

The consolidated profit for the financial year includes a profit of £2·8 million (2001 - £12·0 million) which is dealt with in the accounts of the parent company.

Cumulative goodwill written off to Group reserves at 30 March 2002, subsequent to the capital reorganisation in January 1985, amounted to £2·0 million (2001 - £3·6 million).

Notes on the Accounts

continued

17. Reserves (continued)

Prior period adjustment

The prior period adjustment represents the effect of a change in the accounting policy for deferred tax. This follows the issue in December 2000 of FRS 19 - Deferred Tax.

The prior period adjustment is a cumulative charge to reserves of £0.2 million, all of which relates to the year ended 1 April 2000 and prior periods. The comparative amounts for 2001 have been restated in accordance with the new policy. The impact on the results for the year to 31 March 2001 was immaterial.

Had the new policy not been adopted in the current year the net tax credit of £0.6 million would have been a tax charge of £1.4 million and the loss for the financial period would have been £7.0 million.

18. Operating lease obligations

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

	2002		2001	
	Properties £m	Equipment £m	Properties £m	Equipment £m
Leases expiring:				
Within one year			0.2	0.2
Between two and five years	0.1	0.2	0.2	0.7
Over five years	0.8		0.8	0.1
Total annual commitments	0.9	0.2	1.2	1.0

19. Contingent liabilities

Contingent liabilities at 30 March 2002 in respect of guarantees amounted to £1.7 million (2001 - £2.1 million) for the Group.

As previously reported, Jeffrey Chain LP is a co-defendant in an action commenced by the City of New York on 5 November 1999. There have been no significant developments during the year and 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.

Notes on the Accounts

20. Share options

Share options have been granted under the Executive Share Option Schemes and the Savings Related Share Option Schemes. At 30 March 2002 unexercised options for ordinary shares amounted to 2,918,533 (2001 - 2,606,451) made up as follows:

Date normally exercisable	Option price (pence per share)	Number of shares 2002	Number of shares 2001
Executive Share Option Schemes			
Within seven years from:			
24 November 1995	52.50	30,000	30,000
30 November 1996	120.30	189,900	189,900
1 December 1997	184.30	50,000	60,000
16 July 1999 (1995 Scheme)	293.83	73,115	77,052
18 July 2000 (1995 Scheme)	242.67	20,647	45,647
17 July 2001 (1995 Scheme)	237.33	270,000	310,000
16 July 2002 (1995 Scheme)	137.83	355,000	385,000
19 July 2003 (1995 Scheme)	118.50	185,000	190,000
22 December 2003 (1995 Scheme)	94.50	20,000	20,000
18 June 2004 (1995 Scheme)	102.00	125,000	
28 November 2004 (1995 Scheme)	67.34	499,000	
Within four years from:			
16 July 1999 (1995 Scheme)	293.83	266,885	287,948
18 July 2000 (1995 Scheme)	242.67	219,353	224,353
		2,303,900	1,819,900
Savings Related Share Option Schemes			
Within six months from:			
1 February 2002 (1995 Scheme)	200.80	101,833	115,699
1 February 2003 (1995 Scheme)	89.36	305,965	394,009
1 February 2005 (1995 Scheme)	89.36	206,835	276,843
		614,633	786,551

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

	2002 £m	2001 £m
Trading profit	2.4	15.0
Depreciation charges (net of profit/loss on disposals)	9.4	10.4
Goodwill amortisation	1.5	1.4
Pension costs provision	(0.8)	(0.4)
Other provisions	(0.9)	
Decrease/(increase) in stocks	4.0	(0.1)
Decrease in debtors	6.8	0.3
(Decrease)/increase in creditors	(5.9)	1.6
Exceptional gain on disposal of asset held for sale		(2.7)
Net cash inflow from operating activities	16.5	25.5

Net cash inflow from operating activities includes an outflow of £3.0 million (2001 - £0.4 million) which relates to exceptional redundancy and restructuring costs; an amount of £1.4 million (2001 - £0.8 million) was retained in creditors. In respect of the non-trading exceptional item the cash outflow included above is £0.9 million and the amount retained in provisions is £0.9 million.

Notes on the Accounts

continued

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

	2002 £m	2001 £m
Servicing of finance		
Interest received	0·1	0·3
Interest paid	(3·0)	(4·5)
Net cash outflow for servicing of finance	(2·9)	(4·2)
Financing		
Debt due within a year: (decrease)/increase in short-term borrowings	(4·1)	1·8
Debt due beyond a year: increase/(decrease) in loans	2·4	(11·2)
Capital element of finance lease rental payments	(0·1)	(0·2)
Net cash outflow from financing	(1·8)	(9·6)

23. Analysis of net debt

	At beginning of year £m	Cash flow £m	Other non-cash movements £m	Exchange movement £m	At end of year £m
Cash in hand and at bank	3·3	0·1			3·4
Overdrafts	(3·0)	(2·0)		0·1	(4·9)
	0·3	(1·9)		0·1	(1·5)
Debt due after one year	(28·2)	(2·4)	5·0		(25·6)
Debt due within one year	(4·1)	4·1	(5·0)		(5·0)
Finance leases	(0·1)	0·1			
	(32·4)	1·8			(30·6)
Short-term deposits	3·8	(0·7)		(0·1)	3·0
Total	(28·3)	(0·8)			(29·1)

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.

Notes on the Accounts

24. Financial instruments (continued)

(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
2002					
Sterling					
– Financial liabilities	9.5	4.5	4.8		4.8
– Preference shares	6.0	*	0.6		0.6
US Dollar	8.3	1.9	25.1	0.9	26.0
Euro	4.5	2.2	1.7	1.4	3.1
Other	8.1	2.0	1.5	0.1	1.6
			33.7	2.4	36.1
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

* 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 30 March 2002

Currency	Cash at bank and in hand £m	2002 Short-term deposits £m	Total £m	Cash at bank and in hand £m	2001 Short-term deposits £m	Total £m
Sterling	0.1		0.1	0.5		0.5
Euro	2.3	3.0	5.3	1.8	3.8	5.6
Other	1.0		1.0	1.0		1.0
	3.4	3.0	6.4	3.3	3.8	7.1

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.

Notes on the Accounts

continued

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:

	2002			2001		
	Debt	Finance	Total	Debt	Finance	
	£m	leases	£m	£m	leases	
		£m			£m	
					Total	
					£m	
In one year or less, or on demand	9.9		9.9	7.1	0.1	7.2
In more than one year but not more than two years	6.9		6.9	5.3		5.3
In more than two years but not more than five years	18.2		18.2	22.5		22.5
In more than five years	1.1		1.1	1.0		1.0
	36.1		36.1	35.9	0.1	36.0

Debt due in more than five years includes £0.6 million (2001 - £0.6 million) in respect of Renold plc's preference shares.

(f) Borrowing facilities

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

	2002	2001
	£m	£m
Expiring within one year or less, or on demand	23.9	25.1
Expiring in more than one year but not more than two years	0.3	0.4
Expiring in more than two years	10.9	13.6
	35.1	39.1

The facilities expiring in one year or less, or on demand, are primarily annual facilities subject to review at various dates during the year ending 29 March 2003.

(g) Fair values of financial assets and financial liabilities

	2002		2001	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings (up to one year)	(9.9)	(9.9)	(7.2)	(7.2)
Long-term borrowings	(25.6)	(25.6)	(28.2)	(28.2)
Preference shares	(0.6)	(0.4)	(0.6)	(0.5)
Short-term deposits	3.0	3.0	3.8	3.8
Cash at bank and in hand	3.4	3.4	3.3	3.3
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps		(1.9)		(2.2)

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.

Notes on the Accounts

24. Financial instruments (continued)

(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
2002					
Functional currency of companies					
Sterling		0.4	0.1	0.5	1.0
US dollars	(0.5)		0.1		(0.4)
Euro	(0.3)	0.2			(0.1)
Other currencies	(0.3)			0.2	(0.1)
	(1.1)	0.6	0.2	0.7	0.4
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)

(i) Gains and losses on instruments used for hedging

There were no significant unrecognised or deferred gains and losses on hedges at 30 March 2002 or at 31 March 2001.

Group Five Year Financial Review

Profit and loss account

£m	2002	2001	2000	1999	1998
Turnover	190.2	216.7	174.2	171.6	183.6
Trading profit before goodwill amortisation and exceptional items	7.8	16.1	11.0	14.0	22.4
(Loss)/profit on ordinary activities before tax	(5.6)	11.1	9.6	12.4	22.5
(Loss)/profit after tax for ordinary shareholders	(5.0)	7.4	6.1	7.7	17.6

Balance sheet

£m	2002	2001	2000	1999	1998
Tangible fixed assets	54.6	59.2	58.7	53.6	45.8
Stocks	46.9	52.0	50.1	46.6	39.8
Debtors	34.8	41.7	40.7	31.7	31.3
Creditors	(39.0)	(45.0)	(44.4)	(42.2)	(38.0)
Trading assets	97.3	107.9	105.1	89.7	78.9
Goodwill	26.2	27.7	26.3	2.9	
Properties held for sale			5.0	5.0	5.0
Net (borrowings)/cash – including finance leases	(29.1)	(28.3)	(33.5)	10.8	22.3
Dividends and tax	0.7	(5.3)	(5.7)	(7.1)	(8.5)
Provisions for liabilities and charges	(12.6)	(12.7)	(10.8)	(12.6)	(11.7)
Net assets	82.5	89.3	86.4	88.7	86.0

Key data

	2002	2001	2000	1999	1998
Trading return on average trading assets ¹	7.6	15.1	12.1	17.1	27.9
Trading profit on turnover ¹	4.1	7.4	6.3	8.2	12.2
Capital expenditure	5.4	9.5	10.3	11.3	9.6
Basic earnings per share	(7.2)	10.7	8.6	11.1	25.7
Dividends per ordinary share	4.5	9.25	9.25	9.25	9.0
Employees at year end	2,780	3,238	3,187	2,881	2,912

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

The figures for 2001, but not for prior years, have been adjusted for FRS 19 "Deferred Tax".

Notice of Meeting

Notice is hereby given that the seventy-second Annual General Meeting of Renold plc will be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday 18 July 2002 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 30 March 2002.
2. To declare a final dividend on the issued ordinary shares.
3. To re-elect Mr R F Leverton as a director.
4. 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 5 will be proposed as an Ordinary Resolution and Resolution 6 as a Special Resolution:

5. 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 17 October 2003 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.
6. THAT subject to the passing of the Ordinary Resolution numbered 5 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 (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 17 October 2003 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

18 June 2002

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 16 July 2002 ("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 8 August 2002 to members appearing on the register on 12 July 2002.

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

	2002
Annual General Meeting	18 July
Final ordinary dividend for 2001/02 - payment date	8 August
Half year end 2002/03	28 September
Half year 2002/03 results published	mid November
	2003
Interim ordinary dividend for 2002/03 payable	end January
Year end 2002/03	29 March
Preliminary announcement of annual results 2002/03	early June

Other dividend payments

Preference dividends 1 July and 1 January

Principal Subsidiary Companies

as at 30 March 2002

UNITED KINGDOM

Renold Power Transmission Limited*

FACTORIES: BREDBURY, BROMBOROUGH, BURTON, CARDIFF, HALIFAX, LEICESTER, 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
Jones & Shipman SARL

Germany Renold (Deutschland) GmbH
– Arnold & Stolzenberg GmbH FACTORY: EINBECK

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
– 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.

RENOLD

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