



***RENOLD***

Annual Report 2003

## 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 29 March 2003

	<b>2003</b> <b>£m</b>	2002 £m	Change %
Turnover	<b>187.4</b>	190.2	-1
Trading profit before goodwill amortisation and exceptional items	<b>9.2</b>	7.8	+18
Profit before tax, goodwill amortisation and exceptional items	<b>6.1</b>	4.2	+45
Profit/(loss) before tax	<b>4.2</b>	(5.6)	
Adjusted earnings per share	<b>5.2p</b>	3.8p	+37
Basic and diluted earnings per share	<b>3.5p</b>	(7.2)p	
Dividends per ordinary share, paid or proposed	<b>4.5p</b>	4.5p	
Capital expenditure	<b>5.7</b>	5.4	
Gearing (net borrowings to shareholders' funds)	<b>25%</b>	35%	

## Chairman's Statement

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I am pleased to report that Group performance for the financial year 2003 showed considerable improvement against a background of continuing challenging market conditions. Within the power transmission segment, the chain based industrial power transmission business continued to perform well, offset by a reduced performance from the automotive cam drive business as it struggled to meet substantially increased demand. Also of note was the return to profitability in the second half of the machine tool and rotor business. As a result, pre-exceptional profit before goodwill amortisation and tax grew by 45% compared with the prior period on sales which were marginally lower overall.

Further actions were taken to reduce the cost base and the benefits of these and of previous restructuring activities

are reflected in the significant progress the Group made during the year:

Furthermore, strong cash flow was achieved resulting in a substantial reduction in net debt to £20.9 million and year end gearing of 25% (2002 - 35%).

Subsequent to the year end the sale of the former Jones & Shipman site at Leicester was completed and the resultant net cash proceeds of £5.2 million have been utilised to reduce further the Company's borrowings.

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 31 January 2003, this gives total dividends for the year of 4.5 pence, the same as last year.

During the year the Board has been strengthened by the appointment of Tony Brown into the new role of Managing Director Chain and Power Transmission Products, and by Steve Mole's appointment to the Board as Finance Director. Both appointments were made from within the Group and will add weight to the development

and implementation of Group strategy. I wish them both every success in their new positions.

Finally, on behalf of the Board, I would like to thank all Group employees for their contribution and support which has enabled the improved result for 2003 to be achieved.

### Prospects

The Group's future development is clearly focused as a supplier of chain along with supporting niche power transmission products into industrial applications, together with automotive cam drive systems.

The Group's markets continue to be challenging with both political and economic uncertainty. Although this year has started slowly we expect the benefit of internal efficiency and developing market positions to show through as the year progresses. Additionally, with the balance sheet strengthened over the last two years, the Group is well placed to take advantage of growth opportunities.

**Roger Leverton**



*Ian Trotter (Chief Executive (left)) and Steve Mole (Finance Director) inspecting the new generation Renold Synergy® transmission chain.*

Today we are firmly focused on building our future through our core chain business. This is where Renold has strong brand recognition, significant international market position and is respected as a supplier of innovative products and value added systems solutions.

### **POWER TRANSMISSION**

#### **Industrial chain and power transmission**

The worldwide reputation of our industrial chain brands and the international presence of Renold provides the momentum for future development not only in our traditional markets but into new markets and geographies. The acquisition in 2000 of Jeffrey Chain in the USA was an

important first step in furthering our international position.

During the dull economic conditions of the last two years, significant reductions in the cost base of the chain and power transmission businesses have been achieved, particularly in the Gear business which has been refocused as a supplier of units, packages and systems that complement the market and customer connections of our mainline chain business.

The European chain production plants have also achieved significant savings. The UK operations "adopted" the Euro from its introduction further stimulating cost base reductions and improved competitiveness. In total the chain based industrial power transmission businesses now operate from a more cost effective base.

The focus for the future is to strengthen our leading market position for industrial chain in Europe, to extend our position in the USA whilst developing business in other regions where we are currently underweight. We will shift the emphasis of the

# Chief Executive's Review

continued

business to ensure that all activities are focused on fully meeting customer expectations. This will require a new level of expertise in supply management, and a change from a manufacturing to a supply ethos. We will continue to drive down our supply cost base potentially involving the relocation of some assets to take advantage of supply sources in lower cost economies.

Our engineering and technological expertise is a key competitive advantage and we shall continue to encourage and resource our engineering skills in the development and innovation of products and power transmission package systems.

In addition, we are committed to strengthening and developing our front line customer capabilities. Our chain and power transmission sales professionals worldwide have been through an assessment college, with selling skills and training programmes carried out locally. Further modules are to be implemented during 2003.

To ensure full effectiveness of this new direction our worldwide industrial chain and power transmission businesses



*Renold provides a sprag clutch design solution for high efficiency wind power turbines.*

have been drawn together as a global business unit headed by Tony Brown, as announced on 18 February 2003. Since then we have further strengthened the management structure and created two new regional business units - "Renold South East Asia" and "Renold China". These moves are designed to promote our global market position through exploiting a wider international presence and to transform our supply management capabilities.

We expect this market and customer based strategy to both strengthen our current position and broaden our geographic market. It will drive down the cost base through reducing over-dependency on supply from high cost Western economies and improve

supply and logistics to secure reductions in working capital.

This strategy continues the revitalisation of Renold through our core industrial chain and power transmission businesses. It sets our sights clearly on exploiting growth opportunities worldwide. We will maintain the superiority and specification integrity of our key chain brands through engineering development and innovation, filling product gaps and extending market positions.

## **Automotive cam drive systems**

Renold Automotive Systems continues to experience substantial growth as new engine programmes come into production. Our penetration of this market through Renold's chain based cam drive technology and increasing customer preference for chain based systems have contributed to a period of unprecedented growth.

This rapid increase in demand was earlier and greater than anticipated and the Calais facility encountered some inefficiency in production. Despite this it continued to maintain customer service levels and actions have been taken to address the issue.

## Chief Executive's Review

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In addition to resourcing our commitment to technology and engineering, we have strengthened manufacturing management with the appointment of a business Operations Director and added additional resources to the production management team. Furthermore, during the course of this year we will commission an automotive chain production facility in our German chain plant which will expand capacity by 20% and relieve the pressure and dependence on the Calais plant.

In spite of these short-term performance issues, we have developed new business opportunities and over the course of the next few years we are confident of maintaining sales growth and, more importantly, achieving our performance targets.

Renold Automotive Systems has, in the space of the last five years, achieved global recognition and is counted in the top three world suppliers of chain based cam drive systems. Our technology is regarded as "world class" and as a result we intend to open up markets beyond Europe and North America. We expect demand from these new markets to be supported from our European base initially, with supply moving locally as both management resources and business build.

In the short-term our objectives are clear; the focus is to improve returns substantially from the current business through improved production efficiency and technological development. For the future we intend to expand beyond our existing markets to become a

truly global supplier of automotive cam drive systems.

### **MACHINE TOOL AND ROTOR**

During the last two years considerable effort has been directed at restructuring and repositioning the Group. The machine tool business restructuring is complete, with Jones & Shipman relocated on schedule to its new smaller site in Leicester operating as an engineering, design and assembly operation with manufactured components being sourced from low cost economies. The Edgetek machine range is now fully integrated at Holroyd and the business as a whole has undergone a substantial cost reduction leading to a lower break-even position.

### **Summary**

Now that we have successfully repositioned the Group, our energy will be directed to growing the core chain and automotive cam drive systems business. We have the ability and resources necessary to achieve our goals and are confident of success.

**Ian Trotter**





*Tony Brown (Managing Director Chain and Power Transmission Products) on a visit to the UK Chain factory at Bredbury.*

### **POWER TRANSMISSION**

#### **Industrial chain and power transmission**

The industrial chain and power transmission businesses performed well in a year when economic conditions in our major markets of Europe and North America remained weak. Overall, sales were close to the previous year on a like for like basis, largely as a result of improvements in market position. This, together with earlier actions to reduce costs and restructure, resulted in improved profitability.

The UK businesses operated in a domestic market in which manufacturing activity continued to decline throughout the year. Despite this, sales were close to the previous year's level, after adjusting for operations closed last year. This was the result of improving market

share within the UK and higher exports of UK chain products to the USA as the Bredbury chain factory increased sales of transmission chain products into the US market through Jeffrey Chain.

The Bredbury factory operated at a high level of utilisation, and investment in additional capacity and in process automation is ongoing. The Burton conveyor chain factory had a difficult year as demand remained subdued. Encouragingly there has been an upturn in orders for agricultural applications going into the new financial year.

The UK gears and couplings businesses produced much improved results this year, benefiting from the substantial restructuring carried out last year. The industrial gearbox business at Milnrow made good progress, growing sales of the modular ePM gearboxes and of the large Titan worm gearbox range.

The couplings businesses at Cardiff and Halifax improved profits; their products are sold through the Group's sales network around the world and enhance the power transmission product portfolio.

In continental Europe, the German manufacturing sector, a key demand driver for power transmission products, weakened progressively throughout the year. However, sales of transmission



## Operations Review

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chain products from the Einbeck operation increased as deliveries into the US market were well ahead. The German business again produced an excellent profit performance, as the contribution from the highly automated manufacturing facility improved as factory load increased.

The French chain business grew its share in a weaker market, holding sales at last year's level but improving profitability. The focused activity by the sales team continues to succeed in building relationships with key distributors and OEM customers.

Turnover of the sales businesses elsewhere in Europe was lower, including in Switzerland where the market is dominated by machinery builders, although the rate of new order intake improved in the final quarter.

The North American operations improved their competitive position, particularly in the US chain market. The Whitney Renold brand of roller transmission chain, launched last year, achieved our targets and has built up a strong market presence through key US distributors. Although overall US demand for roller transmission chain products fell year on year, the Jeffrey Chain business achieved increased sales and market share. The US factory at Morristown, Tennessee, saw activity reduced on lower offtake of engineered

chains in products for the construction industry and other key sectors. As we enter the new financial year there are indications of an improvement for these products. Renold Ajax produces specialised industrial couplings for industry including mass transit applications. Whilst the steel industry, a major customer, remained weak, this operation successfully adopted and implemented "Lean Manufacturing" techniques and performed well. The Canadian distribution and sales business also had a good year, reflecting the gains in the USA for roller transmission chain with sales and profits ahead of last year.

The Australian business improved substantially with a significantly lower cost base offsetting the effects of severe drought which reduced demand from the agricultural sector.

New Zealand had a difficult year as the economy slowed. South Africa achieved its best result for a number of years reflecting increased sales of both products imported from Group factories and gear products produced locally.

In the Far East the businesses in Malaysia and Singapore generated further sales growth, the UK factories in particular benefiting from increased sales of conveyor chain and gearboxes supplied to those markets.

Overall the year benefited from the restructuring carried out last year and profit margins improved despite difficult market conditions. The Group's brands are a major strength and our new generation flagship Renold Synergy® transmission chain, announced at the Hannover Fair in April, is being launched



# Operations Review

continued



*Renold Automotive Systems supply chain based cam drive systems to many of the world's leading automotive manufacturers.*

in key markets in the first quarter. Going forward the industrial chain and power transmission businesses are clearly focused on growing their position in markets which, in the short-term, remain weak.

## **Automotive cam drive systems**

Demand for Renold Automotive's chain driven cam drive systems grew rapidly as we continued to serve many of the world's leading automotive manufacturers. Sales were up by 21% in the first half year, and in the second half were 37% higher than the previous year as offtake for new engine programmes supplied by the Calais facility built up ahead of expectations. However, the sharp acceleration in output required from Calais caused short-term inefficiencies in the production process. Production output ran below targeted levels, resulting in excessive labour and transportation costs with a consequent adverse impact on profitability.

Operational management has been strengthened, new investment committed and work is in progress to return efficiency to acceptable levels.

During the year there has been positive progress in securing new contracts and broadening the customer base. New products continue to be developed and introduced and opportunities for this business in which we have "world class" technology are excellent.

## **MACHINE TOOL AND ROTOR**

The market for machine tools remained poor throughout the year as manufacturing investment was cut back worldwide especially in Europe and North America.

It is pleasing, therefore, that the Group's machine tool activities were able to record a small profit in the second half year even though sales were lower than the previous year.

This turnaround in profitability has been achieved through the major rationalisation programme completed in the first half. The business now offers a strong range of Holroyd and Jones & Shipman machines complemented by high precision component production, and by machine service facilities. The range of Edgetek superabrasive machine tools, now produced at the Holroyd factory, has gained excellent new orders for aerospace and other demanding applications.

The Holroyd and Jones & Shipman businesses have been re-established on sound footings with tight controls on costs and cash being maintained. In the short-term there is no sign of a recovery in machine tool markets but levels of recent enquiries are encouraging.

**I R Trotter**

### Profit and loss account

Turnover was £187.4 million compared with £190.2 million the previous year. The Group operates in two sectors as shown in Note 1 to the accounts which analyses activities. Power transmission sales were 3% higher at constant exchange rates with growth in Automotive Systems offset by lower domestic sales in the major industrial markets of Germany, UK and North America. Machine tool and rotor sales were 15% lower as the capital goods market remained subdued.

Trading profit, before goodwill amortisation and exceptional items, was £9.2 million, compared with £7.8 million in 2002, an improvement

of 18%. The industrial power transmission businesses showed an improvement in operating results offset by a reduced performance from Automotive Systems. The machine tool and rotor businesses recorded a loss of £0.8 million, significantly better than the £3.0 million loss in 2002, reflecting the actions taken to reduce the cost base and downsize and relocate the Jones & Shipman business and the second half showed a trading profit of £0.2 million despite the low level of market activity. Manpower numbers have been reduced by 46% in this sector over the last two years.

Trading profit improved in the UK and Germany but was lower in France and the rest of Europe. North America was unchanged. Redundancy and restructuring costs were £1.0 million in the year, of which £0.7 million related to further restructuring within the machine tool and rotor business.

The return on average trading assets for the Group was 9.9% up from 7.6% last year; the power transmission businesses achieved 12.8% return on average trading assets.

Net interest payable reduced to £3.1 million, compared with £3.6 million in 2002. Profit before tax for the year before goodwill amortisation and exceptional items was £6.1 million compared with £4.2 million last year; an increase of 45%.

The taxation charge of £1.7 million compares with a taxation credit of £0.6 million in the previous year. The effective tax rate on profit before goodwill amortisation, exceptional redundancy and restructuring costs and property sale was 40% compared with 38% in 2002.

*Renold chain is specified for many of the world's major leisure rides.*



# Financial Review

continued

Reported profit after tax was £2.5 million compared with a loss of £5.0 million last year. Excluding goodwill amortisation and exceptional items, this represented earnings per share of 5.2 pence, compared with 3.8 pence earnings per share last year. Total dividends paid and proposed of 4.5 pence per share are the same as last year.

## Balance sheet

Goodwill stands at £22.6 million after an amortisation charge of £1.4 million in the year.

Group trading assets at the year end of £88.8 million were £8.5 million lower than last year. Fixed assets at £50.0 million were £4.6 million lower after reclassifying the Leicester site (£2.3 million) as a current asset. Capital additions totalled £5.7 million compared with £5.4 million last year; the depreciation charge was £8.9 million compared with £9.0 million last year. New investment was mainly in the chain manufacturing businesses in UK, Germany and Automotive Systems, France.

Shareholders' funds were £82.1 million at the year end.

## Cash flow and borrowings

Cash flow from operating activities was £17.9 million which compared with £16.5 million the previous year. Working capital was reduced by £1.3 million compared with a reduction of £4.9 million in 2002, stocks were £1.3 million lower; debtors increased £5.0 million and creditors also increased £5.0 million. Payments for fixed assets amounted to £5.6 million, whilst tax and dividends cost £4.5 million.

After exchange differences there was a net cash inflow of £8.2 million reducing year end borrowings to £20.9 million. This represented 25% of shareholders' funds or 35% of net tangible assets. This was an excellent achievement reflecting the strong management of working capital through the year.

After the year end the sale of the former Jones & Shipman manufacturing site in Leicester was completed for net cash proceeds of £5.2 million. This sum has been used to reduce Group borrowings.

## 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 £20.9 million at 29 March 2003 is represented by gross debt of £30.2 million less cash and short-term deposits of £9.3 million.

At 29 March 2003 the Group had 83% 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 more than six months beyond the balance sheet date, although exceptions can occur where longer term projects are entered into.

## Pension accounting

In accordance with the transitional arrangements for the introduction of 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 net deficit, after tax, of £23.5 million at 29 March 2003. The deficit has increased from last year due to the continuing poor performance of equity markets and also due to revised actuarial assumptions on returns and discount rates. FRS 17 calculations are very susceptible to short-term changes in equity values and interest rates. As reported last year, the main UK defined benefit schemes have been closed to new members, contribution rates for existing members have been increased by 1% from April 2003 and the Company continues to make additional contributions under minimum funding requirements.

**Steve Mole**

## Directors

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**Roger Leverton (age 64)  
Chairman**

was appointed to the Board and became Chairman in 1998. He is also Chairman of Betts Group Holdings Limited and was formerly Chairman of Infast Group plc and Group Chief Executive of Pilkington plc.

**Ian Trotter (age 59)  
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 (age 56)  
Managing Director –  
Chain and Power  
Transmission Products**

joined the Group in 1990 as Chain Division Finance Director. In 1991 he became Group Financial Controller and was appointed Finance Director in August 2000. He was appointed to his present role in February 2003. 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.

**Steve Mole (age 47)  
Finance Director**

joined the Group in 2000 as Group Financial Controller and was appointed a Director in February 2003. A chartered management accountant, his previous finance roles were at BTP plc, Zeneca plc and Unilever plc.



**Mark Smith**

**Mark Smith (age 64)  
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 64)  
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

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### Chairman

R F Leverton

### Executive Directors

I R Trotter *Chief Executive*

D A Brown *Managing Director – Chain and Power Transmission Products*

S R Mole *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

T B Fortune (*Chairman*)

R F Leverton

M A Smith

### Company Secretary

G R Newton

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Website: [www.renold.com](http://www.renold.com)

### Merchant Bankers

UBS Investment Bank

### Stockbrokers

UBS Investment Bank

### Registrar

Northern Registrars Limited

Northern House

Woodsome Park

Fenay Bridge

Huddersfield HD8 0LA

Telephone: +44 (0)1484 600900

Fax: +44 (0)1484 600911

Website: [www.northernregistrars.co.uk](http://www.northernregistrars.co.uk)

### Auditors

PricewaterhouseCoopers LLP, Manchester

# Report of the Directors

for the financial year ended 29 March 2003

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**To be presented to the seventy-third Annual General Meeting of RENOLD plc** to be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday, 17 July 2003 at 2.30 p.m.

The Notice of Meeting is included on pages 49 and 50.

## Group results

The profit for the year on ordinary activities before tax was £4.2 million compared with a loss of £5.6 million for the previous year. After taxation, the profit attributable to ordinary shareholders was £2.5 million compared with a loss of £5.0 million last year.

There was a loss of £0.7 million after charging the cost of dividends of £3.2 million. Last year there was a loss of £8.2 million after dividends of £3.2 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 3 to 5 and in the Operations Review on pages 6 to 8.

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

## Dividends

An interim dividend of 1.5 pence per ordinary share was paid on 31 January 2003.

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, the same as for the year 2001/02. If approved, the final dividend will be paid on 7 August 2003 to members appearing on the register on 11 July 2003.

Preference dividend payments were made on 1 July 2002 and 1 January 2003.

## 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. All these directors were directors throughout the year except for Mr S R Mole who was appointed on 18 February 2003. Mr Mole will be standing for election at the forthcoming Annual General Meeting.

Mr M A Smith retires by rotation and, being eligible, offers himself for re-election. Mr Smith 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 share capital of Renold plc and in options held under share option schemes are given in the Remuneration Report on pages 18 to 22. 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 16 October 2004, 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 29 May 2003, the Company had been notified, pursuant to the Companies Act 1985, 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	14.51
	Henderson Global Investors Ltd	12.33
(ii)	"Material interests" equal to or more than 3%	
	Lowland Investment Company Plc	7.21
	Platinum Fund Managers	5.89
	Aegon UK plc Group of Companies	3.35
	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

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## 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.

## Employees

At 29 March 2003 the Renold Group employed 2,686 people, including 1,095 in the UK and 926 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 2003 amounted to £2.2 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 29 March 2003 trade creditors of the Group's businesses in the UK and overseas represented 66 days' purchases, compared with 66 last year.

## Donations

During the year there were no contributions to UK organisations for charitable purposes nor any contributions made to political parties.

## Auditors

Following its conversion to a limited liability partnership (LLP) from 1 January 2003, our auditors PricewaterhouseCoopers resigned on 6 February 2003 and, on the recommendation of the Audit Committee, the Board appointed PricewaterhouseCoopers LLP in its place. A resolution will be proposed at the Annual General Meeting to re-appoint PricewaterhouseCoopers LLP as auditors and to authorise the directors to fix their remuneration.

By order of the Board

**G R Newton**

Secretary

9 June 2003

# Corporate Governance

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## **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. During the year the "Higgs Report" on the role and effectiveness of non-executive directors and the "Smith Report" on audit committees were issued and the Board will consider these recommendations in due course.

## **Statement of Compliance**

The Company has complied throughout the year ended 29 March 2003 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 22.

## **Board**

The Board comprises a non-executive Chairman, two other independent non-executive directors and three executive directors. The roles of Chairman and Chief Executive are held by separate directors. Biographical details 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 to the Board any new appointments of either executive or non-executive directors.

## **Remuneration Committee**

The Remuneration Committee is a committee of the Board comprised of the non-executive directors and is chaired by Mr T B Fortune. The Chief Executive attends meetings at the request of the Committee. This Committee determines the terms and conditions of employment including remuneration and benefits of the executive directors including performance related bonus schemes and pension rights. The main Board determines the remuneration of the non-executive directors.

The Remuneration Report is set out on pages 18 to 22.

## **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 29 March 2003, as required by the UK Listing Authority and in accordance with the guidance issued by the Turnbull Committee.

## Corporate Governance

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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 largely 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.

In 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 and 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 contribution 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 including presentations after the Company's preliminary announcement of interim and annual results. These presentations are also available on the Company's website. Reports of any dialogue between shareholders and directors are given to all directors at the next Board meeting.

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](http://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

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In accordance with the Directors' Remuneration Report Regulations 2002, the Remuneration Report has been approved by the Board and signed on its behalf by the Chairman of the Remuneration Committee. This report is subject to the approval of shareholders at the forthcoming Annual General Meeting on 17 July 2003 although the vote is advisory only and no entitlement of a person to remuneration is made conditional on the resolution being passed.

## Remuneration Committee

The Remuneration Committee is comprised of the independent non-executive directors and is chaired by the Mr T B Fortune.

The members of the Remuneration Committee during the year were Mr T B Fortune, Mr R F Leverton and Mr M A Smith. The Chief Executive attends meetings at the request of the Chairman to assist the Committee in their deliberations but does not take part in the Committee's 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 appointed Monks Partnership to provide advice on matters relating to directors' remuneration. Over a number of years the total remuneration package of the directors has been reviewed annually with the help of salary survey information provided by the Monks Partnership (who from 2001 have been part of PricewaterhouseCoopers LLP). 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 for manufacturing companies of a similar size and international complexity and the aim for executive directors' pay is for basic salary to reflect the relevant market median and for benefits to reflect market practice. Above median levels of pay may be agreed for outstanding performance or to attract executives of the right calibre.

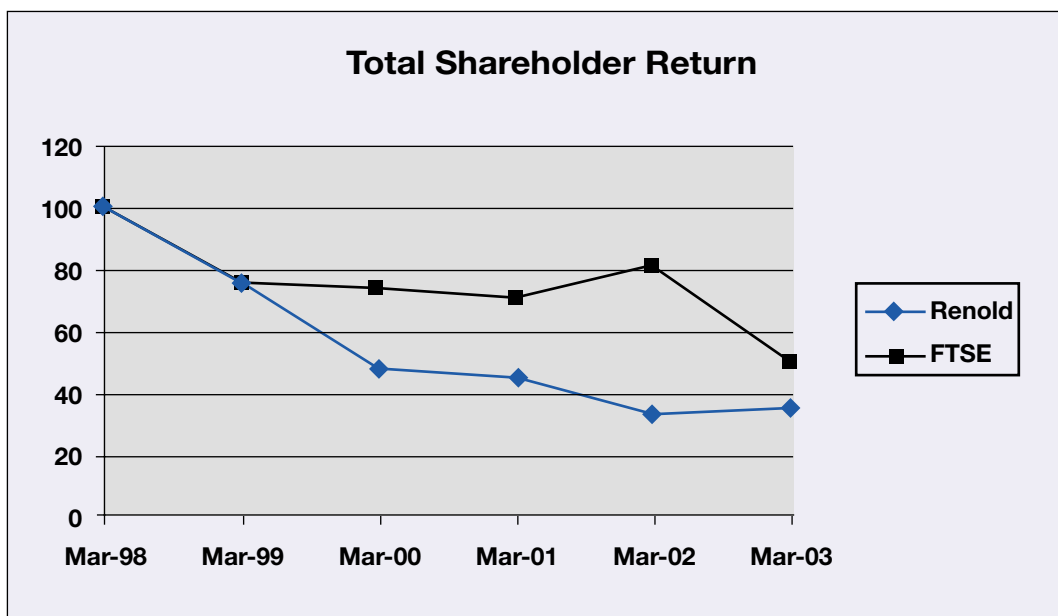
In addition, the Company operates a discretionary performance related annual bonus scheme for the executive directors based upon the achievement of the planned annual group profit before tax and exceptional items. In this way the incentive for the executive directors is directly linked to the Group's performance and shareholders' interests. 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. No award of shares has been made under this scheme to date but the same incentive opportunity applies for 2003/04.

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.

# Remuneration Report

## Performance graph

The graph illustrates the performance of a hypothetical holding of ordinary shares in the Company measured by total shareholder return (share price growth plus dividends) against a "broad equity market index" over the past five years. As the Company has been within the FTSE Engineering and Machinery sectoral index over this period, the directors consider that this is the most appropriate index against which the total shareholder return of the Company should be measured.



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

## \*Directors' emoluments

	Salaries & fees £000	Annual bonus £000	2003		Total £000	2002 Total £000
			Cash £000	Benefits Non-cash £000		
Executive directors						
I R Trotter	204		12	3	219	197
D A Brown	143		10	2	155	139
SR Mole (from 18.2.03)	11			1	12	
R B Kershaw (to 31.7.01)						48
D Cotterill (to 30.4.01)						14
	<u>358</u>	<u>      </u>	<u>22</u>	<u>6</u>	<u>386</u>	<u>398</u>
Non-executive directors						
R F Leverton - Chairman	71				71	70
T B Fortune	21				21	20
M A Smith	23				23	22
	<u>473</u>	<u>      </u>	<u>22</u>	<u>6</u>	<u>501</u>	<u>510</u>

## Directors' pensions

The executive directors participate in the Renold Supplementary Pension Scheme 1967, which is a contributory defined benefits plan. Members' contributions increased from 6 1/2% to 7 1/2% of pensionable pay with effect from April 2003. 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 until age 60 and actuarial adjustment where appropriate. A member's accrued pension is available from age 60 without any actuarial reduction. 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

continued

In addition, where Inland Revenue limits apply, an additional benefit is provided; this benefit has been amended during the year. Under the new arrangements the Company now accumulates 25% of the shortfall between projected final pensionable salary and the earnings cap (currently £99,000). This amount is payable from the Company's own resources on retirement and approximates to the cost to the Company of providing an uncapped pension under the applicable defined benefit scheme. Formerly the benefit was based on 25% of the shortfall between each year's pensionable salary and the earnings cap; this arrangement did not take into account past service liability.

Only basic salary is pensionable.

## \*Directors' pension entitlements

Details of pension benefits earned in respect of each director in office at 29 March 2003 under the defined benefits scheme, and the cost to the Company of amounts in respect of unfunded pension obligations provided for but not paid, are set out below:

	Years' service at year end	Increase in accrued pension in the year (a) (e) £000	Transfer value of the increase in accrued pension (e) £000	Accumulated total accrued pension at year end (b) £000	Transfer value at 29.3.03 (c) £000	Transfer value at 30.3.02 (c) £000	Increased transfer value in the year (d) £000	Amounts provided in the year but not paid in respect of unfunded obligations £000
I R Trotter	12	4	46	38	592	469	117	250
D A Brown	13	4	38	42	561	448	106	19
S R Mole	2	1	4	7	56	27	25	

- (a) the increase in accrued pension during the year, including inflation.
- (b) the accumulated total accrued pension at year end is the pension that would be paid annually on retirement based on service to the end of the year.
- (c) transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GNII. The transfer value represents a liability of the pension fund and not a sum due to the director and cannot therefore meaningfully be added to annual remuneration.
- (d) the increase in the transfer value of the accrued benefits during the year is after deducting the director's personal contributions to the scheme.
- (e) the figures for S R Mole are from the date of his appointment on 18 February 2003.

## 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. Options granted under this scheme are exercisable on completion of either a three-year or five-year savings contract. The options granted during the year under this scheme were made at a discount of 10%.

# Remuneration Report

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 29 March 2003, in the ordinary shares of the Company, as appearing in the Register of Directors' Interests maintained under the Companies Act 1985, were as follows:

	29 March 2003		30 March 2002	
	Shares	Options	Shares	Options
R F Leverton	8,000		8,000	
I R Trotter	112,170	477,676	112,170	418,902
D A Brown	65,502	173,637	65,502	123,902
T B Fortune	4,376		4,376	
S R Mole		48,220		48,220 (a)
M A Smith	20,000		20,000	

(a) as at date of appointment on 18 February 2003.

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 29 May 2003.

At 29 March 2003 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 29 May 2003.

*Share options	Number of share options			Option price (pence per share)	Date from which exercisable	Expiry date
	At 30.3.02	Granted	At 29.3.03			
I R Trotter						
Executive scheme		55,000	55,000 (a)	58.50	27.11.05	26.11.12
	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		3,774	3,774	55.08	1.2.06	31.7.06
	3,902		3,902	89.36	1.2.03	31.7.03
D A Brown						
Executive scheme		45,000	45,000 (a)	58.50	27.11.05	26.11.12
	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		4,735	4,735	55.08	1.2.06	31.7.06
	3,902		3,902	89.36	1.2.03	31.7.03
S R Mole						
Executive scheme	20,000 (b)		20,000 (a)	58.50	27.11.05	26.11.12
	15,000 (b)		15,000 (a)	67.34	28.11.04	27.11.11
	10,000 (b)		10,000 (a)	94.50	22.12.03	21.12.10
Savings related scheme	3,220 (b)		3,220	55.08	1.2.08	31.7.08

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

(b) as at date of appointment on 18 February 2003.

No options were exercised during the year.

The middle market price of ordinary shares at 29 March 2003 was 56.5 pence and the range of prices during the year was 43.5 pence to 81 pence. No options lapsed during the year.

# Remuneration Report

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continued

## Service contracts

Mr I R Trotter is employed on a rolling contract dated 12 March 1992 which requires two year's notice to be given by the Company and one year's notice to be given by Mr Trotter. The Committee believes it is appropriate to retain a two year notice period for Mr Trotter. However, the general policy is for executive directors to have notice periods no greater than one year in line with current corporate governance best practice.

Mr D A Brown is employed on a rolling contract dated 26 February 1990 which requires one year's notice to be given by the Company and six months' notice to be given by Mr Brown.

Mr S R Mole is employed on a rolling contract dated 5 July 2000 which requires one year's notice to be given by the Company and six months' notice to be given by Mr Mole.

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. None of the service contracts provide for compensation payable on early termination of the contract.

## External appointments

The Board recognises that invitations to executive directors to become non-executives of other companies can broaden their knowledge and benefit the Group. The policy is to allow executive directors, if so authorised by the Board, to accept one such appointment with fees normally paid to the Company unless otherwise approved by the Remuneration Committee.

Those sections marked \* have been audited.

On behalf of the Board

**T B Fortune**

Chairman of Remuneration Committee

9 June 2003

# Statement of Directors' Responsibilities

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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 24 to 47, 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](http://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

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## 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 related notes and the accounting policies set out in the statement of Accounting Policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' Remuneration Report ("the auditable part").

## 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. The directors are also responsible for preparing the directors' Remuneration Report.

Our responsibility is to audit the accounts and the auditable part of the directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the auditable parts of the directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors 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 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 Operational Review, the Report of the Directors, the Corporate Governance Statement, the unaudited part of the directors' 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 of the Financial Services Authority, 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 and the auditable part of the directors' Remuneration Report. 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 and the auditable part of the directors' Remuneration Report 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 29 March 2003 and of the profit and cash flows of the Group for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

101 Barbirolli Square  
Manchester M2 3PW  
9 June 2003

**PricewaterhouseCoopers LLP**  
Chartered Accountants  
and Registered Auditors

## Accounting Policies

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

**Basis of consolidation** – The Group accounts set out on pages 24 to 47, 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 FRS 15 '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

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.

## Accounting Policies

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**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 29 March 2003

	Note	2003 £m	2002 £m
<b>Turnover</b>	1	<b>187.4</b>	190.2
<b>Trading costs</b>	2		
– normal operating costs		<b>(178.2)</b>	(182.4)
– goodwill amortisation		<b>(1.4)</b>	(1.5)
– exceptional redundancy and restructuring costs		<b>(1.0)</b>	(3.9)
		<b>(180.6)</b>	(187.8)
<b>Trading profit</b>		<b>6.8</b>	2.4
Exceptional loss on termination of operation	2		(4.4)
Exceptional gain on disposal of property	2	<b>0.5</b>	
		<b>7.3</b>	(2.0)
Net interest payable	3	<b>(3.1)</b>	(3.6)
<b>Profit/(loss) on ordinary activities before tax</b>		<b>4.2</b>	(5.6)
Taxation	4	<b>(1.7)</b>	0.6
<b>Profit/(loss) for the financial year</b>		<b>2.5</b>	(5.0)
Dividends (including non-equity)	5	<b>(3.2)</b>	(3.2)
<b>Retained loss for the year</b>	17	<b>(0.7)</b>	(8.2)
<b>Adjusted earnings per share</b>	6	<b>5.2p</b>	3.8p
<b>Basic and diluted earnings per share</b>	6	<b>3.5p</b>	(7.2)p

All amounts relate to continuing operations.

The profit and loss account should be read in conjunction with the notes on pages 30 to 47.

# Balance Sheets

as at 29 March 2003

	Note	Group		Renold plc	
		2003 £m	2002 £m	2003 £m	2002 £m
<b>Fixed assets</b>					
Intangible asset – goodwill	8	22.6	26.2		
Tangible assets	9	50.0	54.6	0.2	0.3
Investments	10			112.9	108.6
		<u>72.6</u>	<u>80.8</u>	<u>113.1</u>	<u>108.9</u>
<b>Current assets</b>					
	11				
Stocks		46.1	46.9		
Debtors		46.7	38.3	8.6	5.1
Cash and short-term deposits		9.3	6.4	0.1	0.1
		<u>102.1</u>	<u>91.6</u>	<u>8.7</u>	<u>5.2</u>
<b>Creditors</b>					
– amounts falling due within one year					
Loans and overdrafts	12	(10.2)	(9.9)	(10.0)	(4.7)
Other creditors	13	(48.0)	(41.2)	(4.7)	(4.2)
		<u>43.9</u>	<u>40.5</u>	<u>(6.0)</u>	<u>(3.7)</u>
<b>Net current assets/(liabilities)</b>					
		<u>116.5</u>	<u>121.3</u>	<u>107.1</u>	<u>105.2</u>
<b>Creditors</b>					
– amounts falling due after more than one year					
Loans	12	(20.0)	(25.6)	(25.0)	(22.7)
Other creditors	13	(0.6)	(0.6)		
		<u>(13.8)</u>	<u>(12.6)</u>		
<b>Provisions for liabilities and charges</b>					
	14	<u>82.1</u>	<u>82.5</u>	<u>82.1</u>	<u>82.5</u>
<b>Net assets</b>					
<b>Capital and reserves</b>					
(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	8.8	8.9
Other reserves	17		0.9		
Profit and loss account	17	58.2	53.9	49.4	49.7
		<u>82.1</u>	<u>82.5</u>	<u>82.1</u>	<u>82.5</u>
<b>Shareholders' funds</b>					

Approved by the Board on 9 June 2003 and signed on its behalf by:

**Roger Leverton** }  
**Ian Trotter** } Directors

The balance sheets should be read in conjunction with the notes on pages 30 to 47.

# Group Cash Flow Statement

for the financial year ended 29 March 2003

	Note	2003		2002	
		£m	£m	£m	£m
<b>Net cash inflow from operating activities</b>	21		<b>17.9</b>		16.5
<b>Servicing of finance</b>	22		<b>(2.8)</b>		(2.9)
<b>Taxation</b>			<b>(1.3)</b>		(3.5)
<b>Capital expenditure and financial investment</b>					
– Purchase of tangible fixed assets		<b>(5.6)</b>		(6.0)	
– Proceeds from disposal of fixed assets		<b>0.6</b>		0.5	
			<b>(5.0)</b>		(5.5)
<b>Equity dividends paid</b>			<b>(3.2)</b>		(5.4)
Net cash inflow/(outflow) before use of liquid resources and financing			<b>5.6</b>		(0.8)
<b>Management of liquid resources</b>					
Transfers from short-term deposits			<b>3.0</b>		0.7
<b>Financing</b>	22				(1.8)
Decrease in debt and lease financing					(1.8)
<b>Increase/(decrease) in cash in the year</b>	23		<b>8.6</b>		(1.9)
<b>Reconciliation of net cash flow to movement in net debt</b>	23				
<b>Increase/(decrease) in cash in the year</b>		<b>8.6</b>		(1.9)	
Cash flow from decrease in debt and lease financing				1.8	
Cash flow from decrease in liquid resources		<b>(3.0)</b>		(0.7)	
Change in net debt resulting from cash flows			<b>5.6</b>		(0.8)
Exchange translation difference			<b>2.6</b>		
<b>Movement in net debt in the year</b>			<b>8.2</b>		(0.8)
<b>Net debt at beginning of year</b>			<b>(29.1)</b>		(28.3)
<b>Net debt at end of year</b>			<b>(20.9)</b>		(29.1)

The cash flow statement should be read in conjunction with the notes on pages 44 and 45.

## Other Group Statements

for the financial year ended 29 March 2003

### Statement of total recognised gains and losses

	<b>2003</b>	2002
	<b>£m</b>	£m
Profit/(loss) for the financial year	<b>2·5</b>	(5·0)
Exchange translation differences on net assets of overseas subsidiaries	<b>0·3</b>	(0·2)
<b>Total recognised gains/(losses) relating to the financial year</b>	<b>2·8</b>	(5·2)
Prior period adjustment		(0·2)
Total gains and losses recognised since last Annual Report	<b>2·8</b>	(5·4)

### Reconciliation of movements in shareholders' funds

	<b>2003</b>	2002
	<b>£m</b>	£m
Profit/(loss) for the financial year	<b>2·5</b>	(5·0)
Dividends	<b>(3·2)</b>	(3·2)
Retained loss for the year	<b>(0·7)</b>	(8·2)
Exchange translation differences on net assets of overseas subsidiaries	<b>0·3</b>	(0·2)
Goodwill resurrected on termination of operation		1·6
Net reduction in shareholders' funds	<b>(0·4)</b>	(6·8)
Opening shareholders' funds (including non-equity of £0·6m)	<b>82·5</b>	89·3
<b>Closing shareholders' funds (including non-equity of £0·6m)</b>	<b>82·1</b>	82·5

### 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:

	2003	2003	2003	2002	2002	2002
	Turnover	Trading profit	Trading assets	Turnover	Trading profit	Trading assets
	£m	£m	£m	£m	£m	£m
Power transmission	168.3	10.0	75.2	168.0	10.8	80.9
Machine tool and rotor	20.0	(0.8)	13.6	23.6	(3.0)	16.4
	<b>188.3</b>	<b>9.2</b>	<b>88.8</b>	191.6	7.8	97.3
Less:						
Inter activity sales	(0.9)			(1.4)		
Goodwill amortisation		(1.4)			(1.5)	
Exceptional redundancy and restructuring costs		(1.0)			(3.9)	
	<b>187.4</b>	<b>6.8</b>	<b>88.8</b>	190.2	2.4	97.3

The exceptional redundancy and restructuring cost of £1.0 million is attributed £0.3 million to the power transmission segment (2002 - £1.2 million) and £0.7 million to the machine tool and rotor segment (2002 - £2.7 million). Of the total goodwill charge of £1.4 million, £1.2 million (2002 - £1.3 million) relates to the power transmission businesses and £0.2 million (2002 - £0.2 million) to the machine tool and rotor businesses.

### (b) Activities classified by geographical region of operation:

	2003	2003	2003	2002	2002	2002
	Turnover	Trading profit	Trading assets	Turnover	Trading profit	Trading assets
	£m	£m	£m	£m	£m	£m
United Kingdom	69.2	1.6	38.1	74.2	(0.4)	43.7
Germany	30.4	3.0	12.5	29.0	2.4	11.5
France	43.0	0.2	10.9	35.0	1.7	10.3
Rest of Europe	16.3	0.9	4.2	16.2	1.1	4.2
North America	51.2	2.6	16.9	56.4	2.6	21.6
Other countries	17.4	0.9	6.2	16.5	0.4	6.0
	<b>227.5</b>	<b>9.2</b>	<b>88.8</b>	227.3	7.8	97.3
Less:						
Intra Group sales	(40.1)			(37.1)		
Goodwill amortisation		(1.4)			(1.5)	
Exceptional redundancy and restructuring costs		(1.0)			(3.9)	
	<b>187.4</b>	<b>6.8</b>	<b>88.8</b>	190.2	2.4	97.3

The exceptional cost of £1.0 million arises £0.9 million in the UK (2002 - £3.1 million) and £0.1 million in North America (2002 - £0.6 million in North America, £0.1 million in the Rest of Europe and £0.1 million in other countries). The goodwill amortisation is attributed to business acquisitions in North America.

Turnover by geographical region includes intra group sales as follows: United Kingdom £26.5 million (2002 - £26.4 million), Germany £10.8 million (2002 - £7.9 million) and France £1.9 million (2002 - £2.0 million).

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



## Notes on the Accounts

### 1. Analysis of activities (continued)

(c) Geographical analysis of external turnover by market area:	2003 £m	2002 £m
United Kingdom	27.2	29.1
Germany	25.4	25.3
France	9.4	10.2
Rest of Europe	33.2	31.4
North and South America	66.9	68.4
Other countries	25.3	25.8
	<b>187.4</b>	<b>190.2</b>

### 2. Trading costs and exceptional items

(a) Trading costs	2003 £m	2002 £m
Change in stocks of finished goods and work in progress	1.9	2.2
Own work capitalised	(1.0)	(0.3)
Other operating income	(3.0)	(3.0)
Raw materials and consumables	67.4	67.7
Other external charges	29.1	27.3
Staff costs		
Gross wages and salaries	60.2	65.1
Social security costs	8.1	7.8
Other pension costs (Note 15)	4.2	4.1
Redundancy and restructuring costs	1.0	3.9
	<b>73.5</b>	80.9
Depreciation		
Owned assets	8.9	8.9
Assets acquired under finance leases		0.1
	<b>8.9</b>	9.0
Amortisation of goodwill	1.4	1.5
Operating lease rentals		
Equipment	0.7	0.7
Other	1.3	1.4
	<b>2.0</b>	2.1
Remuneration of auditors for audit work	0.4	0.4
	<b>180.6</b>	<b>187.8</b>

The remuneration of the auditors for the parent company was £25,000 (2002 - £24,000). Remuneration of the auditors for non-audit work, principally in respect of taxation services, amounted to £81,000 (2002 - £106,000) of which £21,000 (2002 - £35,000) was incurred in the UK.

Expenditure on research and development charged against trading profit amounted to £2.2 million (2002 - £2.5 million).

# Notes on the Accounts

continued

## 2. Trading costs and exceptional items (continued)

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

	2003	2002
United Kingdom	1,114	1,392
Germany	374	378
France	464	453
Rest of Europe	87	89
North America	418	447
Other countries	253	254
	<u>2,710</u>	<u>3,013</u>

### (b) Exceptional non-trading items

The exceptional gain of £0.5 million represents the profit on the disposal of a property, within the United Kingdom, that was formerly part of the power transmission segment. Due to the availability of capital losses brought forward, no tax charge has arisen on this disposal. The exceptional non-trading item in 2002 related to the closure of the Manifold indexer operation which was part of the power transmission business.

## 3. Net interest payable

	2003 £m	2002 £m
Interest payable on loans and overdrafts	(3.3)	(3.8)
Less: interest receivable	0.2	0.2
	<u>(3.1)</u>	<u>(3.6)</u>

## 4. Taxation

### (a) Analysis of tax charge in the year

	2003 £m	2002 £m
<b>United Kingdom</b>		
UK corporation tax at 30% (2002 - 30%)	1.6	1.6
Less: double taxation relief	(1.6)	(1.6)
	<u>0.0</u>	<u>0.0</u>
<b>Overseas taxes</b>		
Corporation taxes	1.7	1.4
	<u>1.7</u>	<u>1.4</u>
Total current tax	1.7	1.4
	<u>1.7</u>	<u>1.4</u>
<b>Deferred tax</b>		
United Kingdom	0.3	(1.3)
Overseas	(0.3)	(0.7)
	<u>0.0</u>	<u>(2.0)</u>
Total deferred tax	0.0	(2.0)
	<u>0.0</u>	<u>(2.0)</u>
Tax charge/(credit) on profit/(loss) on ordinary activities	1.7	(0.6)
	<u>1.7</u>	<u>(0.6)</u>

## Notes on the Accounts

### 4. Taxation (continued)

(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:

	<b>2003</b>	2002
	<b>£m</b>	£m
Profit/(loss) on ordinary activities before tax	<b>4.2</b>	(5.6)
Tax on ordinary activities at 30% (2002 - 30%)	<b>1.3</b>	(1.7)
Permanent differences	<b>0.2</b>	0.3
Overseas tax rate differences	<b>0.1</b>	0.1
Unrelieved tax losses	<b>0.4</b>	1.3
Utilisation of brought forward tax losses	<b>(0.4)</b>	
Capital losses covering sale of property	<b>(0.1)</b>	
Depreciation and other timing differences	<b>0.2</b>	2.1
Prior year adjustments		(0.7)
Current tax charge for the year	<b>1.7</b>	1.4

### 5. Dividends

	<b>2003</b>	2002
	<b>£m</b>	£m
Ordinary shares		
Interim dividend paid of 1.5p (2002 - 1.5p)	<b>1.1</b>	1.1
Final dividend proposed 3.0p (2002 - 3.0p)	<b>2.1</b>	2.1
	<b>3.2</b>	3.2

Dividends on the 6% Cumulative Preference Stock amounted to £35,000 (2002 - £35,000).

### 6. Earnings per share

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

	<b>2003</b>	2002
	<b>£m</b>	£m
Basic and diluted earnings (after preference dividends)	<b>2.4</b>	(5.0)
Adjustment for goodwill amortisation and exceptional items after tax relief	<b>1.2</b>	7.6
Adjusted earnings	<b>3.6</b>	2.6

In both 2002 and 2003 the basic and diluted earnings, and basic and diluted earnings per share, were the same value. At 29 March 2003 the weighted average number of shares in issue was 69,313,000 (2002 - 69,313,000). In 2003 the dilutive potential of employee share options was 41,000, giving a diluted weighted average number of shares in issue of 69,354,000 (2002 - employee share options were not dilutive).

# Notes on the Accounts

continued

## 7. Directors' emoluments

	<b>2003</b>	2002
	<b>£000</b>	£000
Aggregate emoluments	<b>501</b>	510
Amounts provided but not paid in respect of unfunded pension obligations	<b>269</b>	33

During the year, retirement benefits accrued to three directors (2002 - four) under a defined benefits scheme and to three directors (2002 - three) under unfunded obligations in respect of salary in excess of the earnings cap.

### Highest paid director

Aggregate emoluments	<b>219</b>	197
Amounts provided but not paid in respect of unfunded pension obligations	<b>250</b>	25
Accrued pension at end of year under defined benefits pension scheme	<b>38</b>	34

Further details are given under the headings 'Directors' Emoluments' and 'Directors' Pensions' in the Remuneration Report on pages 18 to 22.

## 8. Intangible asset – goodwill

	Group <b>£m</b>
<b>Cost</b>	
At beginning of year	29.4
Exchange adjustment	(2.6)
<b>At end of year</b>	<b>26.8</b>
<b>Amortisation</b>	
At beginning of year	(3.2)
Exchange adjustment	0.4
Charge for the year	(1.4)
<b>At end of year</b>	<b>(4.2)</b>
<b>Net book value at end of year</b>	<b>22.6</b>
Net book value at beginning of year	26.2

## Notes on the Accounts

### 9. Tangible assets

	Group			Renold plc		
	Properties £m	Equipment £m	Total £m	Properties £m	Equipment £m	Total £m
<b>Cost</b>						
At beginning of year	21.9	120.7	142.6	0.1	0.8	0.9
Exchange adjustment	0.5	3.6	4.1			
Additions at cost	0.1	5.6	5.7			
Disposals	(0.2)	(4.2)	(4.4)			
Reclassification	(0.2)	0.2				
Transfer to current assets	(2.3)		(2.3)			
<b>At end of year</b>	<b>19.8</b>	<b>125.9</b>	<b>145.7</b>	<b>0.1</b>	<b>0.8</b>	<b>0.9</b>
<b>Depreciation</b>						
At beginning of year	8.3	79.7	88.0		0.6	0.6
Exchange adjustment	0.3	2.5	2.8			
Depreciation for the year	0.4	8.5	8.9		0.1	0.1
Disposals	(0.1)	(3.9)	(4.0)			
<b>At end of year</b>	<b>8.9</b>	<b>86.8</b>	<b>95.7</b>		<b>0.7</b>	<b>0.7</b>
<b>Net book value at end of year</b>	<b>10.9</b>	<b>39.1</b>	<b>50.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>
Net book value at beginning of year	13.6	41.0	54.6	0.1	0.2	0.3

Net book value at the end of the year includes £3.2 million (2002 - £3.6 million) in respect of leased assets (land and buildings £2.8 million (2002 - £3.1 million), equipment £0.4 million (2002 - £0.5 million)).

The total cost of properties at 29 March 2003 comprises £14.1 million (2002 - £16.2 million) for freehold land and buildings and £5.7 million (2002 - £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 £4.1 million (2002 - £3.8 million) revalued in 1971 and equipment of £4.6 million (2002 - £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 29 March 2003 capital expenditure contracted for but not provided for in these accounts amounted to £1.3 million (2002 - £0.9 million).

### 10. Investments

	Shares £m	Advances £m	Total £m
<b>Renold plc</b>			
<b>Subsidiary companies</b>			
Cost or valuation			
At beginning of year	48.4	60.2	108.6
Net advances		4.5	4.5
Deficit on revaluation	(0.2)		(0.2)
<b>At end of year</b>	<b>48.2</b>	<b>64.7</b>	<b>112.9</b>

The principal subsidiary companies of Renold plc at 29 March 2003 are set out on page 52.

# Notes on the Accounts

continued

## 11. Current assets

	Group		Renold plc	
	2003 £m	2002 £m	2003 £m	2002 £m
<b>Stocks</b>				
Raw materials and consumables	9.8	9.3		
Work in progress	11.7	11.4		
Finished products	24.6	26.2		
	<b>46.1</b>	46.9		
<b>Debtors</b>				
Trade debtors	32.5	29.5		
Amounts owed by Group subsidiaries			5.3	3.7
Deferred tax asset	3.5	3.5	0.1	0.5
Contract debtors	0.1			
Other debtors	3.9	3.6	0.1	0.1
Property held for sale	2.3			
Prepayments and accrued income	4.4	1.7	3.1	0.8
	<b>46.7</b>	38.3	<b>8.6</b>	5.1
<b>Cash and short-term deposits</b>				
Cash at bank	8.9	3.4	0.1	0.1
Short-term deposits	0.4	3.0		
	<b>9.3</b>	6.4	<b>0.1</b>	0.1
	<b>102.1</b>	91.6	<b>8.7</b>	5.2

The Group figures for other debtors and prepayments and accrued income include £5.5 million (2002 - £1.2 million) of amounts falling due after more than one year:

## 12. Loans and overdrafts

	Group		Renold plc	
	2003 £m	2002 £m	2003 £m	2002 £m
Total borrowings	30.2	35.5	35.0	27.4
Less: repayable within one year or on demand	10.2	9.9	10.0	4.7
Amounts falling due after more than one year	<b>20.0</b>	25.6	<b>25.0</b>	22.7
Repayable:				
In more than one year but not more than two years	6.7	6.9	6.1	6.3
In more than two years but not more than five years	13.1	18.2	18.9	16.4
In more than five years	0.2	0.5		
	<b>20.0</b>	25.6	<b>25.0</b>	22.7
Loans comprise:				
UK term loans repayable by 2007	25.2	27.7	32.8	27.4
Bank loans - overseas	3.2	2.9		
	<b>28.4</b>	30.6	<b>32.8</b>	27.4
Less: repayable within one year	8.4	5.0	7.8	4.7
	<b>20.0</b>	25.6	<b>25.0</b>	22.7

Included in Group borrowings are secured borrowings of £26.3 million (2002 - £31.3 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	
	2003 £m	2002 £m	2003 £m	2002 £m
<b>Amounts falling due within one year</b>				
Trade creditors	23.3	20.4	0.4	0.3
Dividends payable	2.1	2.1	2.1	2.1
Corporate taxes	1.2	0.7		
Other taxation and social security	4.1	3.7	0.3	0.3
Advance payments from customers	0.6	1.0		
Other creditors	7.6	6.2	0.4	0.3
Accruals	9.1	7.1	1.5	1.2
	<b>48.0</b>	<b>41.2</b>	<b>4.7</b>	<b>4.2</b>
<b>Amounts falling due after more than one year</b>				
Other creditors	0.6	0.6		

### 14. Provisions for liabilities and charges

	Deferred tax provision	Pension provision	Business termination provision	Total
	£m	£m	£m	£m
At beginning of year	1.6	10.1	0.9	12.6
Exchange adjustments	0.2	1.3		1.5
Charge to profit and loss account		1.2		1.2
Utilised in year		(0.6)	(0.9)	(1.5)
<b>At end of year</b>	<b>1.8</b>	<b>12.0</b>	<b>1.8</b>	<b>13.8</b>

#### (a) Deferred tax

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

	Deferred tax asset	Deferred tax provision	Net deferred tax asset
	£m	£m	£m
At beginning of year		(3.5)	(1.9)
Exchange adjustment		0.2	0.2
Deferred tax recognised in the profit and loss account			
<b>At end of year</b>		<b>(3.5)</b>	<b>(1.7)</b>

The deferred tax recognised in the profit and loss account is analysed as follows:

UK	0.3
Overseas	(0.3)
	<b>0.0</b>

# Notes on the Accounts

continued

## 14. Provisions for liabilities and charges (continued)

	2003	2002
	£m	£m
The analysis of Group deferred tax recognised comprises:		
Accelerated capital allowances	0.2	1.0
Other timing differences	(0.7)	(2.2)
Tax losses carried forward	(1.2)	(0.7)
	<u>(1.7)</u>	<u>(1.9)</u>

During the year the Group has reported a trading profit of £9.2 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 £0.5 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 determined in accordance with SSAP 24 (note 15).

### (c) Business termination

The business termination provision related to the closure of the Manifold indexer business.

## 15. Pensions

### (a) Pension disclosures in respect of SSAP 24

The Group operates a number of pension schemes throughout the world. In the UK, there are three defined benefit schemes and one defined contribution scheme. The assets of the defined benefit schemes are 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:

	2003	2002
	£m	£m
UK	1.6	1.6
Overseas	2.6	2.5
	<u>4.2</u>	<u>4.1</u>

The UK cost for 2003 reflects the regular contribution rate less £0.4 million (2002 - £0.6 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 29 March 2003 the majority of UK employees were eligible to join the Renold Group Money Purchase Pension Scheme. 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. The pension costs relating to the defined benefit 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.



## Notes on the Accounts

### 15. Pensions (continued)

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 rates 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.

In respect of the Jones & Shipman plc Retirement Benefits Plan (1971), the actuarial value of the assets of this scheme was £36.0 million at the time of the last actuarial valuation in April 2000. This represented 105% of the liabilities in respect of benefits accrued to members.

Overseas pension costs include £1.5 million (2002 - £1.1 million) in respect of Germany and Australia where the charge is determined in accordance with SSAP 24. For other overseas countries, no adjustment has been made to the local pension costs, since any differences from a charge calculated in accordance with SSAP 24 are not considered to be material.

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

	<b>2003</b>	2002
	<b>£m</b>	£m
Overseas schemes	<b>12.0</b>	10.1

The movement in provision is set out in note 14. At 29 March 2003 the balance on UK schemes is an asset of £2.9 million (2002 - £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 would have on the Group's accounts at 29 March 2003. 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 29 March 2003 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 29 March 2003 are presented below.

The assumptions adopted by the schemes' actuaries represent the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

	<b>2003</b>		2002	
	<b>UK</b>	<b>Overseas</b>	UK	Overseas
Rate of increase in salaries	<b>3.7%</b>	<b>3.4%</b>	3.9%	3.2%
Rate of increase in pensions in payment and deferred pensions	<b>2.6%</b>	<b>2.5%</b>	2.8%	2.3%
Discount rate	<b>5.4%</b>	<b>6.2%</b>	6.0%	6.6%
Inflation assumption	<b>2.6%</b>	<b>2.6%</b>	2.8%	2.3%

The expected long-term rates of return and market values of assets of the principal defined benefit schemes of the Group, together with the present value of scheme liabilities, are shown below. It should be noted that the market values of the schemes' assets are stated as at the Group's year end. It is not intended to realise the assets in the short-term and the value may therefore be subject to significant change before being realised. The present values of the schemes' liabilities are derived from cash flow projections over long periods and are thus inherently uncertain.

# Notes on the Accounts

continued

## 15. Pensions (continued)

	2003				2002			
	UK		Overseas		UK		Overseas	
	Expected long term rate of return %	Market value £m	Expected long term rate of return %	Market value £m	Expected long term rate of return %	Market value £m	Expected long term rate of return %	Market value £m
Equities	8.0	47.5	8.6	5.3	8.0	61.3	9.6	8.7
Bonds	4.9	72.3	6.4	2.8	5.6	70.5	7.3	4.7
Other			7.2	0.8			9.5	1.1
Total market value of assets		<b>119.8</b>		<b>8.9</b>		131.8		14.5
Present value of scheme liabilities		<b>(150.9)</b>		<b>(28.6)</b>		(138.9)		(29.6)
Deficit in the schemes		<b>(31.1)</b>		<b>(19.7)</b>		(7.1)		(15.1)
Related deferred tax asset		<b>9.3</b>		<b>2.7</b>		2.1		1.8
Net pension liability		<b>(21.8)</b>		<b>(17.0)</b>		(5.0)		(13.3)

The gross deficit disclosed above (FRS 17 basis) in respect of overseas schemes includes £16.9 million (2002 - £13.6 million) relating to unfunded arrangements in Germany and France; a pension liability of £11.7 million (2002 - £10.0 million) has been recognised in the balance sheet at 29 March 2003, under SSAP 24, in respect of these unfunded arrangements.

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

	2003 £m	2002 £m
<b>Net assets</b>		
Net assets as stated in the balance sheet	<b>82.1</b>	82.5
Net pension liability recognised under SSAP 24	<b>12.0</b>	10.1
Net pension scheme asset recognised under SSAP 24	<b>(2.9)</b>	(0.4)
Net assets excluding defined benefit pension scheme assets/liabilities	<b>91.2</b>	92.2
FRS 17 net liability on UK schemes	<b>(21.8)</b>	(5.0)
FRS 17 net liability on Overseas schemes	<b>(17.0)</b>	(13.3)
Net assets including net defined benefit pension scheme liabilities assessed under FRS 17	<b>52.4</b>	73.9
<b>Reserves</b>		
Profit and loss reserves as stated in the balance sheet	<b>58.2</b>	53.9
Pension liability recognised under SSAP 24	<b>12.0</b>	10.1
Pension asset recognised under SSAP 24	<b>(2.9)</b>	(0.4)
Profit and loss reserve excluding amounts relating to defined benefit assets/liabilities	<b>67.3</b>	63.6
FRS 17 net pension liabilities on UK schemes	<b>(21.8)</b>	(5.0)
FRS 17 net pension liabilities on Overseas schemes	<b>(17.0)</b>	(13.3)
Profit and loss reserve including amounts relating to net defined benefit liabilities assessed under FRS 17	<b>28.5</b>	45.3

## Notes on the Accounts

### 15. Pensions (continued)

If the defined pension schemes had been accounted for under FRS 17, the following amounts would have been recorded in the profit and loss account and statement of recognised gains and losses for the year ended 29 March 2003.

	UK £m	Overseas £m	Total £m
<b>Amounts charged to operating profit</b>			
Current service cost	<b>(1.8)</b>	<b>(0.7)</b>	<b>(2.5)</b>
<b>Amounts credited/(charged) to net interest</b>			
Expected return on pension scheme assets	8.7	0.8	9.5
Interest on pension scheme liabilities	(8.2)	(1.6)	(9.8)
	<b>0.5</b>	<b>(0.8)</b>	<b>(0.3)</b>
<b>Amounts recorded in statement of total recognised gains and losses</b>			
Actual return less expected return on pension scheme assets	(18.2)	(1.9)	(20.1)
Experience gains/(losses) arising on scheme liabilities	1.6	0.1	1.7
Changes in assumptions underlying the present value of the scheme liabilities	(10.3)	(1.8)	(12.1)
	<b>(26.9)</b>	<b>(3.6)</b>	<b>(30.5)</b>

The movement in the deficits in the schemes over the year to 29 March 2003 is analysed below:

	UK £m	Overseas £m	Total £m
Deficit in schemes at beginning of year	(7.1)	(15.1)	(22.2)
Current service cost	(1.8)	(0.7)	(2.5)
Employer contributions	4.2	1.2	5.4
Other finance income/(expense)	0.5	(0.8)	(0.3)
Actuarial loss recognised in statement of total recognised gains and losses	(26.9)	(3.6)	(30.5)
Exchange adjustment		(0.7)	(0.7)
<b>Deficit in schemes at end of year</b>	<b>(31.1)</b>	<b>(19.7)</b>	<b>(50.8)</b>

The amounts that would have been charged to the Group statement of total recognised gains and losses under FRS 17 for the year ended 29 March 2003 are set out below:

	UK	Overseas	Total
<b>Difference between the expected and actual return on scheme assets:</b>			
– Amount (£m)	(18.2)	(1.9)	(20.1)
– Percentage of scheme assets	15.2%	21.8%	15.6%
<b>Experience gains/(losses) of scheme liabilities:</b>			
– Amount (£m)	1.6	0.1	1.7
– Percentage of the present value of the scheme liabilities	1.1%	0.4%	0.1%
<b>Total amount recognised in the statement of total recognised gains and losses:</b>			
– Amount (£m)	(26.9)	(3.6)	(30.5)
– Percentage of scheme liabilities	17.8%	12.6%	17.0%

## Notes on the Accounts

continued

### 16. Called up share capital

	Authorised		Issued	
	2003 £m	2002 £m	2003 £m	2002 £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
	<u>23.7</u>	<u>23.7</u>	<u>17.9</u>	<u>17.9</u>

At 29 March 2003 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

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total reserves £m
<b>Group</b>					
At beginning of year	6.0	3.8	0.9	53.9	64.6
Exchange translation differences on net assets of overseas subsidiaries				0.3	0.3
Loss for the year				(0.7)	(0.7)
Reclassification of reserves		(3.8)	(0.9)	4.7	
<b>At end of year</b>	<u><b>6.0</b></u>	<u></u>	<u></u>	<u><b>58.2</b></u>	<u><b>64.2</b></u>
<b>Renold plc</b>					
At beginning of year	6.0	8.9		49.7	64.6
Exchange adjustments				(0.8)	(0.8)
Profit for the year				0.6	0.6
Deficit on revaluation of shares in subsidiaries		(0.2)			(0.2)
<b>At end of year</b>	<u><b>6.0</b></u>	<u><b>8.7</b></u>	<u></u>	<u><b>49.5</b></u>	<u><b>64.2</b></u>

The consolidated profit for the financial year includes a profit of £3.8 million (2002 - £2.8 million) which is dealt with in the accounts of the parent company.

Cumulative goodwill written off to Group reserves at 29 March 2003, subsequent to the capital reorganisation in January 1985, amounted to £2.0 million (2002 - £2.0 million).

## Notes on the Accounts

### 18. Operating lease obligations

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

	2003		2002	
	Properties £m	Equipment £m	Properties £m	Equipment £m
<b>Leases expiring:</b>				
Within one year	<b>0.2</b>	<b>0.1</b>		
Between two and five years		<b>0.3</b>	0.1	0.2
Over five years	<b>0.8</b>		0.8	
<b>Total annual commitments</b>	<b>1.0</b>	<b>0.4</b>	<b>0.9</b>	<b>0.2</b>

### 19. Contingent liabilities

Contingent liabilities at 29 March 2003 in respect of guarantees amounted to £1.6 million (2002 - £1.7 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. Although an award was made in April 2003 against Jeffrey Chain (for an amount lower than the indemnity given to the Group by the previous owners), Jeffrey Chain has lodged an appeal. The directors believe that the outcome of this case will not have a material adverse effect on the Group's financial position or results of its operations.

### 20. Share options

Share options have been granted under the Executive Share Option Schemes and the Savings Related Share Option Schemes. At 29 March 2003 unexercised options for ordinary shares amounted to 3,562,706 (2002 - 2,918,533) made up as follows:

Date normally exercisable	Option price (pence per share)	Number of shares 2003	Number of shares 2002
<b>Executive Share Option Schemes</b>			
Within seven years from:			
24 November 1995	52.50		30,000
30 November 1996	120.30	<b>189,900</b>	189,900
1 December 1997	184.30	<b>50,000</b>	50,000
16 July 1999 (1995 Scheme)	293.83	<b>73,115</b>	73,115
18 July 2000 (1995 Scheme)	242.67	<b>20,647</b>	20,647
17 July 2001 (1995 Scheme)	237.33	<b>245,000</b>	270,000
16 July 2002 (1995 Scheme)	137.83	<b>290,000</b>	355,000
19 July 2003 (1995 Scheme)	118.50	<b>185,000</b>	185,000
22 December 2003 (1995 Scheme)	94.50	<b>20,000</b>	20,000
18 June 2004 (1995 Scheme)	102.00	<b>125,000</b>	125,000
28 November 2004 (1995 Scheme)	67.34	<b>489,000</b>	499,000
27 November 2005 (1995 Scheme)	58.50	<b>414,000</b>	
Within four years from:			
16 July 1999 (1995 Scheme)	293.83	<b>241,885</b>	266,885
18 July 2000 (1995 Scheme)	242.67	<b>199,353</b>	219,353
		<b>2,542,900</b>	<b>2,303,900</b>

# Notes on the Accounts

continued

## 20. Share options (continued)

Date normally exercisable	Option price (pence per share)	Number of shares 2003	Number of shares 2002
<b>Savings Related Share Option Schemes</b>			
Within six months from:			
I February 2002 (1995 Scheme)	200.80		101,833
I February 2003 (1995 Scheme)	89.36	<b>255,721</b>	305,965
I February 2005 (1995 Scheme)	89.36	<b>150,343</b>	206,835
I February 2006 (1995 Scheme)	55.08	<b>398,952</b>	
I February 2008 (1995 Scheme)	55.08	<b>214,790</b>	
		<b>1,019,806</b>	<b>614,633</b>

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

	2003 £m	2002 £m
Trading profit	<b>6.8</b>	2.4
Depreciation charges (net of profit/loss on disposals)	<b>8.7</b>	9.4
Goodwill amortisation	<b>1.4</b>	1.5
Decrease in stocks	<b>1.3</b>	4.0
(Increase)/decrease in debtors	<b>(5.0)</b>	6.8
Increase/(decrease) in creditors	<b>5.0</b>	(5.9)
Decrease in provisions	<b>(0.3)</b>	(1.7)
<b>Net cash inflow from operating activities</b>	<b>17.9</b>	<b>16.5</b>

Net cash flow from operating activities includes an outflow of £1.9 million (2002 - £3.0 million) which relates to exceptional redundancy and restructuring costs; an amount of £0.5 million (2002 - £1.4 million) was retained in creditors. With respect to the exceptional gain on the disposal of property, gross sale proceeds of £0.6 million are included in the cash flow statement.

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

	2003 £m	2002 £m
<b>Servicing of finance</b>		
Interest received	<b>0.2</b>	0.1
Interest paid	<b>(3.0)</b>	(3.0)
<b>Net cash outflow for servicing of finance</b>	<b>(2.8)</b>	<b>(2.9)</b>
<b>Financing</b>		
Debt due within a year: (decrease)/increase in short-term borrowings	<b>(2.4)</b>	(4.1)
Debt due beyond a year: increase/(decrease) in loans	<b>2.4</b>	2.4
Capital element of finance lease rental payments		(0.1)
<b>Net cash outflow from financing</b>		<b>(1.8)</b>

## Notes on the Accounts

### 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	3.4	5.2		0.3	<b>8.9</b>
Overdrafts	(4.9)	3.4		(0.3)	<b>(1.8)</b>
	<u>(1.5)</u>	<u>8.6</u>			<u><b>7.1</b></u>
Debt due after one year	(25.6)	(2.4)	6.2	1.8	<b>(20.0)</b>
Debt due within one year	(5.0)	2.4	(6.2)	0.4	<b>(8.4)</b>
	<u>(30.6)</u>			<u>2.2</u>	<u><b>(28.4)</b></u>
Short-term deposits	3.0	(3.0)		0.4	<b>0.4</b>
Total	<u>(29.1)</u>	<u>5.6</u>		<u>2.6</u>	<u><b>(20.9)</b></u>

### 24. Financial instruments

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

- (a) **The Group does not trade in financial instruments.**
- (b) **Short-term debtors and creditors**  
Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.
- (c) **Currency and interest rate profile of financial liabilities of the Group**

Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Fixed rate £m	Floating rate £m	Total £m
<b>2003</b>					
Sterling					
– Financial liabilities	<b>9.5</b>	<b>3.5</b>	<b>1.8</b>	<b>2.8</b>	<b>4.6</b>
– Preference shares	<b>6.0</b>	*	<b>0.6</b>		<b>0.6</b>
US Dollar	<b>8.3</b>	<b>1.9</b>	<b>20.6</b>	<b>0.3</b>	<b>20.9</b>
Euro	<b>4.7</b>	<b>2.4</b>	<b>1.7</b>	<b>1.4</b>	<b>3.1</b>
Other	<b>8.1</b>	<b>2.2</b>	<b>1.0</b>	<b>0.6</b>	<b>1.6</b>
			<u><b>25.7</b></u>	<u><b>5.1</b></u>	<u><b>30.8</b></u>
<b>2002</b>					
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
			<u>33.7</u>	<u>2.4</u>	<u>36.1</u>

\* 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.

## Notes on the Accounts

continued

### 24. Financial instruments (continued)

#### (d) Currency and interest rate profile of financial assets at 29 March 2003

Currency	2003			2002		
	Cash at bank and in hand £m	Short-term deposits £m	Total £m	Cash at bank and in hand £m	Short-term deposits £m	Total £m
Sterling	0.2		0.2	0.1		0.1
Euro	7.2	0.3	7.5	2.3	3.0	5.3
Other	1.5	0.1	1.6	1.0		1.0
	<u>8.9</u>	<u>0.4</u>	<u>9.3</u>	<u>3.4</u>	<u>3.0</u>	<u>6.4</u>

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

#### (e) Maturity of financial liabilities

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

	2003 Total debt £m	2002 Total debt £m
In one year or less, or on demand	10.2	9.9
In more than one year but not more than two years	6.7	6.9
In more than two years but not more than five years	13.1	18.2
In more than five years	0.8	1.1
	<u>30.8</u>	<u>36.1</u>

Debt due in more than five years includes £0.6 million (2002 - £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:

	2003 £m	2002 £m
Expiring within one year or less, or on demand	24.5	23.9
Expiring in more than one year but not more than two years	0.3	0.3
Expiring in more than two years	8.3	10.9
	<u>33.1</u>	<u>35.1</u>

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 3 April 2004.



## Notes on the Accounts

### 24. Financial instruments (continued)

#### (g) Fair values of financial assets and financial liabilities

	2003		2002	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings (up to one year)	<b>(10.2)</b>	<b>(10.2)</b>	(9.9)	(9.9)
Long-term borrowings	<b>(20.0)</b>	<b>(20.0)</b>	(25.6)	(25.6)
Preference shares	<b>(0.6)</b>	<b>(0.6)</b>	(0.6)	(0.4)
Short-term deposits	<b>0.4</b>	<b>0.4</b>	3.0	3.0
Cash at bank and in hand	<b>8.9</b>	<b>8.9</b>	3.4	3.4
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps		<b>(2.0)</b>		(1.9)

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

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

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

#### (h) Currency exposures

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

	Sterling £m	US dollars £m	Euro £m	Other £m	Total £m
<b>2003</b>					
Functional currency of companies					
Sterling		<b>(0.4)</b>	<b>1.7</b>	<b>0.5</b>	<b>1.8</b>
US dollars	<b>(0.1)</b>				<b>(0.1)</b>
Euro	<b>(0.2)</b>	<b>0.6</b>			<b>0.4</b>
Other currencies	<b>(0.5)</b>	<b>(0.1)</b>		<b>0.2</b>	<b>(0.4)</b>
	<b>(0.8)</b>	<b>0.1</b>	<b>1.7</b>	<b>0.7</b>	<b>1.7</b>
<b>2002</b>					
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

#### (i) Gains and losses on instruments used for hedging

There were no significant unrecognised or deferred gains and losses on hedges at 29 March 2003 or at 30 March 2002.

## Group Five Year Financial Review

### Profit and loss account

£m	2003	2002	2001	2000	1999
Turnover	<b>187.4</b>	190.2	216.7	174.2	171.6
Trading profit before goodwill amortisation and exceptional items	<b>9.2</b>	7.8	16.1	11.0	14.0
Profit/(loss) on ordinary activities before tax	<b>4.2</b>	(5.6)	11.1	9.6	12.4
Profit/(loss) after tax for ordinary shareholders	<b>2.5</b>	(5.0)	7.4	6.1	7.7

### Balance sheet

£m	2003	2002	2001	2000	1999
Tangible fixed assets	<b>50.0</b>	54.6	59.2	58.7	53.6
Stocks	<b>46.1</b>	46.9	52.0	50.1	46.6
Debtors	<b>38.0</b>	34.8	41.7	40.7	31.7
Creditors	<b>(45.3)</b>	(39.0)	(45.0)	(44.4)	(42.2)
Trading assets	<b>88.8</b>	97.3	107.9	105.1	89.7
Goodwill	<b>22.6</b>	26.2	27.7	26.3	2.9
Properties held for sale	<b>2.3</b>			5.0	5.0
Net (borrowings)/cash – including finance leases	<b>(20.9)</b>	(29.1)	(28.3)	(33.5)	10.8
Dividends and tax	<b>0.2</b>	0.7	(5.3)	(5.7)	(7.1)
Provisions for liabilities and charges (net of pension prepayments)	<b>(10.9)</b>	(12.6)	(12.7)	(10.8)	(12.6)
Net assets	<b>82.1</b>	82.5	89.3	86.4	88.7

### Key data

		2003	2002	2001	2000	1999
Trading return on average trading assets <sup>1</sup>	%	<b>9.9</b>	7.6	15.1	12.1	17.1
Trading profit on turnover <sup>1</sup>	%	<b>4.9</b>	4.1	7.4	6.3	8.2
Capital expenditure	£m	<b>5.7</b>	5.4	9.5	10.3	11.3
Basic earnings per share	p	<b>3.5</b>	(7.2)	10.7	8.6	11.1
Dividends per ordinary share	p	<b>4.5</b>	4.5	9.25	9.25	9.25
Employees at year end		<b>2,686</b>	2,780	3,238	3,187	2,881

<sup>1</sup> Based on trading profit before goodwill amortisation and exceptional items.

Figures presented for 2001 onwards are stated in accordance with FRS 19 "Deferred Tax". Years prior to 2001 have not been adjusted.

## Notice of Meeting

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**Notice is hereby given** that the seventy-third Annual General Meeting of Renold plc will be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday 17 July 2003 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 for the year ended 29 March 2003.
2. To declare a final dividend on the issued ordinary shares.
3. To elect Mr SR Mole as a director.
4. To re-elect Mr MA Smith as a director.
5. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company (Having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers), 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.
6. To approve the Directors' Remuneration Report contained in the Report and Accounts.

### **As Special Business**

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

7. THAT the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £5,776,047 provided that this authority shall expire on 16 October 2004 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.
8. THAT subject to the passing of the Ordinary Resolution numbered 7 above, the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of that Act) pursuant to the authority conferred by the said Ordinary Resolution as if sub-section (1) of Section 89 of that Act did not apply to any such allotment provided that this power shall be limited to:
  - (a) the allotment of equity securities in connection with or pursuant to an offer by way of rights to ordinary shareholders and other persons entitled to participate therein, in proportion as nearly as may be to their holdings of such shares (or, as appropriate, to the number of ordinary shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body in any territory;
  - (b) the allotment of equity securities under the Renold (1995) Executive Share Option Scheme and the Renold (1995) Savings Related Share Option Scheme; and

## Notice of Meeting

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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 16 October 2004 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

17 June 2003

*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 15 July 2003 ("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 7 August 2003 to members appearing on the register on 11 July 2003.

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

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### 2003

Annual General Meeting	17 July
Final ordinary dividend for 2002/03 - payment date	7 August
Half year end 2003/04	27 September
Half year 2003/04 results published	mid November

### 2004

Interim ordinary dividend for 2003/04 payable	end January
Year end 2003/04	3 April
Preliminary announcement of annual results 2003/04	early June

### Other dividend payments

Preference dividends	1 July and 1 January
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# Principal Subsidiary Companies

as at 29 March 2003

## 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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