Annual Report 2004

RENOLD

Principal Activities

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

Contents

Financial Summary

for the financial year ended 3 April 2004

	2004 £m	2003 £m
Turnover	**192.1**	187.4
Operating profit	**8.7**	6.8
Operating profit before goodwill amortisation and exceptional items	**7.7**	9.2
Profit before tax, goodwill amortisation and exceptional items	**5.4**	6.1
Profit before tax	**6.4**	4.2
Adjusted earnings per share	**5.4p**	5.2p
Basic and diluted earnings per share	**7.7p**	3.5p
Dividends per ordinary share, paid or proposed	**4.5p**	4.5p
Capital expenditure	**7.2**	5.7
Gearing (net borrowings to shareholders' funds)	**24%**	25%

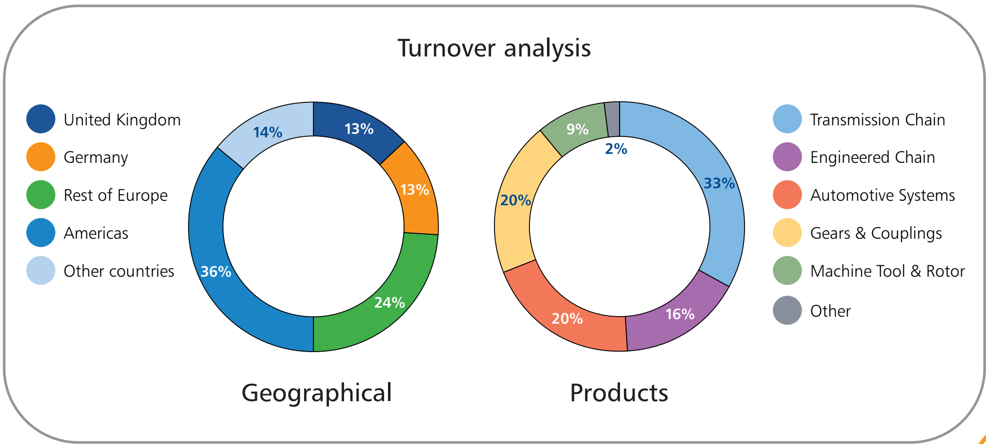
Founded in 1879 by Hans Renold, the Swiss engineer who invented the bush roller chain for bicycles, Renold is an international engineering group producing a wide range of precision engineering products and operating in eighteen countries worldwide.

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.

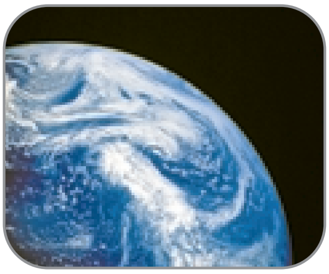
Renold is one of the world's foremost suppliers of industrial chain. The Group's principal chain brands, Renold Synergy, A&S, Brampton, Jeffrey and Whitney Renold are supported and developed by targeted marketing initiatives and by new product introductions. Renold chains are specified and used in a wide range of applications and environments, including high safety chains for aerospace, nuclear and leisure ride industries, heavy chain for marine diesel, open cast mining and steel mills; precision chain for printing machines, aircraft and electronic component assembly; low maintenance chains for escalators, food processing and pharmaceuticals; rugged, reliable chains for the timber, material handling, water treatment and agricultural industries.

Renold's gear and coupling operations produce worm, helical and bevel gearboxes, variable speed drives and clutches and couplings. The US operation produces specialist spindles and couplings for the mass transit sector.

The machine tool businesses of Holroyd and Jones & Shipman are world leaders in the design and manufacture of specialist and precision production machine tools. Holroyd operates in the screw compressor and pump screw sector and, with Edgetek, has a superabrasive grinding solution for demanding applications such as aerospace and automotive. Jones & Shipman produces surface and cylindrical grinding machines for use in a variety of industries including medical, electronics and defence.



Global Strength



Renold has developed an international reputation for innovation and excellence, and through its established global sales and service organisation, this makes Renold the leading partner of choice for industry.

Delivering Strategy

Renold Transmission (Shanghai) Company Limited established to develop this important market for Renold

Developing our Business

Renold continues to develop its position as a world leader in chain and power transmission products

Innovative solutions

Holroyd won the Queen's Award for Enterprise 2004 for its revolutionary new form grinder and thread grinder technology

Leading products

Renold Synergy – simply the best transmission chain in the world

Renold provides all-round solution in the recycling industry

Renold has provided an all-round solution for a customer in the Recycling industry. The application involved digging up landfill sites and sorting the refuse into different grades. The waste had to be recycled properly, by emptying it into a large rotating cylindrical sorter.

Rotating the drum allowed the refuse to fall through different sized holes. The filtering mechanism separates out organic material; this is then put through multiple stages of treatment to accelerate decomposition. Magnets remove metal objects where possible and the remaining glass and metal can be recycled separately.

Renold Gears supplied the RP3 Unit with a flange mounted 75Kw motor, which was vertically mounted with a force feed lubrication system. Renold Chain supplied the 5" pitch heavy duty drive chain, which weighed almost 700Kg,

Renold Clutches & Couplings supplied the double engagement GF45DA coupling. The whole design, specification and installation process was project managed by the team at Renold Gears. Renold's design expertise, problem solving capabilities and our excellent product range help us to be a total solution provider.

Chairman's Statement

Group performance for the financial year 2004 was in line with expectations, with pre-tax profits of £6.4 million compared to £4.2 million, but nevertheless the outcome was disappointing. Market conditions continued to be challenging and, in the second half of the year, the rapid weakening of the US Dollar against Sterling and the Euro exacerbated the situation, leading to a reduction in profit before goodwill amortisation and exceptional items. Within the power transmission segment, the chain based industrial power transmission business struggled in difficult market conditions; the automotive cam drive business productivity improvements were offset by adverse currency effects. The machine tool and rotor business returned a small profit, a considerable improvement on 2003.

During the year the Group established a trading company in Shanghai, China and was successful in generating increased orders from this rapidly growing market. This is an area of opportunity for the Group going forward.

Further progress was made in reducing Group borrowings and the year end net debt was £19.2 million with gearing at 24% (2003 – 25%). This was despite higher capital expenditure and inventory re-build within the automotive business.

During the first half of the year the former Jones & Shipman site at Leicester was sold and the net cash proceeds of £5.1 million received.

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 30 January 2004, this gives total dividends for the year of 4.5 pence, the same as last year.

Subsequent to the year end, Ian Trotter retired as Chief Executive and was succeeded by Bob Davies. Bob has significant experience having held senior management roles with Lucas and GE, both in the UK and North America, and I welcome his appointment and wish him well in his new role.

The Board thanks Ian for his significant contribution to Renold over 13 years and wishes him a long and happy retirement.

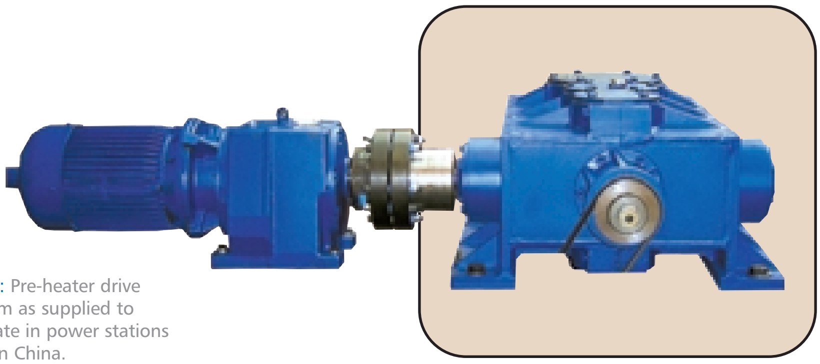
Finally, on behalf of the Board, I would like to thank all Group employees for their continued support and efforts during 2004.

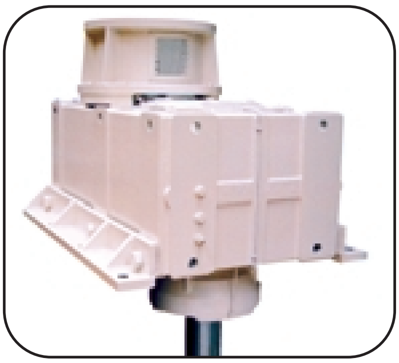
Prospects

The year ended more positively in terms of order intake with North America particularly strong. Markets in Europe remain patchy and, as yet, have not matched the improvement in demand seen in the USA. Overall, the Group entered the new financial year with a healthier order book; however concerns remain over commodity prices and exchange rates.

The Group will continue to focus on growth markets and growth customers. This coupled with a continuing tight management of the cost base, should contribute to a more satisfactory performance during 2005.

Roger Leverton,
Chairman





Right: Pre-heater drive system as supplied to operate in power stations within China.
Far right: Vertical helical gear unit designed for use in the worldwide mineral processing industry.

Chief Executive's Review

I am delighted to join Renold, one of the UK's leading engineering companies, with a long track record of technology innovation.

Since my appointment in April, I have had the opportunity to visit all the major manufacturing sites in the UK, Europe, USA and Australasia. I have also spent time with our larger National Sales Companies meeting with key sales managers and engineers. I am encouraged by the commitment and knowledge of the management team at all levels and pleased to see a continuing commitment to innovation and the introduction of new products.

The feedback I have received from customers I have met, since joining, confirms the Company's position as a supplier of high quality products.

Looking forward, my initial focus will be on developing a strategy to increase the rate of sales growth. Although we have good market shares in many countries there are still major opportunities where there has not been focus, such as China. A wholly owned subsidiary has been established, in Shanghai, and we will be rapidly increasing the size of the sales team with a view to ultimately manufacturing products there to support the growth of sales within the region.

A stronger marketing function will allow better exploitation of the existing product range within the Group and the identification of new product development opportunities.

Currently the majority of products are manufactured within the Group. We will look at where introducing products made outside of the Group will allow us to provide a wider offering to our customers and exploit the strong channels to market we have in place.

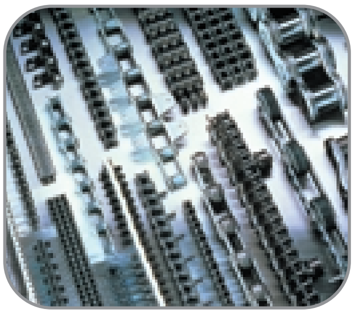
The Automotive group has experienced good sales growth but must accelerate the improvement in operational efficiency. Lean manufacturing is being introduced into all the Group's operations to drive efficiency and customer service but the rate of introduction, within Automotive, will be accelerated. Capacity has been increased by establishing a line at our German facility to support customers within this country. Facilities in the USA will be rapidly established to further increase capacity and support the customers locally.

There are still excellent growth opportunities within all our markets and we will continue an aggressive product development programme to allow a further increase in market share.

The Precision Technologies group has emerged from a period of restructuring with a sound platform for growth. The business will now be outward looking with an emphasis on sales growth. The recent announcement of the Queen's Award for 'Enterprise: Innovation 2004' reinforces the technology differentiation within this group.

There are significant challenges facing the Group with the increases in commodity prices and pricing pressures from manufacturers based in low cost regions of the world. However, I believe we are in a position to exploit our engineering and manufacturing strengths and grow sales particularly in areas such as China and the USA where we are currently under represented.

Robert Davies,
Chief Executive



Left: Variety, flexibility, and availability; all this *and* innovation.
Far left: Supplier to the automotive industry's key manufacturers.

Renold Transmission (Shanghai) Company Limited

Renold has established a trading company located in Shanghai, People's Republic of China. The company will be able to offer first class local customer service, including increased support for existing agents, configuration of adapted and special products from local stocks and the facility to offer superior technical and after-sales service from local personnel.

The company will supply premium specification chain and power transmission products, as well as package solutions to meet the most demanding applications where high performance and/or extended product life are required.

It is planned to establish three regional sales offices within the first year, with a continuous roll-out of additional offices in future years. This is an exciting development for Renold in a rapidly growing market.

Holroyd recognised with Queen's Innovation Award for revolutionary new form grinder and thread grinder technology

Our machine tool business, Holroyd, has been awarded the Queen's Award for Enterprise 2004, recognising the company's technological achievement in designing and manufacturing the revolutionary GTG2 gear grinding system and the TG series of advanced CNC thread grinding machines.

The 2004 award – in the category for sustained innovation – is Holroyd's third, following similar successes in 1967 and 1993, both of which were in the Technological Achievement categories.

The Award was granted for the continuous technical development and commercial success of Holroyd's advanced computerised profile control machining system, enabling extremely high-accuracy, complex 3-D forms to be scanned, manipulated and corrected in-situ. This technology has provided the core 'intelligence' underpinning the development of a range of machine tools used to manufacture such demanding profiles onto complicated, precision components such as helical compressor rotors, pump and metering screws, supercharger rotors and calibration gears.

The TG and GTG systems are universally acknowledged as technically outstanding and have demonstrated a high degree of commercial success, with machines alone averaging over £2.5 million annual sales over each of the five years relevant to the Queen's Award. In addition, Holroyd has invested in a number of these systems for its own manufacturing facility to support a significant component supply business, and they have delivered major improvements in productivity and efficiency.

Operations Review

The Group had a difficult year with continuing dull markets in Europe and despite a strengthening of demand in North America in the second half, the rapidly weakening Dollar impacted returns in our UK and European factories which supply that market.

The chain based industrial power transmission business performed reasonably but the automotive cam drive business continued to experience production efficiency issues.

The machine tool and rotor business returned a small profit and improved substantially on the previous year.

During the year, the Group launched the Renold Fitness programme which aims to utilise Lean management techniques to improve the operational performance of the business. This has included training and development programmes and the establishment of a system of metrics to enable progress to be monitored. The first projects are already delivering improvements and more will come online during the coming year.

POWER TRANSMISSION

Industrial chain and power transmission

The industrial chain and power transmission business had a tough year with economic conditions in Europe remaining weak. North American demand recovered strongly in the second half, but the decline in the US Dollar reduced margins on Group products exported from Europe. On a like for like basis, sales were up 1% with improvements in the United Kingdom and reductions in France and other European markets.

The UK chain business performed well with sales marginally up on the previous year despite a continuing poor domestic industrial market and inventory reductions by some major distributors. Improved demand from the USA through Jeffrey Chain in the second half boosted demand on the Bredbury chain factory. Burton had a better year as demand for palm oil processing chain from the Far East remained strong.

The UK gears and coupling businesses also improved both sales and profits with increased demand for Milnrow gears products in particular, including significant new orders from China. The Hi-Tec couplings business based at Halifax improved sales and profits whilst performance at Cardiff was similar to the previous year.

In continental Europe, the major economies of France and Germany remained difficult for power transmission products. Transmission chain sales from the Einbeck facility were similar to the previous year but profits were lower reflecting the effect of the US Dollar/Euro exchange rate movement on sales into the USA.

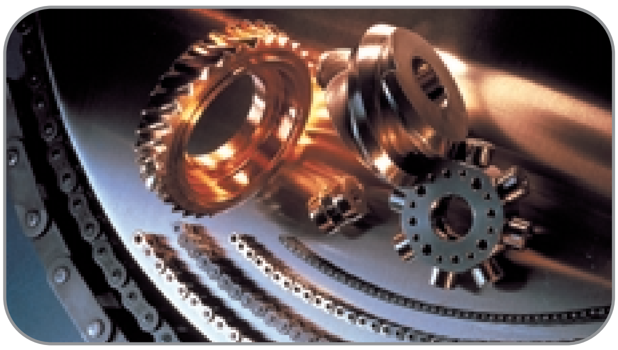
The French chain business had a reasonable first half but suffered in the second half as the French economy declined sharply. Sales and profits were significantly lower than last year.

Elsewhere in Europe sales and profits reduced as market conditions deteriorated over the year, particularly in Benelux and Switzerland.

The North American operations had a mixed year with weak performance in the first half and substantial improvement in the second half especially at Jeffrey Chain where OEM demand for engineered chain increased considerably. The US chain factory finished the year strongly with high output. Renold Ajax, which produces specialised industrial couplings, had a good year and won a significant new order for gear boxes and couplings for the New York Mass Transit Authority.

The Australian business had a steady year and secured a large escalator chain order for the Melbourne underground system.

The Malaysian and Singapore businesses performed well during the year and continued the good sales of conveyor



Precision engineered components from start to finish.

chain and industrial gearboxes into these markets with palm oil processing a particularly strong area. In addition, Renold has established a trading operation in China, Renold Transmission (Shanghai) Company Limited, and generated good new orders particularly for gearboxes into the power station construction sector. The manpower in this operation is now being increased and we would expect further progress in sales in the coming year.

Towards the end of the year there was a significant improvement in order intake particularly driven by North America which meant that the business entered the new financial year with a much stronger order book. The major European economies still remain patchy and there is considerable effort and emphasis on increasing orders in these market areas. The business continues to develop its differentiated product range with Renold Synergy launched last year and new maintenance free chains being launched during the coming year.

The Group's chain and power transmission manufacturing facilities are moving forward with Lean manufacturing initiatives, which will drive productivity improvements and reduce inventory levels. However, there is now severe pressure on input costs as steel prices have escalated over recent months.

Automotive cam drive systems

The Calais facility continued to experience production inefficiency issues as a result of the rapid surge in demand for particular engine programmes. Progress has been made during the year in improving the position and work is under way to develop the German facility at Einbeck as an automotive supplier.

In addition the Group is looking to establish a similar facility to that at Einbeck in the USA to supply our customers in North America and it is intended that this facility will be developed during the 2004/05 financial year. This will meet the strategic aims defined last year of reducing dependence on the Calais facility whilst also giving the business a truly global dimension.

Demand for the Renold cam drive system technology remains strong and a number of new engine contracts were concluded during the year.

Work continues to improve operational efficiency and the Lean process which has been introduced elsewhere in the Group is also being applied aggressively to Calais to deliver production improvements.

MACHINE TOOL AND ROTOR

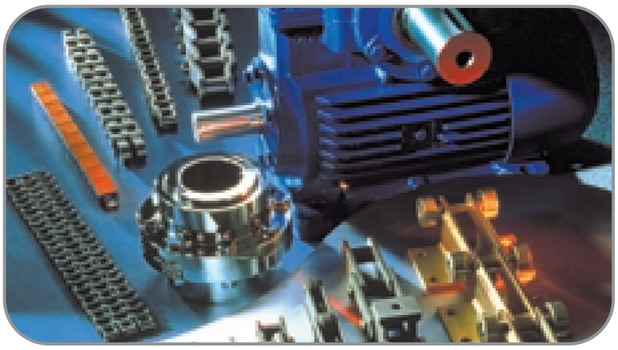
The machine tool business had a good year with a £1.1 million improvement in operating profit compared with the previous year. Towards the end of the year order activity began to pick up and a strong order performance in the last quarter especially for the superabrasive Edgetek machines for aerospace applications meant the business carries a healthy order book into 2004/05. After a number of years of weak demand there appears to be real prospect of an up-turn in investment in machine tools and the Renold business is well positioned to take advantage following the restructuring of the business.

Work continues to value engineer the products and take advantage of sourcing manufactured components from low cost economies with the engineering design and assembly operations based in the UK.

During the year, Holroyd won the Queen's Award for Technology for Innovation. This recognises the technological achievement in designing and manufacturing the revolutionary GTG2 gear grinding centre and TG series of thread grinders. This is the third Queen's Award won by Holroyd and underlines Renold's commitment to technological innovation and development.

SUMMARY

The year was disappointing overall for Renold but a stronger order intake in the final quarter gives some positive impetus to the new year. Potential threats are the continuing weakness of major European economies and substantial material price increases such as oil and steel. Potential opportunities are the improving US economy and prospects in the rapidly growing economies of the Far East, particularly China.



Renold Group products, setting the highest standards of excellence.

Synergy's most prestigious appointment

Renold Synergy has received one of the most prestigious endorsements possible of its world beating reputation. The team at the Tower of London responsible for maintaining the mechanism that controls access to the Crown Jewels specified Renold Synergy by name to ensure the precision and reliability of the display in the Jewel House.

Arguably the finest collection of its kind anywhere in the world, the Queen's personal collection represents a unique part of the nation's heritage and what more fitting partnership than the superior performance and reliability of Renold Synergy.

Now virtually dry-to-the-touch, Renold Synergy features a platinum coloured connecting link plate, contrasting with the black surface treatment of the plates to make for easy identification. The black surface treatment resists the onset of corrosion and ensures that, along with the wear resistance and fatigue resistance that have given Synergy its reputation, it continues to represent the best transmission chain in the world.

The world's finest; British and best – and that's just the chain!

Renold Synergy provides strong, powerful performance.

Renold Hi-Tec turns the screw on Marine Propulsion Systems

Renold Hi-Tec Couplings of Halifax, West Yorkshire, England is about to complete two major contracts for power transmission shafts and couplings, to be installed in main propulsion drive systems on military fighting ships.

The largest order is for 12 DCB 825.5 cardan shafts and couplings to be installed in six mine hunter vessels (MHV 54 Class) for the Turkish Navy. A vital part of the transmission system, the shaft system connects the vessel's ZF-460-1 gearbox to the propeller.

The shafts and couplings are completely non-magnetic, and also extremely robust and resilient, having been designed to withstand shock loads up to 100 'g' and still operate. Other features of the shaft system include the incorporation of a bearing and seal interface where the shaft passes through a fire and explosion proof bulkhead, while a self-contained hydraulic connection is also employed to allow for length compensations due to fabrication variations from one ship to another.

A second order is for Renold Hi-Tec DCB 848.0 cardan shaft type couplings to be supplied for the power transmission system on five high-speed frigates for the Norwegian Navy. The couplings are fitted between the main diesel engine and a flexible mounted gearbox and have to accommodate up to 60mm misalignment under shock loads as well as provide noise and torsional vibration damping under normal operation. Renold Hi-Tec 280WB couplings are also specified to connect the gearbox to the propeller shaft. The couplings are able to accept some degree of misalignment and withstand a shock force of over 100,000 tonnes in an environmental temperature between –2° and +57° C.

Financial Review

PROFIT AND LOSS ACCOUNT

Turnover was £192.1 million compared with £187.4 million in the previous year. The Group operates in two sectors as shown in Note 1 to the accounts which analyses activities. Power transmission sales were 2% higher at constant exchange rates with growth in Automotive Systems offset by lower domestic sales in the major industrial markets of the UK and France. Machine tool and rotor sales were 3% higher at constant exchange rates as the capital goods market showed some improvement.

Operating profit, before goodwill amortisation and exceptional items, was £7.7 million, compared with £9.2 million in 2003. The industrial power transmission businesses showed a reduction in operating results, with Automotive Systems similar year on year despite a significant adverse exchange effect resulting from the weakening of the US Dollar in the second half. The machine tool and rotor businesses recorded an operating profit of £0.3 million, significantly better than the £0.8 million loss in 2003, reflecting the benefit of a reduced cost base and some improvement in activity in the machine tool and rotor market. Manpower numbers have been reduced by close to half in this sector over the last three years.

Operating profit improved in the UK but was lower in Germany, France and the rest of Europe. The reduction in France was primarily due to a weaker industrial performance while Germany was mainly due to the weakness of the Dollar. North America was down although the second half showed a stronger performance. Redundancy and restructuring costs were £0.5 million in the year.

The return on average operating assets for the Group was 8.7% down from 9.9% last year; while the power transmission businesses achieved 9.6% return on average operating assets.

Net interest payable reduced to £2.3 million, compared with £3.1 million in 2003. Profit before tax for the year before goodwill amortisation and exceptional items was £5.4 million compared with £6.1 million last year. The profit on the disposal of the former Jones & Shipman site in Leicester, completed in May 2003, produced a profit of £2.8 million which resulted in a profit before tax for the year of £6.4 million, an increase of 52% over the previous year.

The taxation charge of £1.0 million compares with a taxation charge of £1.7 million in the previous year. The effective tax rate on profit before goodwill amortisation, exceptional redundancy and restructuring costs and property sale was 30% compared with 40% in 2003, reflecting a higher proportion of UK profits.

Reported profit after tax was £5.4 million compared with £2.5 million last year. Excluding goodwill amortisation and exceptional items, this represented adjusted earnings per share of 5.4 pence, compared with 5.2 pence earnings per share last year. Total dividends paid and proposed of 4.5 pence per share is the same as last year.

BALANCE SHEET

Goodwill stands at £18.8 million after an amortisation charge of £1.3 million in the year.

Group trading assets at the year end of £88.5 million were similar to last year. Fixed assets at £47.0 million were £3.0 million lower. Capital additions totalled £7.2 million compared with £5.7 million last year; the depreciation charge was £8.8 million compared with £8.9 million last year. New investment was mainly in the Automotive Systems business in France and Germany and in the UK and German industrial chain manufacturing businesses.

Shareholders' funds were £81.2 million at the year end (last year £82.1 million).

CASH FLOW AND BORROWINGS

Cash flow from operating activities was £9.2 million which compared with £17.9 million the previous year. Working capital was higher by £7.0 million compared with a reduction of £1.3 million in 2003; stocks were £2.7 million higher reflecting inventory re-build in Automotive Systems; debtors increased £3.5million reflecting higher sales levels in March and creditors reduced by £0.8 million. Payments for fixed assets amounted to £6.0 million, whilst tax and dividends cost £4.8 million. After exchange differences and non-cash movements there was a net inflow of £1.7 million reducing year end borrowings to £19.2 million.
This represented 24% of shareholders' funds or 31% of net tangible assets.

TREASURY AND FINANCIAL INSTRUMENTS

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

The Group's net debt of £19.2 million at 3 April 2004 is represented by gross debt of £28.1 million less cash and short-term deposits of £8.9 million.

At 3 April 2004 the Group had 63% 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 £15.5 million at 3 April 2004 (£23.5 million at 29 March 2003). The deficit has reduced from last year due to the recovery of equity markets in the year. FRS17 calculations are very susceptible to short-term changes in equity values and interest rates.

Steve Mole,
Finance Director

Directors' Biographies

Roger Leverton,
Chairman

Robert Davies,
Chief Executive

Steve Mole,
Finance Director

Tony Brown,
Managing Director – Chain and Power Transmission Products

Mark Smith,
Non-Executive Director

Tim Fortune,
Non-Executive Director

Roger Leverton FCA (age 65)
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.

Robert Davies BSc Hons CEng MIEE (age 50)
Chief Executive
joined the Group in March 2004 and was appointed Chief Executive in April 2004. A Member of the Institute of Electronic Engineers, he was previously Chief Executive of Druck Holdings PLC and prior to that held a number of senior management positions in the Lucas Group and at General Electric, holding posts in the UK and USA.

Tony Brown BSc Hons ACMA (age 57)
Managing Director – Chain and Power Transmission
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 BSc Hons FCMA (age 48)
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.

Tim Fortune CEng MIMechE (age 65)
Non-Executive Director
was appointed to the Board in 1997. He is also Chairman and was formerly Chief Executive of Spirax-Sarco Engineering plc.

Mark Smith FCA (age 65)
Non-Executive Director
was appointed to the Board in 1994 and is the Senior Non-Executive Director. He was formerly a Director of The Laird Group PLC (to May 2004), Bradford & Bingley plc (to December 2003) and was a Director and Vice Chairman of S G Warburg & Co Ltd.

Directors and Officers

CHAIRMAN
R F Leverton

EXECUTIVE DIRECTORS
R J Davies Chief Executive
D A Brown Managing Director – Chain and Power Transmission
S R Mole Finance Director

NON-EXECUTIVE DIRECTORS
T B Fortune
M A Smith

COMPOSITION OF BOARD COMMITTEES

AUDIT COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE
M A Smith (Chairman)	R F Leverton (Chairman)	T B Fortune (Chairman)
T B Fortune	T B Fortune	R F Leverton
R F Leverton	M A Smith	M A Smith

COMPANY SECRETARY

G R Newton

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AUDITORS
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MERCHANT BANKERS
UBS Investment Bank

STOCKBROKERS
UBS Investment Bank

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Telephone: 0870 162 3131
E-mail: shareholder.services@capitaregistrars.com
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Report of the Directors

for the financial year ended 3 April 2004

To be presented to the seventy-fourth Annual General Meeting of RENOLD plc to be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday, 22 July 2004 at 2.30 p.m.

A separate letter has been sent to shareholders containing the Notice of Meeting and the resolutions to be proposed.

Group results

The profit for the year on ordinary activities before tax was £6.4 million compared with £4.2 million for the previous year. After taxation, the profit attributable to ordinary shareholders was £5.4 million compared with £2.5 million last year.

There was a profit of £2.2 million after charging the cost of dividends of £3.2 million. Last year there was a loss of £0.7 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 page 6 and in the Operations Review on pages 9 and 10.

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

Dividends

An interim dividend of 1.5 pence per ordinary share was paid on 30 January 2004.

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 2002/03. If approved, the final dividend will be paid on 12 August 2004 to members appearing on the register on 16 July 2004.

Preference dividend payments were made on 1 July 2003 and 1 January 2004.

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 16. All these directors were directors throughout the year except for Mr R J Davies who was appointed on 8 March 2004. Mr Davies will be standing for election at the forthcoming Annual General Meeting.

Mr I R Trotter retired on 6 April 2004.

Mr D A Brown and Mr T B Fortune retire by rotation and, being eligible, offer themselves for re-election. Mr M A Smith has served for longer than nine years and under the Combined Code offers himself for re-election a year after he was last elected. Mr Fortune and Mr Smith do not have service contracts with the Company or any of its subsidiaries.

Biographical details of the directors are on page 15.

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 21 to 24. No director had any interests in contracts of significance in relation to the Company's business during the year.

Share capital

Changes in share capital during the year are set out in note 16 to the Accounts on page 44.

As at 3 June 2004, the Company had been notified 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 Limited	12.41

(ii) "Material interests" equal to or more than 3%

Lowland Investment Trust Plc	7.21
Platinum Investment Trust plc	6.61

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.

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 3 April 2004 the Renold Group employed 2,656 people, including 1,060 in the UK and 964 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 2004 amounted to £2.0 million.

Policy on payment of suppliers

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

At 3 April 2004 trade creditors of the Group's businesses in the UK and overseas represented 69 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

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

14 June 2004

Corporate Governance

The Combined Code and Statement of Compliance

The Company remains committed to high standards of corporate governance. This statement describes how the principles of corporate governance, contained in the Combined Code issued by the Financial Services Authority as an appendix to its Listing Rules, have been applied by the Company.

Throughout the year ended 3 April 2004 the Company has complied with the provisions of the Combined Code with the exception of the notice period under the service contract of Mr I R Trotter. Following Mr Trotter's retirement on 6 April 2004 there are no directors on notice periods over one year.

In July 2003 the Financial Reporting Council issued the new Combined Code on Corporate Governance which will apply to Renold plc for the 2004/05 financial year.

The Board has considered the implications of the new Combined Code and the principles and provisions of the new Code have been adopted by the Board.

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 separated with a clear division of responsibilities agreed by the Board. The Chairman's primary role is to ensure the effectiveness of the Board in setting the direction of the Company. The Chief Executive has the responsibility for managing the business and implementing the strategy agreed by the Board. Biographical details of the directors appear on page 15.

New directors are provided with an appropriate induction programme. A formal process for evaluating the performance of the Board has been introduced and was conducted internally by means of a detailed questionnaire completed by each director.

The Board meets on a regular basis with an agenda and necessary papers for discussion distributed in advance of each meeting.

Board Committees

The Board delegates specific responsibility to Committees, all of which have written terms of reference. During the year the Board reviewed the terms of reference for each of the principal Board Committees and these are available on the Company's website. The Company Secretary acts as secretary to all these Committees. The principal Board Committees are described below.

The Board considers that each of the non-executive directors is independent and free from any business or other relationship that could interfere with the exercise of their independent judgement. This remains true for the Senior Independent Director, Mr M A Smith, who was first appointed in 1994 and brings a wealth of relevant financial experience to the Group. The Board is pleased that he has agreed to remain a member of the Board and, in accordance with best practice, will seek re-election at the Annual General Meeting in July 2004.

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.

The Board initially appoints all new directors upon recommendation from the Nomination Committee. 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. Mr Smith and Mr Leverton are qualified accountants and all three Committee members have considerable experience on audit committees in other listed companies. The Chief Executive, Finance Director and other Directors and Managers 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. The external auditors are invited by the Committee to advise them of any matters which they consider should be brought to the Committee's attention in the absence of executive management.

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. The Committee also reviews, on an annual basis, the Company's senior executive succession plan.

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 21 to 24.

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 3 April

2004, as required by the UK Listing Authority and in accordance with the guidance issued by the Turnbull Committee.

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

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

- the Risk Monitoring Committee which meets quarterly to review how business risks are being managed and to ensure that policies are in place and are being applied. The minutes of this Committee are 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 Group has 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 announcements of interim and preliminary 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. Notice of the Annual General Meeting is sent to shareholders at least 20 working days before the meeting. Details of the proxy votes lodged on each resolution are available after the result of the votes of the members present.

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

Remuneration Report

The directors present the Remuneration Report for the year ended 3 April 2004.

In accordance with the Directors' Remuneration Report Regulations 2002, this report is submitted to shareholders for approval at the forthcoming Annual General Meeting on 22 July 2004 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 a committee of the Board comprised of the non-executive directors and is chaired by Mr T B Fortune. The Committee operates under the terms of reference agreed by the Board.

The members of the 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 (part of PricewaterhouseCoopers LLP) 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 Monks Partnership. The Committee is also responsible for the allocation of options under the Company's Executive Share Option Scheme.

Executive remuneration policy

Base salary and benefits

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.

Performance Related Pay and share option scheme proposals

The Committee has taken independent advice on current best practice for incentivising directors and senior employees and, with the approval of the Board, is proposing to shareholders at the forthcoming annual general meeting new incentive arrangements. If these are approved they will replace the existing discretionary annual bonus scheme and the Renold (1995) Executive Share Option Scheme. At the same time shareholders are being asked to approve a new SAYE Share Option Scheme to replace the existing scheme which is due to terminate in 2005.

The details of the proposed new arrangements are set out in the circular to shareholders which comprises a letter from the Chairman of the Board, the Notice of the Annual General Meeting and appendices which give further information on each of the proposed schemes.

Existing arrangements for salary and benefits

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.

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.

Performance Related Pay

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.

Share option schemes

The Company operates a discretionary executive share option scheme under which 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.

The exercise of options granted before 1995 is not subject to any performance conditions being met. This is in line with market practice at the time of grant of those options.

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.

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' pensions

The executive directors, other than Mr R J Davies, participate in the Renold Supplementary Pension Scheme 1967, which is a contributory defined benefits plan. Members' contributions are 7½% of pensionable pay (6½% until 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.

In addition, where Inland Revenue limits apply, an additional benefit is provided. The Company accumulates 25% of the shortfall between projected final pensionable salary and the earnings cap (currently £102,000). 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.

Only basic salary is pensionable.

Mr R J Davies is not a member of a Company pension scheme and no payments were made in 2003/04 to any fund in his name. In 2004/05 the Company will make annual contributions of some 11% of basic salary for personal pension provision. The Company has no liability beyond making these annual contributions.

Service contracts

Prior to taking early retirement, Mr I R Trotter was employed on a rolling contract dated 12 March 1992 which required two years' notice to be given by the Company and one year's notice to be given by Mr Trotter. However, as Mr Trotter took early retirement on the grounds of ill health, a retirement date of 6 April 2004 was mutually agreed. 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 R J Davies is employed on a rolling contract dated 2 March 2004 which requires one year's notice to be given by the Company and one year's notice to be given by Mr Davies.

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 Committee.

Directors' interests

The beneficial interests of the directors, who held office at 3 April 2004, in the ordinary shares of the Company, as appearing in the Register of Directors' Interests maintained under the Companies Act 1985, were as follows:

	3 April 2004		29 March 2003	
	Shares	Options	Shares	Options
I R Trotter	112,170	398,774	112,170	477,676
R F Leverton	8,000		8,000	
R J Davies	85,000	125,000	10,000 (a)	
D A Brown	65,502	180,850	65,502	173,637
T B Fortune	4,376		4,376	
S R Mole	10,000	78,220		48,220
M A Smith	20,000		20,000	

(a) as at date of appointment on 8 March 2004.

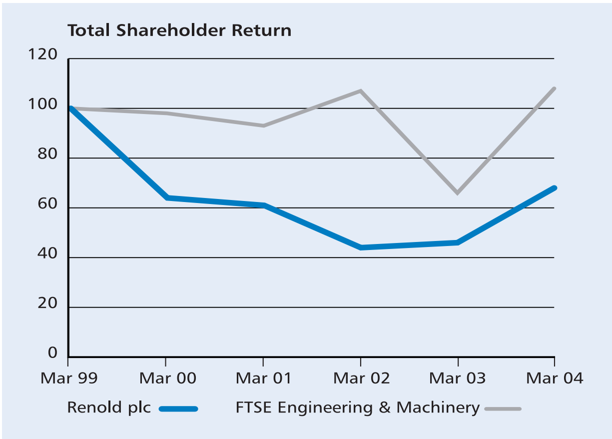
There were no non-beneficial interests held by the directors in the ordinary shares of Renold plc at the end of the year or at 3 June 2004.

At 3 April 2004 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 3 June 2004.

Performance graph

The graph, right, 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.



The auditors are required to report on the information contained in the remaining sections of this report.

Directors' emoluments

	2004					2003
	Salaries & fees £000	Annual bonus £000	Benefits Cash £000	Benefits Non-cash £000	Total £000	Total £000
Executive directors						
I R Trotter (retired 6.4.04)	218		12	5	235	219
R J Davies (from 8.3.04)	19			2	21	
D A Brown	166		10	3	179	155
S R Mole (from 18.2.03)	106		10	1	117	12
	509		32	11	552	386
Non-executive directors						
R F Leverton - Chairman	84				84	71
T B Fortune	25				25	21
M A Smith	25				25	23
	643		32	11	686	501

Directors' pension entitlements

Details of pension benefits earned in respect of each director in office at 3 April 2004 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) £000	Transfer value of the increase in accrued pension £000	Accumulated total accrued pension at year end (b) £000	Transfer value at 3.4.04 (c) £000	Transfer value at 29.3.03 (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	13	4	41	42	684	592	85	261
D A Brown	14	4	34	46	642	561	74	44
S R Mole	3	6	43	12	110	56	46	37

(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.

Share options

	Number of share options				Option price (pence per share)	Date from which exercisable	Expiry date
	At 29.3.03	Granted	Lapsed	At 3.4.04			
I R Trotter							
Executive scheme	55,000			55,000	58.50	27.11.05	26.11.12
	125,000			125,000	67.34	28.11.04	27.11.11
	125,000			125,000	102.00	18.6.04	17.6.11
	20,000			20,000	118.50	19.7.03	18.7.10
	30,000			30,000	137.83	16.7.02	15.7.09
	20,000			20,000	237.33	17.7.01	16.7.08
	20,000			20,000	242.67	18.7.00	17.7.04
	25,000		(25,000)		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
R J Davies							
Executive scheme		125,000		125,000	76.50	11.3.07	10.3.14
D A Brown							
Executive scheme		30,000		30,000	83.50	27.11.06	26.11.13
	45,000			45,000	58.50	27.11.05	26.11.12
	45,000			45,000	67.34	28.11.04	27.11.11
	20,000			20,000	118.50	19.7.03	18.7.10
	10,000			10,000	137.83	16.7.02	15.7.09
	10,000			10,000	237.33	17.7.01	16.7.08
	10,000			10,000	242.67	18.7.00	17.7.04
	6,115			6,115	293.83	16.7.99	15.7.06
	8,885		(8,885)		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		30,000		30,000	83.50	27.11.06	26.11.13
	20,000			20,000	58.50	27.11.05	26.11.12
	15,000			15,000	67.34	28.11.04	27.11.11
	10,000			10,000	94.50	22.12.03	21.12.10
Savings related scheme	3,220			3,220	55.08	1.2.08	31.7.08

No options were exercised during the year.

The middle market price of ordinary shares at 3 April 2004 was 77 pence and the range of prices during the year was 51.5 pence to 102.5 pence.

On behalf of the Board

T B Fortune
Chairman of Remuneration Committee
14 June 2004

Statement of Directors' Responsibilities

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

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

The directors confirm that, in preparing the accounts on pages 27 to 50, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable Accounting Standards have been followed.

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

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

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

Report of the Independent Auditors

To the members of Renold plc

We have audited the accounts which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the 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 Operations 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 issued in June 1998 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 3 April 2004 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.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
101 Barbirolli Square
Manchester M2 3PW

14 June 2004

Accounting Policies

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

Basis of consolidation – The Group accounts set out on pages 27 to 50, 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.

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 3 April 2004

	Note	2004 £m	2003 £m
Turnover	1	**192.1**	187.4
Operating costs	2		
– normal operating costs		**(184.4)**	(178.2)
– goodwill amortisation		**(1.3)**	(1.4)
– exceptional redundancy and restructuring costs		**(0.5)**	(1.0)
– exceptional gain on disposal of property held for sale		**2.8**	
		(183.4)	(180.6)
Operating profit		**8.7**	6.8
Exceptional gain on disposal of fixed asset	2		0.5
		8.7	7.3
Net interest payable	3	**(2.3)**	(3.1)
Profit on ordinary activities before tax		**6.4**	4.2
Taxation	4	**(1.0)**	(1.7)
Profit for the financial year		**5.4**	2.5
Dividends (including non-equity)	5	**(3.2)**	(3.2)
Retained profit/(loss) for the year	17	**2.2**	(0.7)
Adjusted earnings per share	6	**5.4p**	5.2p
Basic and diluted earnings per share	6	**7.7p**	3.5p

All amounts relate to continuing operations.

The profit and loss account should be read in conjunction with the notes on pages 33 to 50.

Balance Sheets

as at 3 April 2004

	Note	Group 2004 £m	Group 2003 £m	Renold plc 2004 £m	Renold plc 2003 £m
Fixed assets					
Intangible asset – goodwill	8	**18.8**	22.6		
Tangible assets	9	**47.0**	50.0	**0.2**	0.2
Investments	10			**100.6**	112.9
		65.8	72.6	**100.8**	113.1
Current assets	11				
Stocks		**47.0**	46.1		
Debtors		**47.2**	46.7	**13.3**	8.6
Cash and short-term deposits		**8.9**	9.3	**0.1**	0.1
		103.1	102.1	**13.4**	8.7
Creditors – amounts falling due within one year					
Loans and overdrafts	12	**(12.1)**	(10.2)	**(14.9)**	(10.0)
Other creditors	13	**(44.4)**	(48.0)	**(3.6)**	(4.7)
Net current assets/(liabilities)		**46.6**	43.9	**(5.1)**	(6.0)
Total assets less current liabilities		**112.4**	116.5	**95.7**	107.1
Creditors – amounts falling due after more than one year					
Loans	12	**(15.5)**	(20.0)	**(13.7)**	(25.0)
Other creditors	13	**(1.4)**	(0.6)		
Provisions for liabilities and charges	14	**(14.3)**	(13.8)	**(0.8)**	
Net assets		**81.2**	82.1	**81.2**	82.1
Capital and reserves (including non-equity interests)					
Called up share capital	16	**17.9**	17.9	**17.9**	17.9
Share premium	17	**6.0**	6.0	**6.0**	6.0
Revaluation reserve	17			**4.9**	8.8
Profit and loss account	17	**57.3**	58.2	**52.4**	49.4
Shareholders' funds		**81.2**	82.1	**81.2**	82.1

Approved by the Board on 14 June 2004 and signed on its behalf by:

Roger Leverton
Director

Robert Davies
Director

The balance sheets should be read in conjunction with the notes on pages 33 to 50.

Group Cash Flow Statement

for the financial year ended 3 April 2004

	Note	2004 £m	2004 £m	2003 £m	2003 £m
Net cash inflow from operating activities	21		**9.2**		17.9
Servicing of finance	22		**(3.3)**		(2.8)
Taxation			**(1.6)**		(1.3)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(6.0)**		(5.6)	
Proceeds from disposal of fixed assets				0.6	
Proceeds from disposal of property held for sale		**5.1**			
			(0.9)		(5.0)
Equity dividends paid			**(3.2)**		(3.2)
Net cash inflow before use of liquid resources and financing			**0.2**		5.6
Management of liquid resources					
Transfers (to)/from short-term deposits			**(1.0)**		3.0
Financing	22				
Decrease in debt and lease financing			**(6.4)**		
(Decrease)/increase in cash in the year	23		**(7.2)**		8.6

	Note	2004 £m	2004 £m	2003 £m	2003 £m
Reconciliation of net cash flow to movement in net debt	23				
(Decrease)/increase in cash in the year		**(7.2)**		8.6	
Cash flow from decrease in debt and lease financing		**6.4**			
Cash flow from increase/(decrease) in liquid resources		**1.0**		(3.0)	
Change in net debt resulting from cash flows			**0.2**		5.6
New finance leases			**(0.5)**		
Other non-cash changes			**(0.1)**		
Exchange translation difference			**2.1**		2.6
Movement in net debt in the year			**1.7**		8.2
Net debt at beginning of year			**(20.9)**		(29.1)
Net debt at end of year			**(19.2)**		(20.9)

The cash flow statement should be read in conjunction with the notes on pages 46 and 47.

Other Group Statements

for the financial year ended 3 April 2004

Statement of total recognised gains and losses

	2004 £m	2003 £m
Profit for the financial year	**5.4**	2.5
Exchange translation differences on net assets of overseas subsidiaries	**(3.1)**	0.3
Total recognised gains and losses relating to the financial year	**2.3**	2.8

Reconciliation of movements in shareholders' funds

	2004 £m	2003 £m
Profit for the financial year	**5.4**	2.5
Dividends	**(3.2)**	(3.2)
Retained profit/(loss) for the year	**2.2**	(0.7)
Exchange translation differences on net assets of overseas subsidiaries	**(3.1)**	0.3
Net reduction in shareholders' funds	**(0.9)**	(0.4)
Opening shareholders' funds (including non-equity of £0.6m)	**82.1**	82.5
Closing shareholders' funds (including non-equity of £0.6m)	**81.2**	82.1

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.

1. Analysis of activities

(a) Activities classified by business segment:

	2004 Turnover £m	**2004 Operating profit £m**	**2004 Operating assets £m**	2003 Turnover £m	2003 Operating profit £m	2003 Operating assets £m
Power transmission	**174.2**	**7.4**	**76.9**	168.3	10.0	75.2
Machine tool and rotor	**20.7**	**0.3**	**11.6**	20.0	(0.8)	13.6
	194.9	**7.7**	**88.5**	188.3	9.2	88.8
Less:						
Inter activity sales	**(2.8)**			(0.9)		
Goodwill amortisation		**(1.3)**			(1.4)	
Exceptional redundancy and restructuring costs		**(0.5)**			(1.0)	
Add:						
Exceptional gain on disposal of property held for sale		**2.8**				
	192.1	**8.7**	**88.5**	187.4	6.8	88.8

The exceptional redundancy and restructuring cost of £0.5 million is attributed £0.3 million to the power transmission segment (2003 – £0.3 million) and £0.2 million to the machine tool and rotor segment (2003 – £0.7 million). Of the total goodwill charge of £1.3 million, £1.1 million (2003 – £1.2 million) relates to the power transmission businesses and £0.2 million (2003 – £0.2 million) to the machine tool and rotor businesses. The exceptional gain of £2.8 million relates to the disposal of a non-trading property held for sale. This property was part of the machine tool and rotor segment.

(b) Activities classified by geographical region of operation:

	2004 Turnover £m	**2004 Operating profit £m**	**2004 Operating assets £m**	2003 Turnover £m	2003 Operating profit £m	2003 Operating assets £m
United Kingdom	**70.8**	**2.8**	**37.8**	69.2	1.6	38.1
Germany	**31.9**	**2.4**	**12.3**	30.4	3.0	12.5
France	**49.1**	**(0.6)**	**14.8**	43.0	0.2	10.9
Rest of Europe	**16.0**	**0.4**	**3.9**	16.3	0.9	4.2
North America	**49.2**	**2.2**	**13.2**	51.2	2.6	16.9
Other countries	**18.4**	**0.5**	**6.5**	17.4	0.9	6.2
	235.4	**7.7**	**88.5**	227.5	9.2	88.8
Less:						
Intra Group sales	**(43.3)**			(40.1)		
Goodwill amortisation		**(1.3)**			(1.4)	
Exceptional redundancy and restructuring costs		**(0.5)**			(1.0)	
Add:						
Exceptional gain on disposal of property held for sale		**2.8**				
	192.1	**8.7**	**88.5**	187.4	6.8	88.8

The exceptional cost of £0.5 million arises £0.2 million in the UK (2003 – £0.9 million) and £0.3 million in North America (2003 – £0.1 million). The goodwill amortisation is attributed to business acquisitions in North America.

Turnover by geographical region includes intra Group sales as follows: United Kingdom £29.1 million (2003 – £26.5 million), Germany £11.4 million (2003 – £10.8 million) and France £2.1 million (2003 – £1.9 million).

Operating 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.

1. Analysis of activities continued

(c) Geographical analysis of external turnover by market area:

	2004 £m	2003 £m
United Kingdom	**24.4**	27.2
Germany	**25.4**	25.4
France	**9.2**	9.4
Rest of Europe	**36.8**	33.2
North and South America	**70.1**	66.9
Other countries	**26.2**	25.3
	192.1	187.4

2. Operating costs and exceptional items

	2004 £m	2004 £m	2003 £m	2003 £m
Change in stocks of finished goods and work in progress		**(3.2)**		1.9
Own work capitalised		**(1.1)**		(1.0)
Other operating income		**(2.8)**		(3.0)
Raw materials and consumables		**72.9**		67.4
Other external charges		**31.2**		29.1
Staff costs				
Gross wages and salaries	**62.5**		60.2	
Social security costs	**8.8**		8.1	
Other pension costs (Note 15)	**4.9**		4.2	
Redundancy and restructuring costs	**0.5**		1.0	
		76.7		73.5
Depreciation – owned assets		**8.8**		8.9
Amortisation of goodwill		**1.3**		1.4
Operating lease rentals				
Equipment	**0.6**		0.7	
Other	**1.4**		1.3	
		2.0		2.0
Remuneration of auditors for audit work		**0.4**		0.4
Exceptional gain on disposal of property held for sale		**(2.8)**		
		183.4		180.6

The remuneration of the auditors for the parent company was £25,000 (2003 – £25,000). Remuneration of the auditors for non-audit work amounted to £86,000 (2003 – £81,000) of which £49,000 (2003 – £21,000) was incurred in the UK. The non-audit services were principally in respect of taxation, including £40,000 for compliance services and £11,000 for advisory services.

Expenditure on research and development charged against operating profit amounted to £2.0 million (2003 – £2.2 million).

In 2003 the non-operating exceptional gain of £0.5 million, shown in the profit and loss account, represented the profit on disposal of a fixed asset, within the United Kingdom, and was associated with the power transmission segment.

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

	2004	2003
United Kingdom	**1,067**	1,114
Germany	**368**	374
France	**500**	464
Rest of Europe	**87**	87
North America	**386**	418
Other countries	**245**	253
	2,653	2,710

3. Net interest payable

	2004 £m	2003 £m
Interest payable on loans and overdrafts	**(2.5)**	(3.3)
Less: interest receivable	**0.2**	0.2
	(2.3)	(3.1)

4. Taxation

(a) Analysis of tax charge in the year

	2004 £m	2003 £m
United Kingdom		
UK corporation tax at 30% (2003 – 30%)	**0.8**	1.6
Less: double taxation relief	**(0.8)**	(1.6)
Overseas taxes		
Corporation taxes	**1.2**	1.7
Total current tax	**1.2**	1.7
Deferred tax		
United Kingdom	**0.3**	0.3
Overseas	**(0.5)**	(0.3)
Total deferred tax	**(0.2)**	
Tax charge on profit on ordinary activities	**1.0**	1.7

As shown in (b) below, due to the availability of capital losses brought forward, no tax charge has arisen on the profit of £2.8 million on the disposal of the property held for sale.

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

The tax assessed for the year is lower (2003 – higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004 £m	2003 £m
Profit on ordinary activities before tax	**6.4**	4.2
Tax on ordinary activities at 30% (2003 – 30%)	**1.9**	1.3
Permanent differences		0.2
Overseas tax rate differences	**0.1**	0.1
Unrelieved tax losses	**0.4**	0.4
Utilisation of brought forward tax losses	**(0.4)**	(0.4)
Capital losses covering sale of property	**(0.8)**	(0.1)
Depreciation and other timing differences	**0.2**	0.2
Prior year adjustments	**(0.2)**	
Current tax charge for the year	**1.2**	1.7

5. Dividends

	2004 £m	2003 £m
Ordinary shares		
Interim dividend paid of 1.5p (2003 – 1.5p)	**1.1**	1.1
Final dividend proposed 3.0p (2003 – 3.0p)	**2.1**	2.1
	3.2	3.2

Dividends on the 6% Cumulative Preference Stock amounted to £35,000 (2003 – £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:

	2004 £m	2003 £m
Basic and diluted earnings (after preference dividends)	**5.4**	2.4
Adjustments to earnings	**(1.6)**	1.2
Adjusted earnings	**3.8**	3.6

The adjustment of £1.6 million is comprised of the effect, after tax, of the gain on disposal of property held for sale (£2.8 million), the cost of redundancy and restructuring (£0.4 million: 2003 – £0.8 million) and goodwill amortisation (£0.8 million: 2003 – £0.9 million). In 2003 the adjustment also included the gain on disposal of a fixed asset (£0.5 million).

In both 2003 and 2004 the basic and diluted earnings, and basic and diluted earnings per share, were the same value. At 3 April 2004 the weighted average number of shares in issue was 69,313,000 (2003 – 69,313,000). In 2004 the dilutive potential of employee share options was 299,000, giving a diluted weighted average number of shares in issue of 69,612,000 (2003 – 69,354,000).

7. Directors' emoluments

	2004 £000	2003 £000
Aggregate emoluments	**686**	501
Amounts provided but not paid in respect of unfunded pension obligations	**342**	269

During the year, retirement benefits accrued to three directors (2003 – three) under a defined benefits scheme and to three directors (2003 – three) under unfunded obligations in respect of salary in excess of the earnings cap.

Highest paid director

Aggregate emoluments	**235**	219
Amounts provided but not paid in respect of unfunded pension obligations	**261**	250
Accrued pension at end of year under defined benefits pension scheme	**42**	38

Further details are given under the headings 'Directors' emoluments' and 'Directors' pension entitlements' in the Remuneration Report on pages 21 to 24.

8. Intangible asset – goodwill

	Group £m
Cost	
At beginning of year	26.8
Exchange adjustment	(3.0)
At end of year	**23.8**
Amortisation	
At beginning of year	(4.2)
Exchange adjustment	0.5
Charge for the year	(1.3)
At end of year	**(5.0)**
Net book value at end of year	**18.8**
Net book value at beginning of year	22.6

9. Tangible assets

	Group Properties £m	Group Equipment £m	Group Total £m	Renold plc Properties £m	Renold plc Equipment £m	Renold plc Total £m
Cost						
At beginning of year	19.8	125.9	145.7	0.1	0.8	0.9
Exchange adjustment	(0.5)	(3.5)	(4.0)			
Additions at cost		7.2	7.2		0.1	0.1
Disposals	(0.1)	(1.0)	(1.1)		(0.1)	(0.1)
At end of year	**19.2**	**128.6**	**147.8**	**0.1**	**0.8**	**0.9**
Depreciation						
At beginning of year	8.9	86.8	95.7		0.7	0.7
Exchange adjustment	(0.2)	(2.5)	(2.7)			
Depreciation for the year	0.4	8.4	8.8			
Disposals	(0.1)	(0.9)	(1.0)			
At end of year	**9.0**	**91.8**	**100.8**		**0.7**	**0.7**
Net book value at end of year	**10.2**	**36.8**	**47.0**	**0.1**	**0.1**	**0.2**
Net book value at beginning of year	10.9	39.1	50.0	0.1	0.1	0.2

Net book value at the end of the year includes £2.8 million (2003 – £3.2 million) in respect of leased assets (land and buildings £2.6 million (2003 – £2.8 million), equipment £0.2 million (2003 – £0.4 million)).

The total cost of properties at 3 April 2004 comprises £13.6 million (2003 – £14.1 million) for freehold land and buildings and £5.6 million (2003 – £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 £4.0 million (2003 – £4.1 million) revalued in 1971 and equipment of £4.4 million (2003 – £4.6 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 3 April 2004 capital expenditure contracted for but not provided for in these accounts amounted to £5.0 million (2003 – £1.3 million).

10. Investments

Renold plc

	Shares £m	Advances £m	Total £m
Subsidiary companies			
Cost or valuation			
At beginning of year	48.2	64.7	112.9
Net advances		(8.4)	(8.4)
Deficit on revaluation	(3.9)		(3.9)
At end of year	**44.3**	**56.3**	**100.6**

The principal subsidiary companies of Renold plc at 3 April 2004 are set out on page 52.

11. Current assets

	Group 2004 £m	Group 2003 £m	Renold plc 2004 £m	Renold plc 2003 £m
Stocks				
Raw materials and consumables	**9.5**	9.8		
Work in progress	**12.7**	11.7		
Finished products	**24.8**	24.6		
	47.0	46.1		
Debtors				
Trade debtors	**30.7**	32.5		
Amounts owed by Group subsidiaries			**7.0**	5.3
Deferred tax asset	**4.3**	3.5		0.1
Contract debtors	**0.3**	0.1		
Other debtors	**4.3**	3.9	**0.1**	0.1
Property held for sale		2.3		
Prepayments and accrued income	**7.6**	4.4	**6.2**	3.1
	47.2	46.7	**13.3**	8.6
Cash and short-term deposits				
Cash at bank	**7.5**	8.9	**0.1**	0.1
Short-term deposits	**1.4**	0.4		
	8.9	9.3	**0.1**	0.1
	103.1	102.1	**13.4**	8.7

The Group figures for other debtors and prepayments and accrued income include £8.6 million (2003 – £5.5 million) of amounts falling due after more than one year.

12. Loans and overdrafts

	Group 2004 £m	Group 2003 £m	Renold plc 2004 £m	Renold plc 2003 £m
Total borrowings	**27.6**	30.2	**28.6**	35.0
Less: repayable within one year or on demand	**12.1**	10.2	**14.9**	10.0
Amounts falling due after more than one year	**15.5**	20.0	**13.7**	25.0
Repayable:				
In more than one year but not more than two years	**3.3**	6.7	**2.8**	6.1
In more than two years but not more than five years	**12.1**	13.1	**10.9**	18.9
In more than five years	**0.1**	0.2		
	15.5	20.0	**13.7**	25.0
Loans comprise:				
UK term loans repayable by 2007	**16.4**	25.2	**16.4**	32.8
Bank loans – overseas	**2.9**	3.2		
	19.3	28.4	**16.4**	32.8
Less: repayable within one year	**3.8**	8.4	**2.7**	7.8
	15.5	20.0	**13.7**	25.0

Included in Group borrowings are secured borrowings of £19.9 million (2003 – £26.3 million). Security is provided by fixed and floating charges over UK assets and the assets of certain overseas subsidiaries.

13. Creditors

	Group 2004 £m	Group 2003 £m	Renold plc 2004 £m	Renold plc 2003 £m
Amounts falling due within one year				
Trade creditors	**22.7**	23.3	**0.5**	0.4
Dividends payable	**2.1**	2.1	**2.1**	2.1
Corporate taxes	**0.9**	1.2		
Other taxation and social security	**4.6**	4.1	**0.2**	0.3
Advance payments from customers	**0.3**	0.6		
Other creditors	**4.3**	7.6	**0.3**	0.4
Accruals	**9.4**	9.1	**0.5**	1.5
Finance lease obligations	**0.1**			
	44.4	48.0	**3.6**	4.7
Amounts falling due after more than one year				
Finance lease obligations	**0.4**			
Other creditors	**1.0**	0.6		
	1.4	0.6		
Future minimum payments under finance leases are as follows:				
Within one year	**0.1**			
In more than one year, but not more than five years	**0.4**			
After five years	**0.1**			
Total gross payments	**0.6**			
Less: finance charges	**(0.1)**			
	0.5			

14. Provisions for liabilities and charges

	Group Deferred tax provision £m	Group Pension provision £m	Group Total £m	Renold plc Deferred tax provision £m
At beginning of year	1.8	12.0	13.8	
Exchange adjustments	0.1	(0.5)	(0.4)	
Charge to profit and loss account	0.6	1.1	1.7	0.8
Utilised in year		(0.8)	(0.8)	
At end of year	**2.5**	**11.8**	**14.3**	**0.8**

(a) Deferred Tax

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

	Deferred tax asset £m	Deferred tax provision £m	Net deferred tax £m
At beginning of year	(3.5)	1.8	(1.7)
Exchange adjustment		0.1	0.1
Deferred tax recognised in the profit and loss account	(0.8)	0.6	(0.2)
At end of year	**(4.3)**	**2.5**	**(1.8)**

14. Provisions for liabilities and charges continued

(a) Deferred Tax continued

The total deferred tax shown in the Renold plc balance sheet is as follows:

	Deferred tax asset £m	Deferred tax provision £m	Net deferred tax £m
At beginning of year	(0.1)		(0.1)
Deferred tax recognised in the profit and loss account	0.1	0.8	0.9
At end of year		**0.8**	**0.8**

	2004 £m	2003 £m
The Group deferred tax recognised comprises:		
Accelerated capital allowances	**(1.5)**	0.2
Other timing differences	**0.9**	(0.7)
Tax losses carried forward	**(1.2)**	(1.2)
	(1.8)	(1.7)

During the year the Group has reported an operating profit of £7.7 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 £3.2 million has not been recognised in respect of losses in certain overseas subsidiaries where, based on available evidence, it is considered unlikely that the losses will be recovered within the foreseeable future.

(b) Pensions

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

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:

	2004 £m	2003 £m
UK	**1.8**	1.6
Overseas	**3.1**	2.6
	4.9	4.2

The UK cost for 2004 reflects the regular contribution rate less £0.4 million (2003 - £0.4 million) in respect of the actuarial surplus on the main UK schemes, 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.

New UK employees are 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 have been assessed using the projected unit method in accordance with the advice of William M Mercer Limited, consulting actuaries. The last actuarial valuations of the Renold Group Pension Scheme and the Renold Supplementary Pension Scheme 1967 were carried out as at 5 April 2001. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

It has been assumed that the investment return will be 6.65% per annum before retirement and 5.65% per annum after retirement, that salary increases will be in the range 3.4% to 3.9% per annum and that present and future pensions will increase at 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.

15. Pensions continued

(a) Pension disclosures in respect of SSAP 24 continued

In respect of the Jones & Shipman plc Retirement Benefits Plan (1971), the actuarial value of the assets of this scheme was £29.9 million at the time of the last actuarial valuation in April 2003. This represented 93% of the liabilities in respect of benefits accrued to members. The valuation assumed an investment return of 6.35% per annum before retirement and 5.35% per annum after retirement, that salaries will increase at 3.5% per annum and that future pensions will increase at 2.5% per annum.

Overseas pension costs include £1.4 million (2003 – £1.5 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:

	2004 £m	2003 £m
Overseas schemes	**11.8**	12.0

The movement in provision is set out in note 14. At 3 April 2004 the balance on UK schemes is an asset of £6.1 million (2003 – £2.9 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 that the new standard's valuation methodology would have on the Group's accounts at 3 April 2004. 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 3 April 2004 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 3 April 2004 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.

	UK			Overseas		
	2004	2003	2002	**2004**	2003	2002
Rate of increase in salaries	**3.7%**	3.7%	3.9%	**3.5%**	3.4%	3.2%
Rate of increase in pensions in payment and deferred pensions	**2.6%**	2.6%	2.8%	**2.6%**	2.5%	2.3%
Discount rate	**5.5%**	5.4%	6.0%	**6.3%**	6.2%	6.6%
Inflation assumption	**2.6%**	2.6%	2.8%	**2.6%**	2.6%	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.

15. Pensions continued

(b) Pension disclosures in respect of FRS 17 continued

Expected long term rates of return:

	UK			Overseas		
	2004	2003	2002	**2004**	2003	2002
Equities	**8.0%**	8.0%	8.0%	**8.8%**	8.6%	9.6%
Bonds	**5.1%**	4.9%	5.6%	**7.0%**	6.4%	7.3%
Other				**8.0%**	7.2%	9.5%

Market values and present values of scheme liabilities:

	UK			Overseas		
	2004 £m	2003 £m	2002 £m	**2004 £m**	2003 £m	2002 £m
Equities	**64.4**	47.5	61.3	**5.6**	5.3	8.7
Bonds	**68.6**	72.3	70.5	**3.6**	2.8	4.7
Other				**0.8**	0.8	1.1
Total market value of assets	**133.0**	119.8	131.8	**10.0**	8.9	14.5
Present value of scheme liabilities	**(154.0)**	(150.9)	(138.9)	**(28.4)**	(28.6)	(29.6)
Deficit in schemes	**(21.0)**	(31.1)	(7.1)	**(18.4)**	(19.7)	(15.1)
Related deferred tax asset	**6.3**	9.3	2.1	**2.4**	2.7	1.8
Net pension liability	**(14.7)**	(21.8)	(5.0)	**(16.0)**	(17.0)	(13.3)

The gross deficit disclosed above (FRS 17 basis) in respect of overseas schemes includes £ 16.9 million (2003: £16.9 million) relating to unfunded arrangements in Germany and France; a pension liability of £11.6 million (2003: £11.7 million) has been recognised in the balance sheet at 3 April 2004, under SSAP 24, in respect of these unfunded arrangements.

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

	2004 £m	2003 £m
Net Assets		
Net assets as stated in the balance sheet	**81.2**	82.1
Net pension liability recognised under SSAP 24	**11.9**	12.0
Net pension scheme asset recognised under SSAP 24	**(4.3)**	(2.9)
Net assets excluding defined benefit pension scheme assets/liabilities	**88.8**	91.2
FRS 17 net liability on UK schemes	**(14.7)**	(21.8)
FRS 17 net liability on Overseas schemes	**(16.0)**	(17.0)
Net assets including net defined benefit pension scheme liabilities assessed under FRS 17	**58.1**	52.4
Reserves		
Profit and loss reserves as stated in the balance sheet	**57.3**	58.2
Pension liability recognised under SSAP 24	**11.9**	12.0
Pension asset recognised under SSAP 24	**(4.3)**	(2.9)
Profit and loss reserve excluding amounts relating to defined benefit assets/liabilities	**64.9**	67.3
FRS 17 net pension liabilities on UK schemes	**(14.7)**	(21.8)
FRS 17 net pension liabilities on Overseas schemes	**(16.0)**	(17.0)
Profit and loss reserve including amounts relating to net defined benefit liabilities assessed under FRS 17	**34.2**	28.5

15. Pensions continued

(b) Pension disclosures in respect of FRS 17 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 3 April 2004.

	2004 UK £m	**2004 Overseas £m**	**2004 Total £m**	2003 UK £m	2003 Overseas £m	2003 Total £m
Amounts charged to operating profit						
Current service cost	**(2.2)**	**(0.7)**	**(2.9)**	(1.8)	(0.7)	(2.5)
Past service cost	**(0.3)**	**(0.1)**	**(0.4)**			
	(2.5)	**(0.8)**	**(3.3)**	(1.8)	(0.7)	(2.5)
Amounts credited/(charged) to net interest						
Expected return on pension scheme assets	**7.3**	**0.8**	**8.1**	8.7	0.8	9.5
Interest on pension scheme liabilities	**(8.0)**	**(1.7)**	**(9.7)**	(8.2)	(1.6)	(9.8)
	(0.7)	**(0.9)**	**(1.6)**	0.5	(0.8)	(0.3)
Amounts recorded in statement of total recognised gains and losses						
Actual return less expected return on pension scheme assets	**8.4**	**0.8**	**9.2**	(18.2)	(1.9)	(20.1)
Experience gains/(losses) arising on scheme liabilities	**0.7**	**(1.1)**	**(0.4)**	1.6	0.1	1.7
Changes in assumptions underlying the present value of the scheme liabilities	**(0.3)**	**0.9**	**0.6**	(10.3)	(1.8)	(12.1)
	8.8	**0.6**	**9.4**	(26.9)	(3.6)	(30.5)

The movement in the deficits in the schemes over the year to 3 April 2004 is analysed below:

	2004 UK £m	**2004 Overseas £m**	**2004 Total £m**	2003 UK £m	2003 Overseas £m	2003 Total £m
Deficit in schemes at beginning of year	**(31.1)**	**(19.7)**	**(50.8)**	(7.1)	(15.1)	(22.2)
Current service cost	**(2.2)**	**(0.7)**	**(2.9)**	(1.8)	(0.7)	(2.5)
Past service cost	**(0.3)**	**(0.1)**	**(0.4)**			
Employer contributions	**4.5**	**1.4**	**5.9**	4.2	1.2	5.4
Other finance income/(expense)	**(0.7)**	**(0.9)**	**(1.6)**	0.5	(0.8)	(0.3)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	**8.8**	**0.6**	**9.4**	(26.9)	(3.6)	(30.5)
Exchange adjustment		**1.0**	**1.0**		(0.7)	(0.7)
Deficit in schemes at end of year	**(21.0)**	**(18.4)**	**(39.4)**	(31.1)	(19.7)	(50.8)

15. Pensions continued

(b) Pension disclosures in respect of FRS 17 continued

The amounts that would have been charged to the Group statement of total recognised gains and losses under FRS 17 for the year ended 3 April 2004 are set out below:

	2004 UK	2004 Overseas	2004 Total	2003 UK	2003 Overseas	2003 Total
Difference between the expected and actual return on scheme assets:						
Amount (£m)	**8.4**	**0.8**	**9.2**	(18.2)	(1.9)	(20.1)
Percentage of scheme assets	**6.3%**	**8.0%**	**6.4%**	15.2%	21.8%	15.6%
Experience gains/(losses) of scheme liabilities:						
Amount (£m)	**0.7**	**(1.1)**	**(0.4)**	1.6	0.1	1.7
Percentage of the present value of the scheme liabilities	**0.5%**	**3.7%**	**0.2%**	1.1%	0.4%	0.9%
Total amount recognised in the statement of total recognised gains and losses:						
Amount (£m)	**8.8**	**0.6**	**9.4**	(26.9)	(3.6)	(30.5)
Percentage of scheme liabilities	**5.7%**	**2.1%**	**5.2%**	17.8%	12.6%	17.0%

16. Called up share capital

Group and Company

	Authorised 2004 £m	Authorised 2003 £m	Issued 2004 £m	Issued 2003 £m
Equity interests				
Ordinary shares of 25p each	**23.1**	23.1	**17.3**	17.3
Non-equity interests				
6% Cumulative Preference Stock (£1 units)	**0.6**	0.6	**0.6**	0.6
	23.7	23.7	**17.9**	17.9

At 3 April 2004 the issued Ordinary Share Capital comprised 69,313,292 (2003 – 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 arrears for six calendar months;

(iv) there is no redemption entitlement.

17. Reserves

	Profit and loss account £m	Share premium account £m	Revaluation reserve £m	Total reserves £m
Group				
At beginning of year	58.2	6.0		64.2
Exchange translation differences on net assets of overseas subsidiaries	(3.1)			(3.1)
Retained profit for the year	2.2			2.2
At end of year	**57.3**	**6.0**		**63.3**
Renold plc				
At beginning of year	49.4	6.0	8.8	64.2
Exchange adjustments	(1.5)			(1.5)
Retained profit for the year	4.5			4.5
Deficit on revaluation of shares in subsidiaries			(3.9)	(3.9)
At end of year	**52.4**	**6.0**	**4.9**	**63.3**

The consolidated profit for the financial year includes a profit of £7.7 million (2003 – £3.8 million) which is dealt with in the accounts of the parent company.

Cumulative goodwill written off to Group reserves at 3 April 2004, subsequent to the capital reorganisation in January 1985, amounted to £2.0 million (2003 – £2.0 million).

18. Operating lease obligations

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

	2004		2003	
	Properties £m	**Equipment £m**	Properties £m	Equipment £m
Leases expiring:				
Within one year	**0.3**	**0.2**	0.2	0.1
Between two and five years	**0.3**	**0.4**		0.3
Over five years	**0.9**	**0.1**	0.8	
Total annual commitments	**1.5**	**0.7**	1.0	0.4

19. Contingent liabilities

Contingent liabilities at 3 April 2004 in respect of guarantees amounted to £1.8 million (2003 – £1.6 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 3 April 2004 unexercised options for ordinary shares amounted to 3,130,071 (2003 – 3,562,706) made up as follows:

Date normally exercisable	Option price (pence per share)	**Number of shares 2004**	Number of shares 2003
Executive Share Option Schemes			
Within seven years from:			
30 November 1996	120.30		189,900
1 December 1997	184.30	**40,000**	50,000
16 July 1999 (1995 Scheme)	293.83	**64,178**	73,115
18 July 2000 (1995 Scheme)	242.67	**19,296**	20,647
17 July 2001 (1995 Scheme)	237.33	**215,000**	245,000
16 July 2002 (1995 Scheme)	137.83	**245,000**	290,000
19 July 2003 (1995 Scheme)	118.50	**155,000**	185,000
22 December 2003 (1995 Scheme)	94.50	**20,000**	20,000
18 June 2004 (1995 Scheme)	102.00	**125,000**	125,000
28 November 2004 (1995 Scheme)	67.34	**489,000**	489,000
27 November 2005 (1995 Scheme)	58.50	**414,000**	414,000
28 July 2006 (1995 Scheme)	80.84	**50,000**	
27 November 2006 (1995 Scheme)	83.50	**275,000**	
11 March 2007 (1995 Scheme)	76.50	**125,000**	
Within four years from:			
16 July 1999 (1995 Scheme)	293.83		241,885
18 July 2000 (1995 Scheme)	242.67	**175,704**	199,353
		2,412,178	2,542,900
Savings Related Share Option Schemes			
Within six months from:			
1 February 2003 (1995 Scheme)	89.36		255,721
1 February 2005 (1995 Scheme)	89.36	**136,826**	150,343
1 February 2006 (1995 Scheme)	55.08	**381,185**	398,952
1 February 2008 (1995 Scheme)	55.08	**199,882**	214,790
		717,893	1,019,806

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

	2004 £m	2003 £m
Operating profit	**8.7**	6.8
Depreciation charges (net of profit/loss on disposals)	**8.8**	8.7
Goodwill amortisation	**1.3**	1.4
(Increase)/decrease in stocks	**(2.7)**	1.3
(Increase) in debtors	**(3.5)**	(5.0)
(Decrease)/increase in creditors	**(0.8)**	5.0
Increase/(decrease) in provisions	**0.2**	(0.3)
Exceptional gain on disposal of property held for sale	**(2.8)**	
Net cash inflow from operating activities	**9.2**	17.9

Net cash flow from operating activities includes an outflow of £0.8 million (2003 – £1.9 million) which relates to exceptional redundancy and restructuring costs; an amount of £0.1 million (2003 – £0.5 million) was retained in creditors. In 2003 the cash flow statement included sale proceeds of £0.6 million in respect of the exceptional fixed asset disposal.

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

	2004 £m	2003 £m
Servicing of finance		
Interest received	**0.2**	0.2
Interest paid	**(3.5)**	(3.0)
Net cash outflow for servicing of finance	**(3.3)**	(2.8)
Financing		
Debt due within one year: (decrease) in short-term borrowings	**(5.0)**	(2.4)
Debt due after one year: (decrease)/increase in long-term borrowings	**(1.4)**	2.4
Net cash outflow from financing	**(6.4)**	

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	8.9	(0.6)		(0.8)	**7.5**
Overdrafts	(1.8)	(6.6)		0.1	**(8.3)**
	7.1	(7.2)		(0.7)	**(0.8)**
Debt due after one year	(20.0)	1.4	1.4	1.7	**(15.5)**
Debt due within one year	(8.4)	5.0	(1.5)	1.1	**(3.8)**
Finance leases			(0.5)		**(0.5)**
	(28.4)	6.4	(0.6)	2.8	**(19.8)**
Short-term deposits	0.4	1.0			**1.4**
Total	(20.9)	0.2	(0.6)	2.1	**(19.2)**

24. Financial instruments

These notes should be read in conjunction with the narrative disclosures in the Financial Review on page 14.

(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

	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Fixed rate £m	Floating rate £m	Total £m
Currency					
2004					
Sterling					
Financial liabilities	**9.5**	**2.5**	**1.3**	**3.3**	**4.6**
Preference shares	**6.0**	*	**0.6**		**0.6**
US Dollar	**6.8**	**2.2**	**13.4**	**1.2**	**14.6**
Euro	**4.7**	**2.1**	**2.0**	**5.0**	**7.0**
Other	**8.1**	**1.9**	**0.9**	**1.0**	**1.9**
			18.2	**10.5**	**28.7**
2003					
Sterling					
Financial liabilities	9.5	3.5	1.8	2.8	4.6
Preference shares	6.0	*	0.6		0.6
US Dollar	8.3	1.9	20.6	0.3	20.9
Euro	4.7	2.4	1.7	1.4	3.1
Other	8.1	2.2	1.0	0.6	1.6
			25.7	5.1	30.8

* Preference shares have no fixed repayment date.

The Sterling and US Dollar fixed rate financial liabilities take into account interest rate swaps.

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

(d) Currency and interest rate profile of financial assets at 3 April 2004

	2004 Cash at bank and in hand £m	**2004** Short-term deposits £m	**2004** Total £m	2003 Cash at bank and in hand £m	2003 Short-term deposits £m	2003 Total £m
Currency						
Sterling	**0.1**		**0.1**	0.2		0.2
Euro	**5.5**	**0.6**	**6.1**	7.2	0.3	7.5
Other	**1.9**	**0.8**	**2.7**	1.5	0.1	1.6
	7.5	**1.4**	**8.9**	8.9	0.4	9.3

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

24. Financial instruments continued

(e) Maturity of financial liabilities

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

	2004 Total debt £m	2003 Total debt £m
In one year or less, or on demand	**12.2**	10.2
In more than one year but not more than two years	**3.4**	6.7
In more than two years but not more than five years	**12.3**	13.1
In more than five years	**0.8**	0.8
	28.7	30.8

Debt due in more than five years includes £0.6 million (2003 – £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:

	2004 £m	2003 £m
Expiring within one year or less, or on demand	**21.5**	24.5
Expiring in more than one year but not more than two years	**3.8**	0.3
Expiring in more than two years	**0.6**	8.3
	25.9	33.1

The facilities expiring in one year or less, or on demand, are primarily annual facilities subject to review at various dates during the year ending 31 March 2005.

(g) Fair values of financial assets and financial liabilities

	2004		2003	
	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)	**(12.2)**	**(12.2)**	(10.2)	(10.2)
Long-term borrowings	**(15.9)**	**(15.9)**	(20.0)	(20.0)
Preference shares	**(0.6)**	**(0.5)**	(0.6)	(0.6)
Short-term deposits	**1.4**	**1.4**	0.4	0.4
Cash at bank and in hand	**7.5**	**7.5**	8.9	8.9
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps		**(1.1)**		(2.0)

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.

24. Financial instruments continued

(h) Currency exposures

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

	Sterling £m	US Dollars £m	Euro £m	Other £m	Total £m
2004					
Functional currency of companies					
Sterling		**(0.3)**	**(0.2)**	**0.4**	**(0.1)**
US Dollars	**(0.2)**		**0.1**		**(0.1)**
Euro	**(0.6)**	**0.8**			**0.2**
Other currencies	**(0.3)**			**0.2**	**(0.1)**
	(1.1)	**0.5**	**(0.1)**	**0.6**	**(0.1)**
2003					
Functional currency of companies					
Sterling		(0.4)	1.7	0.5	1.8
US Dollars	(0.1)				(0.1)
Euro	(0.2)	0.6			0.4
Other currencies	(0.5)	(0.1)		0.2	(0.4)
	(0.8)	0.1	1.7	0.7	1.7

(i) Gains and losses on instruments used for hedging

There were no significant unrecognised or deferred gains and losses on hedges at 3 April 2004 or at 29 March 2003.

Group Five Year Financial Review

Profit and loss account

	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Turnover	**192.1**	187.4	190.2	216.7	174.2
Operating profit before goodwill amortisation and exceptional items	**7.7**	9.2	7.8	16.1	11.0
Profit/(loss) on ordinary activities before tax	**6.4**	4.2	(5.6)	11.1	9.6
Profit/(loss) after tax for ordinary shareholders	**5.4**	2.5	(5.0)	7.4	6.1

Balance sheet

	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Tangible fixed assets	**47.0**	50.0	54.6	59.2	58.7
Stocks	**47.0**	46.1	46.9	52.0	50.1
Debtors	**36.8**	38.0	34.8	41.7	40.7
Creditors	**(42.3)**	(45.3)	(39.0)	(45.0)	(44.4)
Operating assets	**88.5**	88.8	97.3	107.9	105.1
Goodwill	**18.8**	22.6	26.2	27.7	26.3
Properties held for sale		2.3			5.0
Net borrowings – including finance leases	**(19.2)**	(20.9)	(29.1)	(28.3)	(33.5)
Dividends and corporate tax	**1.3**	0.2	0.7	(5.3)	(5.7)
Provisions for liabilities and charges (net of pension prepayments)	**(8.2)**	(10.9)	(12.6)	(12.7)	(10.8)
Net assets	**81.2**	82.1	82.5	89.3	86.4

Key data

			2004	2003	2002	2001	2000
Operating return on average operating assets	%	1	**8.7**	9.9	7.6	15.1	12.1
Operating profit on turnover	%	1	**4.0**	4.9	4.1	7.4	6.3
Capital expenditure	£m		**7.2**	5.7	5.4	9.5	10.3
Basic earnings per share	p		**7.7**	3.5	(7.2)	10.7	8.6
Dividends per ordinary share	p		**4.5**	4.5	4.5	9.25	9.25
Employees at year end			**2,656**	2,686	2,780	3,238	3,187

1. Based on operating 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.

Principal Subsidiary Companies

as at 3 April 2004

UNITED KINGDOM

Renold Power Transmission Limited*	FACTORIES: BREDBURY, 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 Renold Automotive Systems Germany GmbH
Holland	Renold Continental Limited (incorporated in the United Kingdom)
Sweden	Renold Transmission AB
Switzerland	Renold (Switzerland) GmbH

NORTH AMERICA

Canada	Renold Canada Limited
USA	Renold Holdings Inc Renold Inc FACTORY: WESTFIELD, NY Renold Power Transmission Corporation Jones & Shipman Inc Edgetek Machine Corporation Jeffrey Chain Acquisition Company Inc Jeffrey Chain Corporation Jeffrey Chain LP FACTORY: MORRISTOWN, TN

OTHER COUNTRIES

Australia	Renold Australia Proprietary Limited FACTORY: MELBOURNE
China	Renold Transmission (Shanghai) Company Limited
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.

Financial Calendar

	2004
Ex-dividend date for final dividend	14 July
Record date for final dividend*	16 July
Annual General Meeting	22 July
Final ordinary dividend for 2003/04 – payment date	12 August
Half year end 2004/05	30 September
Half year 2004/05 results published	mid November

* shareholders on the register at this date will receive the dividend

	2005
Interim ordinary dividend for 2004/05 payable	end January
Year end 2004/05	31 March
Preliminary announcement of annual results 2004/05	early June

Other dividend payments

Preference dividends	1 July and 1 January

RENOLD

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