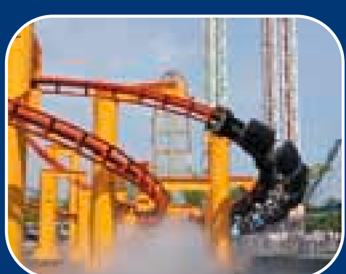
Annual Report 2005

RENOLD



Contents

Financial Summary

for the financial year ended 31 March 2005

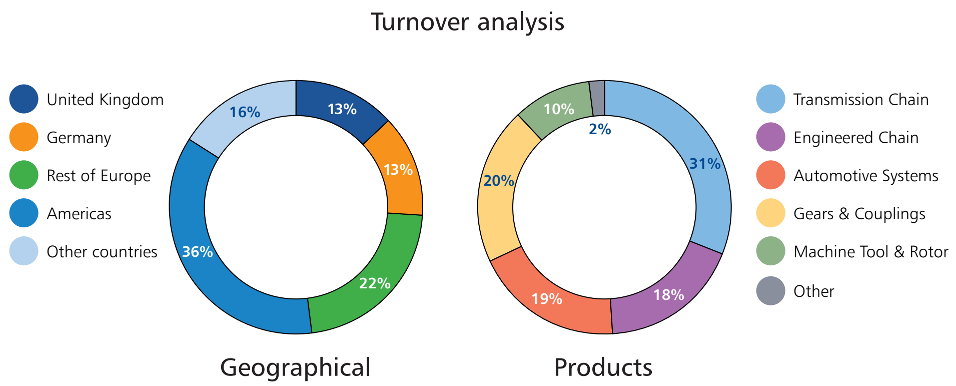
	2005 £m	2004 restated £m
Turnover	**197.0**	192.1
Operating (loss)/profit	**(4.2)**	8.6
Operating profit before goodwill amortisation and exceptional items	**3.7**	7.6
Profit before tax, goodwill amortisation and exceptional items	**1.1**	3.7
(Loss)/profit before tax	**(6.8)**	4.7
Basic and diluted (loss)/earnings per share	**(7.5)p**	6.8p
Adjusted earnings per share (adjusting for the after tax effects of goodwill and exceptional items)	**1.4p**	4.5p
Dividends per ordinary share, paid or proposed	**1.5p**	4.5p
Capital expenditure	**7.6**	7.2
Net debt	**17.0**	19.2

Group Overview

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.



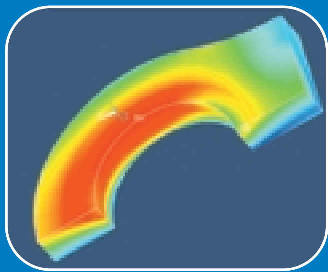
Global Strategy

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.

Developing our Business

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

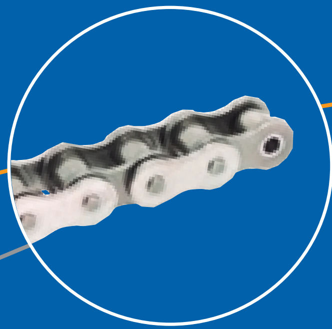
Innovative Solutions

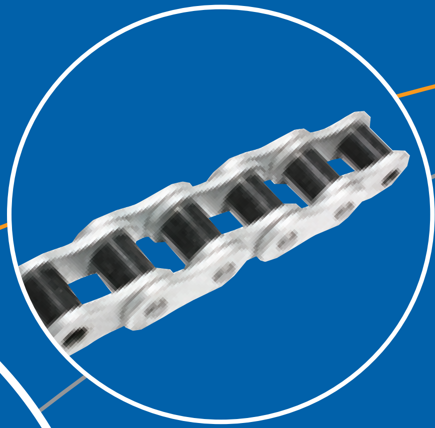


Leading edge design techniques, such as Finite Element Analysis, help bring our ideas to life. Solutions engineered to meet our customers' needs.

Leading Products

Renold Synergy – simply the best transmission chain in the world.





Renold Syno range

The Renold Syno range sets a new benchmark for chain performance with little or no lubrication. Covering both small and large pitch sizes, Renold has tailored its technology to suit customer requirements with a range of three different products under the Renold Syno name.

The most important factor that makes Renold Syno chain so significant is hidden beneath the surface. With two sintered bush versions and a totally unique, lubricant-free polymer bush version, Renold Syno dry-to-the-touch chain provides maximum performance without added lubricant.

Ideal Industrial Applications include:

- Food Processing
- Packaging
- Printing
- Bottling
- Forestry
- Saw Mills
- Paper Mills
- Textiles
- Electronics Production
- Car Assembly

Chairman's Statement

After an encouraging start the outcome for the financial year 2005 was disappointing with an operating profit before goodwill and exceptional items of £3.7 million, compared with £7.6 million (restated) in 2004 on sales of £197.0 million (2004: £192.1 million), up 6% at constant exchange rates.

Steel price increases had a major effect in the second half of the year with the Group experiencing an average year on year increase of some 40% in costs. Steel represents the major part of raw material cost for the Group and whilst sales prices are being increased, it is proving difficult to fully recover these cost increases, particularly from OEM customers. Continuing weakness of the US Dollar also had an adverse impact on performance as did slowing volumes in the automotive business.

The power transmission segment saw growth in North America but weak market conditions persisted in Europe. Development of the Group's activities in China continued with further contracts won and an increase in the number of local employees. The machine tool and rotor business continued to progress and generated an operating profit of £0.6 million, up from £0.3 million in 2004 on improved sales levels.

The Board's continuing strategic review of the Group and its constituent parts is targeting a more tightly focused business with a substantially lower cost base and a reduced level of borrowings. The process of outsourcing production to lower cost economies is ongoing and the rationalisation of the Burton conveyor chain facility has already been announced and is well advanced. The Board will keep shareholders informed as these plans move forward.

Overall the Group recorded a pre tax loss of £6.8 million compared with a profit of £4.7 million (restated) in 2004. This loss was after providing £3.2 million for the rationalisation of the Burton conveyor chain facility and the creation of a UK service centre. In addition there was a £2.4 million goodwill impairment charge relating to the Jones & Shipman acquisition following a specific review conducted in the second half of the year.

In March the Group completed the acquisition of Sachs Automotive France SAS from ZF Sachs AG. This facility, which is located at Saint Siméon de Bressieux in South East France, provides a platform for a European aftermarket business for automotive chain products together with assets and technology which will enhance the development of the existing OEM activity. Following acquisition the unit has been renamed Renold SAF SAS and is currently being restructured as envisaged.

Group borrowings ended the year at £17.0 million compared with £19.2 million the previous year after including cash of £9.7 million acquired with the Sachs business, which will primarily fund the anticipated costs of restructuring that business. Revised bank borrowing facilities have been agreed.

DIVIDEND

Given this year's reduction in earnings and operational cashflow, together with the cash requirements of funding restructuring activities, the Board believes it is prudent to recommend that no final dividend be paid for this year. The interim dividend of 1.5 pence per share paid on 28 January 2005 would therefore be the total dividend for the year. The Board will consider future dividend policy in the light of results.

BOARD CHANGES

Non-executive directors – in March 2005, Barbara Beckett joined the Board and simultaneously we announced that Tim Fortune would not be offering himself for re-election at the next Annual General Meeting. We thank Tim for his invaluable contribution to the Company during the past eight years.

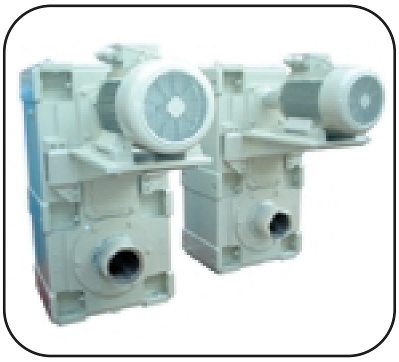
Finance Director – Subsequent to the year-end, Steve Mole offered his resignation and Tony Brown, former Finance Director, was re-appointed in his place effective 1 June 2005.

PROSPECTS

Overall the external economic environment remains difficult. The major restructuring activities under way, together with action on prices to recover steel and other cost increases, should lead to a recovery in margin as the year progresses. The recent weakening of the Euro against the Dollar, if maintained, will also be a positive factor for the Group.

Roger Leverton,
Chairman

Right: Vertically mounted HC helical gear units used in pairs to drive the wheels of a ladle car drive to operate in a UK steel works.



Chief Executive's Review

The last 12 months have been difficult for Renold. Commodity prices, particularly steel, and exchange rate movements have caused significant input cost increases. These external events have adversely impacted all businesses but the chain businesses, whose products consist almost entirely of steel, have suffered the worst impact. The machine tool, gears and couplings businesses, where steel is a much smaller part of product cost, have managed to more than offset the increases through cost reduction programmes and price increases. The industrial and automotive chain operations have faced a much harder task than these project based businesses.

The strength of the Euro has aggravated the problems faced by the chain businesses as the majority of production is European-based whereas the sales growth has come from Dollar-based economies.

Steel prices appear to have stabilised, at levels some 40% higher than a year ago, however, it would be unwise to be dependent on any significant steel price reductions to restore adequate levels of profitability. It is imperative that the chain businesses bring the cost base in line with today's external environment and the Group is focused on this target.

The majority of chain manufacturing still occurs in Europe. Over the coming year we will migrate some of this production to lower cost countries, particularly ones that also provide good growth opportunities. An automotive manufacturing facility has been established in Tennessee and this will ramp up during the year to provide a base for all US automotive and some high value industrial based contracts.

To support custom and special chains in Europe, where close customer support is required, it is proposed to establish a new facility in Poland which will initially employ some 50 people.

It is also proposed to establish a wholly owned manufacturing facility in China, on a greenfield site, to support a number of the Company's product lines. To accelerate our manufacturing presence in China we are in negotiations with a Chinese chain manufacturer with a view to a co-operation leading to Renold establishing a controlling interest. This opportunity will not only provide cost reduction but, more importantly, will provide better access to markets and customers in the Far East.

In addition to these initiatives we will continue to drive Lean methodology in all the manufacturing units. There have been positive results from this during the past 18 months but further efficiencies should be achieved. Improved IT systems will also allow us to increase the efficiency of the European sales structure and enhance our customer service.

Unfortunately these changes have caused us to announce the closure of our existing facility in Burton and to create a smaller service centre in the same locality. To date 120 job reductions have been announced in Europe, predominantly in the UK and Germany. The predicted growth in our French automotive facility should avoid the need for any loss of permanent positions at the plant in Calais.

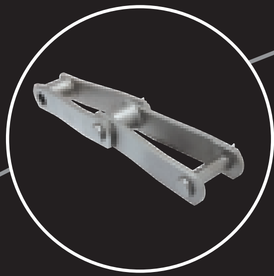
Despite the poor trading performance we have maintained the sales initiatives in countries that offer good growth prospects. In China a sales force of 12 has been built during the year and we expect this to increase steadily throughout the forthcoming year. Sales resource has also been added in the USA and this helped to deliver the growth achieved in North America. South America and Eastern Europe country managers have been added to drive growth in these countries.

The programme of change within the Group will take time to fully implement and places a significant burden on the existing management teams. I should like to take this opportunity to thank these teams and all Renold employees for the positive and enthusiastic way they have responded to these challenges.

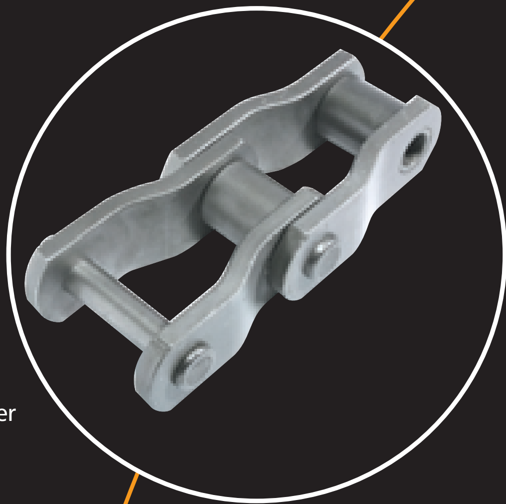
Robert Davies,
Chief Executive

Left: One of the largest food manufacturers in the US has described the wear performance of Renold's Synergy chain as simply astonishing. The company whose product range includes cakes, pie crust, dough mixes and cookies has been testing Synergy on what it described as its most arduous mixer application, where every other chain has had to be replaced within eight weeks due to wear problems. So far Synergy has been running on the same application for over 11 months and currently shows no sign of wear whatsoever.

The firm's reliability engineer said: "Synergy's performance and wear life has been astonishing. The chain has delivered tremendous cost savings by virtually eliminating maintenance and downtime on this application. We are very pleased with the product and plan on changing the chain we use on all our other critical applications to Renold Synergy."

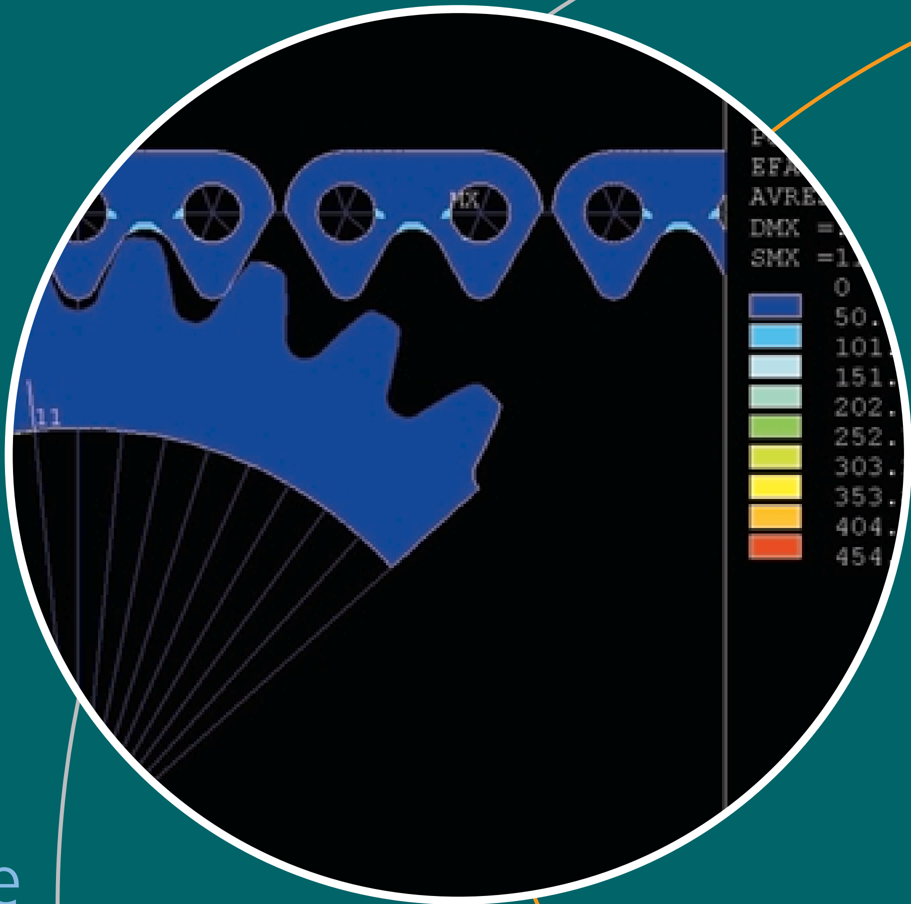


Growth potential from targeted approach



Renold is looking to build on success in the US with its range of heavy duty engineering conveyor chain by developing business in the emerging market of China. With products ideal for use in the cement industry, Renold has identified this particular market as being an opportunity for growth.

To put this in perspective, in 2003 half the cement poured on earth was poured in China. There are at least 1,500 cement plants, each producing 2,000 tons or more per day. In these kinds of environments and with productivity expectations that high, engineers are looking for a manufacturer that can provide solutions to cope with such aggressive and demanding applications.



Automotive

Renold Automotive Systems leads the field in engineering and supplying innovative technology to key players in the automotive industry.

With a unique offering of design, development, testing and manufacture experience and expertise Renold Automotive Systems is a key supplier to automotive OEMs globally.

Renold has also strengthened this activity further with the acquisition of Sachs Automotive France SAS, giving the Group a base from which to build a European automotive aftermarket business.

Operations Review

POWER TRANSMISSION – CHAIN

The industrial chain business had a difficult year being severely impacted by steel price increases and the weakness of the US Dollar. Steel costs make up the vast majority of the material purchases for the Division and can be as high as 50% of the cost of sales. Although steel price increases varied, widely dependent on the grade, on average the year-on-year increase was over 40%. Prices to customers have been increased; however, these lagged behind the cost increases and did not enable the business to fully recover the raw material cost increases. Price recovery from major OEMs proved to be particularly difficult. The net impact of steel cost increases to the division was over £3.0 million.

Further offset of increased raw material costs was achieved by the successful introduction of Lean manufacturing at all the Division's facilities and resulted in a reduction in labour costs greater than wage increases. Stock turns also improved by some 10% despite the adverse impact of significantly increased raw material costs.

Product distribution is being centralised at two centres in Europe to allow better service to our customers as well as reducing inventory and distribution costs across Europe. This model will more closely match the successful structure already in place in the USA.

Overhead cost reduction actions were implemented during the year. The closure of the Burton facility was announced with production moving to other Renold facilities and being outsourced. Within Europe, a facility is planned for Poland; this should be in operation in 2005/06. Further outsourcing is planned going forward.

Negotiations are under way with a Chinese manufacturer with the objective of establishing a Renold-owned manufacturing capability in the country. This will allow better penetration of Far East markets, in addition to additional cost reduction opportunities.

Sales, excluding price increases, were ahead of the previous year with North America being the strongest territory. Demand in the USA was for both product manufactured at the Jeffrey Chain facility, in Tennessee, and product manufactured in Europe. This growth was driven by increased sales resource and a stronger position with the major North American distributors. The weaker US Dollar understates this growth and had an adverse impact of over £0.5 million to the profitability of the chain business.

Within Europe sales were flat with little sign of market growth and increasing competition from low cost suppliers. Some growth in Germany, Scandinavia and Switzerland was offset by weaknesses in the UK, Benelux and Austria.

Asia Pacific, Australia and Malaysia showed growth, with the newly created Chinese sales subsidiary in Shanghai winning its first orders.

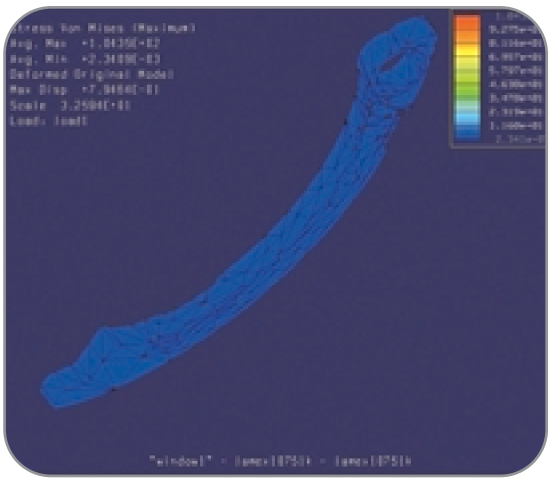
Order growth largely matched the sales improvements with North America being the strongest contributor.

Looking forward there appears to be a consensus that steel prices have plateaued but with scant evidence of any significant reductions. Cost reduction initiatives, in addition to pricing activity, should lead to more acceptable margins rather than any benefit from commodity prices or exchange rates.

POWER TRANSMISSION - GEARS

The gear business had a good year with a further increase in sales and profits. The division was particularly successful in China, winning major business from the growth in infrastructure projects. This, coupled with an increase in OEM business, led to an increase in orders of over 10%.

The division's success is driven by providing creative and innovative design solutions to solve specific customer problems. This approach has allowed growth in the relatively flat markets of the UK and Germany.



Renold – constantly pursuing improvements in product design and performance.
Right: CAD image of a timing system component.

Input costs have suffered from large increases in steel and bronze commodity prices. These were more than offset by outsourcing components from low cost countries and the successful implementation of Lean manufacturing. The adverse impact of raw material price increases on stock was also offset leading to an improvement in stock turns.

The division is well positioned to continue to show an improvement in the coming year.

POWER TRANSMISSION - COUPLINGS

During the year the businesses, based in Halifax, Cardiff and Westfield, were combined under a single management team to better exploit the sales and operational synergies. This integration has delivered good results with growth in sales and operating profit compared with last year. Order growth came mainly from North America but with prospects in Europe expected to materialize in the current financial year.

Design release for the significant multi year contract for the Alstom/New York City Transit Authority was completed during the year, on schedule, and initial production has commenced. This contract will build up during 2005/06 and deliver significant volumes during the following two years.

Sales growth also came from the steel industry where increased output and capacity provided a number of opportunities.

AUTOMOTIVE

The performance of the automotive operations was disappointing with a failure to achieve an improvement in sales or profits. Sales growth to the largest customer, GM, did not materialise due to lower end-customer demand in both Europe and the USA. The problem was aggravated by an increase in steel prices, which could not be passed on to the customer during the year. Although some efficiency gains were made these were not sufficient to offset the sales shortfall and steel price increases. With over 40% of the output being shipped to North America the strength of the Euro compared to the US Dollar had a further adverse impact of some £0.7 million.

The new manufacturing facility based in Tennessee was established in December, and the first pre-production chain shipped to the customer, on schedule, at the end of March. Quality approval and first production shipments are expected ahead of schedule later in the year. This facility will eventually produce Cam Drive Systems for all Dollar-based contracts. In addition to this reduced currency exposure there are also cost and working capital benefits from the use of US-based manufacture and assembly.

The new German facility in Einbeck, designed to relieve the capacity pressure on the Calais operation, was constructed and opened during the year. This is now assembling all chain and manufacturing components for VW. The transition has been successful with no disruption to the customer.

Towards the end of the year Sachs Automotive France SAS was purchased for a nominal sum. This provides an entry into the aftermarket business. It also provides manufacturing equipment and resources that will support the Calais operation. The business is being kept separate from Renold Automotive Systems until the restructuring programme is complete, after which it will be fully integrated. Albeit a recent acquisition, to date it has met expectations.

During the year the first contract from GM in Shanghai was awarded. In Shanghai, product shipments will commence at the end of 2005/06. In addition, a number of new customer programmes were commenced during the year. Programmes already awarded should result in a growth in sales of over 20% over the next two years based on customer forecasts.

MACHINE TOOL & ROTOR

The machine tool business had another year of profit improvement. Order levels at Jones & Shipman showed a significant increase over previous years with good growth coming from the USA, UK and France.

The launch of the new Jones & Shipman Suprema machine, towards the end of the year, was successful and this is expected to give a further boost to the already strong order book. Holroyd machine tool orders did not reach expectations with a number of prospective customer orders being delayed by several months. This shortfall was somewhat offset by an increased demand for rotors and loose gears.

Both Holroyd and Jones & Shipman suffered from increases in raw materials and utility costs; however, these were more than offset by outsourcing components from Eastern Europe and Asia. Jones & Shipman in particular has been successful in reducing costs by outsourcing a significant portion of major sub-assembly work.

Recruitment of skilled machinists is becoming increasingly difficult and to address this issue the Apprentice Training Programme was rekindled at Holroyd. This scheme is designed to provide a flow of skilled, well-trained technicians for both the gears and machine tool divisions. It is expected that this investment will give excellent returns over the forthcoming years.

Continued Success in US Leisure Ride Market

Cranked link chain from Renold has been chosen to drive the Iron Dragon roller coaster ride at Cedar Point theme park in Ohio, USA. Eight hundred and sixty feet of the Company's chain powers the 40mph ride to heights of 76 feet. Commissioned 17 years ago the Iron Dragon ride is a favourite amongst roller coaster enthusiasts and so far has run over 30 million rides.

A&S roller chain upgrade

A&S roller chain has long been recognised for its high quality and affordable reliability. It has earned a strong reputation for its excellent wear resistance, high fatigue resistance and durability and these factors have helped A&S become the most widely used chain brand in Europe.

New A&S chain includes solid extruded bush and roller components, not the weaker curled bushes offered by some other manufacturers. This combination ensures that there are no concentrated areas of stress within the bearing area which would dramatically reduce the working life of the chain by increasing wear.

The side plates have also been upgraded to have a wider waist, a feature recognised as producing better stress distribution and thus improving the fatigue resistance of the chain. It also improves the chain's dynamic load capability. The heat treatment they receive as standard also contributes to their durability.

A&S – more than just a chain.

Financial Review

PROFIT AND LOSS ACCOUNT

Turnover was £197.0 million compared with £192.1 million the previous year. The Group operates in two sectors, power transmission and machine tool and rotor. Power transmission sales were 6% higher at constant exchange rates with growth in North America and Asia Pacific offset by lower domestic sales in the major industrial markets of the UK and France. Machine tool and rotor sales were also 6% higher at constant exchange rates.

Operating profit, before goodwill amortisation and exceptional items, was £3.7 million, compared with £7.6 million (restated) in 2004. The industrial power transmission and automotive businesses showed a reduction in operating profits reflecting the significant escalation in steel prices particularly during the second half of the year. The machine tool and rotor businesses recorded an operating profit of £0.6 million, ahead of the £0.3 million profit in 2004, reflecting the benefit of a reduced cost base and some improvement in activity in the machine tool and rotor business.

Operating profit was lower in the UK, France, Germany and the rest of Europe. The reduction in France was primarily due to a weaker automotive performance while Germany and the UK it was mainly due to the surge in steel prices exacerbated by the weakness of the US Dollar. North American profit was up due to strong sales growth. Redundancy and restructuring costs were £4.3 million in the year, which included a provision of £3.2 million charged to cover the costs of the Burton site rationalisation announced in January 2005.

The acquisition of Sachs Automotive France SAS ("SAF") took place on 14 March 2005 and had no material impact on the trading operations of the Group in the year. However, a provision of £6.8 million was taken for restructuring the SAF business, offset by a release of negative goodwill arising from the acquisition.

The return on average operating assets for the Group was 4.0% down from 8.6% (restated) last year; the power transmission businesses achieved 3.9% return on average operating assets as compared to 9.5% (restated) last year.

Net interest payable was £2.2 million, compared with £2.3 million in 2004; other net finance costs of £0.4 million compared with £1.6 million in 2004 represents the FRS 17 net finance costs relating to retirement benefits.

Profit before tax for the year before goodwill amortisation and exceptional items was £1.1 million compared with £3.7 million (restated) last year.

The taxation credit of £1.6 million compares with a net taxation charge of nil (restated) in the previous year. The effective tax rate on profit before goodwill amortisation, goodwill impairment, exceptional redundancy and restructuring costs and property sales was 30% compared with 30% in 2004.

Reported loss after tax was £5.2 million compared with a profit of £4.7 million (restated) last year. Excluding goodwill amortisation and exceptional items, this represented earnings per share of 1.4 pence, compared with 4.5 pence earnings per share (restated) last year.

BALANCE SHEET

Goodwill stands at £14.7 million after an amortisation charge of £1.2 million in the year and an exceptional impairment charge of £2.4 million relating to the acquisition of Jones & Shipman, which follows a strategic review of that business. Negative goodwill was £4.5 million, after a release of £6.8 million, resulting from the SAF acquisition.

Group operating assets at the year end of £93.5 million were 6% above last year. Fixed assets at £49.5 million were £2.5 million higher after including £3.1 million for SAF acquired in March 2005. Capital additions totalled £7.6 million compared with £7.2 million last year; the depreciation charge was £8.7 million compared with £8.8 million last year. New investment was mainly in the Automotive Systems business, in France and Germany, and the German and UK industrial chain manufacturing businesses.

Shareholders' funds were £40.3 million at the year end (last year £57.9 million (restated)) after deducting the FRS 17 pension deficit of £41.3 million.

CASH FLOW AND BORROWINGS

Cash flow from operating activities was £6.6 million which compared with £9.2 million the previous year. Working capital was higher by £2.4 million compared with an increase of £3.4 million in 2004 (restated); stocks unchanged from the previous year (excluding SAF); debtors increased by £5.9 million reflecting higher sales levels in the final quarter and creditors increased by £3.5 million. Payments for fixed assets amounted to £8.0 million, whilst tax and dividend payments were £4.2 million. After exchange differences and the cash acquired with SAF there was a net cash inflow of £2.2 million, reducing year-end borrowings to £17.0 million. This represented 21% of shareholders' funds before the pension deficit (last year 22% (restated)).

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 £17.0 million at 31 March 2005 is represented by gross debt of £33.7 million less cash and short-term deposits of £16.7 million. At 31 March 2005 the Group had 43% of its gross debt at fixed interest rates. Cash deposits are placed short-term with banks where security and liquidity are the primary objectives. Revised borrowing facilities have been agreed with the Group's principal bankers.

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 a change of accounting policy, FRS 17 – Retirement Benefits has been adopted in the second half of the year; detailed disclosures are given in note 15.

The deficit has increased to £41.3 million from £30.7 million last year despite the recovering performance of equity markets in the year mainly due to changes in mortality assumptions. FRS 17 calculations are very susceptible to short-term changes in equity values, discount and interest rates.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

For the year ending 31 March 2006 the Group will be required to report its financial results in accordance with IFRS. The conversion process from reporting in accordance with UK GAAP to reporting under IFRS is ongoing. The interim results for the period to 30 September 2005 will be reported under IFRS.

Tony Brown,
Finance Director

Directors' Biographies

Roger Leverton,
Chairman

Robert Davies,
Chief Executive

Tony Brown,
Finance Director

Barbara Beckett
Non-Executive Director

Tim Fortune,
Non-Executive Director

Mark Smith,
Non-Executive Director

Roger Leverton FCA (age 66)
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 51)
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 58)
Finance Director
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 Managing Director – Chain and Power Transmission in February 2003 and appointed Business Development Director in November 2004. He was re-appointed Finance Director on 1 June 2005.
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.

Barbara Beckett BA Hons (age 51)
Non-Executive Director
was appointed to the Board in March 2005. She is the Group Marketing Director of BAA plc and has extensive experience throughout the retail/service industries and has had operations management experience with several major companies including BT plc.

Tim Fortune CEng MIMechE (age 66)
Non-Executive Director
was appointed to the Board in 1997. He was formerly Chief Executive and latterly Chairman of Spirax-Sarco Engineering plc. Tim Fortune will stand down as a Director at the conclusion of the Annual General Meeting on 21 July 2005.

Mark Smith FCA (age 66)
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 Finance Director

NON-EXECUTIVE DIRECTORS
B A Beckett
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
B A Beckett	B A Beckett	B A Beckett

COMPANY SECRETARY
G R Newton

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AUDITORS
PricewaterhouseCoopers LLP, Manchester

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UBS Investment Bank

STOCKBROKERS
UBS Investment Bank

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Huddersfield HD8 0LA
Telephone: 0870 162 3131
E-mail: shareholder.services@capitaregistrars.com
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Report of the Directors

for the financial year ended 31 March 2005

To be presented to the seventy-fifth Annual General Meeting of RENOLD plc to be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday, 21 July 2005 at 2.30 p.m.

The Notice of Meeting is included on pages 54 and 55.

Acquisitions

On 14 March 2005 the Group acquired the entire share capital of Sachs Automotive France SAS. Further details are as disclosed in note 25 on the accounts.

Group results

The loss for the year on ordinary activities before tax was £6.8 million compared with a profit of £4.7 million (as restated) for the previous year. After taxation, the loss attributable to ordinary shareholders was £5.2million compared with a profit of £4.7 million (as restated) last year.

There was a loss of £6.3 million after charging the cost of dividends of £1.1million. Last year there was a profit of £1.5 million (as restated) 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 28 January 2005. No final dividend per ordinary share is recommended.

Preference dividend payments were made on 1 July 2004 and 1 January 2005.

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 I R Trotter who retired on 6 April 2004 and Ms B A Beckett who was appointed on 1 March 2005. Ms Beckett will be standing for election at the forthcoming Annual General Meeting.

Mr S R Mole was a director throughout the year but resigned as a director on 1 June 2005.

Mr T B Fortune has indicated that he will retire from the Board following the end of the forthcoming Annual General Meeting.

Mr R F Leverton retires by rotation and, being eligible, offers himself 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 Leverton, Ms Beckett and Mr Smith do not have service contracts with the Company or any of its subsidiaries.

The Company maintained liability insurance for its directors and officers throughout the year.

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.

Special business – Annual General Meeting

Power to allot shares and disapplication of pre-emption rights

The directors consider it desirable to renew the general authorities granted at the last Annual General Meeting with regard to the allotment of shares in the Company and which will lapse on the date of the next Annual General Meeting or 20 October 2006, whichever is the earlier.

Firstly, the general authority, pursuant to Section 80 of the Companies Act 1985, enabling the directors to allot unissued ordinary shares up to a nominal amount of £5,777,950 representing 33.33% of the current issued ordinary share capital of the Company. Secondly, the authority to disapply Section 89(1) of the said Act, which gives pre-emption rights to shareholders, to the allotment of shares for cash in connection with a rights issue, the Company's share schemes (under the limits of the above general authority) and otherwise up to a nominal amount of £866,692 representing 5% of the current issued ordinary share capital of the Company. Except for the issue of shares pursuant to the Company's employee share schemes the directors have no present intention of issuing any part of the unissued share capital. Resolutions 7 and 8 will be proposed to give effect to these measures.

Share capital

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

As at 2 June 2005, 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)

	%
Henderson Global Investors Ltd	16.73
Prudential plc	12.85

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

Lowland Investment Company Plc	7.21
Platinum Investment Trust plc	8.17
J P Morgan Fleming Mercantile Investment Trust	4.84

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 31 March 2005 the Renold Group employed 2,839 people, including 1,022 in the UK and 1,145 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 2005 amounted to £1.9 million.

Policy on payment of suppliers

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

At 31 March 2005 trade creditors of the Group's businesses in the UK and overseas represented 67 days' purchases, compared with 69 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
13 June 2005

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.

The Board considers that the Company has complied throughout the year ended 31 March 2005 with the provisions of the Combined Code as issued in July 2003.

Board

The Board presently comprises a non-executive Chairman, three independent non-executive directors and two executive directors. Throughout most of 2004/05 there were, in addition to the Chairman, two 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 conducted internally by means of a detailed questionnaire completed by each director with the Board considering the outcome. The result has been to include an expansion of matters for discussion at the Board.

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. In particular, the Board considers that this remains true for the Senior Independent Director, Mr M A Smith, who has served on the Board for ten years and brings a wealth of relevant financial experience and independence 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 2005.

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.

The Board meets on a regular basis with an agenda and necessary papers for discussion distributed in advance of each meeting. The following table shows the number of meetings and record of attendance at Board and Board Committee meetings held in the year to 31 March 2005.

	Board	Audit	Nomination	Remuneration	Risk
Number held	**10**	**3**	**1**	**4**	**5**
Number attended					
R F Leverton	10	3	1	4	
R J Davies	10				5
B A Beckett	1				
D A Brown	10				5
T B Fortune	8	3		4	
S R Mole	10				5
M A Smith	10	3	1	4	

All directors in office at the time of the Annual General Meeting held on 22 July 2004 were in attendance for the meeting.

Ms B A Beckett was appointed on 1 March 2005 and was only eligible to attend one Board meeting.

Board Committees

The Board delegates specific responsibility to Committees, all of which have written terms of reference 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.

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 with Mr Fortune 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.

The Committee reviews the independence of the external auditors on an annual basis and to safeguard the independence and objectivity of the auditors has approved a policy on non-audit services provided by the auditors in line with professional practice.

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 meeting in 2004/05 was to consider the appointment of Ms B A Beckett which was undertaken with the assistance of an external search consultant.

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 as well as performance related bonus schemes and pension rights. The main Board determines the remuneration of the non-executive directors and individual non-executive directors are not present when their own remuneration is being discussed. Ms B A Beckett will become Chairman following Mr Fortune's retirement from the Board in July 2005.

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 31 March 2005, 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 as part of a continuous process and reporting of these which is 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 detailed monthly 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 results. These presentations are also available on the Company's website. The Chairman invites major institutional shareholders, should they wish, to meet with the Chairman and Senior Independent Director. 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. Shareholders are invited to talk informally to the Directors after the formal proceedings.

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 31 March 2005.

In accordance with the Directors' Remuneration Report Regulations 2002, this report is submitted to shareholders for approval at the forthcoming Annual General Meeting on 21 July 2005 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 Committee is comprised of the independent non-executive directors and the Chairman of the Company 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. Ms B A Beckett was appointed to the Committee from 1 March 2005. 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 directors' remuneration policy

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.

Base 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 which for 2004/05 was based upon the achievement of a combination of financial and personal objectives. Given the disappointing profit performance in the year no bonuses for 2004/05 were awarded.

In respect of 2005/06 the bonus scheme for the Executive Directors has been revised in line with the new incentive arrangements which were approved at the Annual General Meeting in July 2004. These comprise the following:

- A new discretionary performance related annual bonus scheme which has a maximum of 60% of basic salary. A proportion of this bonus will be based on group profit targets and the balance on personal objectives.

- A deferred annual bonus scheme ("DABS") invites directors to use all or part of their performance related cash bonus (net of tax) for the preceding financial year to purchase shares in the Company which must be held as "Lodged Shares" i.e. cannot be sold during the three year vesting period. In return the executive directors receive a conditional award of matching shares up to a maximum of 150% of the bonus invested. The matching shares are only receivable if performance targets are met. The performance targets are as set out in the circular to shareholders dated 22 June 2004 and require growth in the Company's adjusted earnings per share over the three year period from the commencement of the financial year in which the DABS award is made to exceed the percentage growth in the Consumer Price Index ("CPI") over the same period by a minimum of 3% per annum compounded which will trigger 40% of the award to vest and increasing to 100% on a straight line basis until the percentage growth in the CPI of 6% per annum compounded is exceeded. No re-testing of the performance criteria will occur. As no discretionary performance related annual bonus was awarded for 2004/05 there will be no deferred annual bonus scheme award in 2005/06.

- An annual Performance Share Plan ("PSP") provides conditional awards to acquire free shares up to a maximum of 60% of basic salary. At the time of grant of a PSP performance conditions and target levels will be set which are stretching and will use measures the participants can, by their actions, influence, in order to provide effective motivation. The performance target will be set such that 40% of the award will vest if the total shareholder return ("TSR") performance over a three year period from the commencement of the financial year in which the award is made is equal to the median TSR of a group of companies in the engineering and machinery index. If the Company's TSR performance would place it in the upper quartile of the TSR of the comparator group of companies, 100% of the award will vest. The award will vest proportionately between 40% and 100%. No PSP award will vest below median performance and no re-testing of the performance criteria will occur.

Share option schemes

The Committee believes that share options remain an important motivational aspect of remuneration for executive directors and senior executives who are encouraged to build up a holding of shares in the Company.

The Company operates a discretionary executive share option scheme ("the Executive 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 has been 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. No options were granted under this scheme during the financial year prior to the scheme being replaced by the Renold plc 2004 Inland Revenue Approved Company Share Option Plan and the Renold plc 2004 Non Inland Revenue Approved Company Share Option Plan which were approved by shareholders at the Annual General Meeting in July 2004. Under the new Executive Scheme the maximum annual value of shares that may be awarded cannot normally exceed 100% of the participant's basic salary. However, in exceptional circumstances this limit can be raised to 200% at the discretion of the Remuneration Committee. This discretion was exercised in 2004/05 for Mr R J Davies as part of his incentive on joining the Company.

The performance targets under the new Executive Scheme are the same as for the DABS award set out above. No re-testing of the performance criteria will occur and, in addition, no option will be granted under the new Executive Scheme in the same year an option is granted under the Renold plc 2004 Performance Share Plan.

In addition, the Company operated a savings-related Share Option Scheme in which the executive directors were eligible to participate on the same terms as all UK employees. Options granted under this scheme are exercisable on completion of either a three-year or five-year savings contract. A new SAYE scheme was approved by shareholders at the 2004 Annual General Meeting which replaced the old scheme which was due to terminate in 2005.

Details of directors' interests in shares including options granted to executive directors under the 1995 and 2004 Executive Schemes and the SAYE Schemes 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 up to the earnings cap (currently £105,600). This provides for a pension at age 62 of two-thirds of final pensionable salary up to the earnings 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. 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 has made his own independent pension arrangements into which the Company made payments of £25,500 in 2004/05. The Company has no liability beyond making these annual contributions. On death in service a lump sum of four times salary is payable.

Service contracts

The policy is for executive directors to have rolling notice periods no greater than one year in line with current corporate governance best practice.

The executive directors have service contracts as follows:

	Date of Contract	Notice Period by Company
R J Davies	2 March 2004	12 months
D A Brown	26 February 1990	12 months
S R Mole (resigned 1 June 2005)	5 July 2000	12 months

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-executive directors 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 31 March 2005, in the ordinary shares of the Company, as appearing in the Register of Directors' Interests maintained under the Companies Act 1985, were as follows:

	31 March 2005		3 April 2004	
	Shares	**Options**	Shares	Options
R F Leverton	**8,000**		8,000	
R J Davies	**85,000**	**600,000**	85,000	125,000
B A Beckett	**(a)**			
D A Brown	**65,502**	**170,850**	65,502	180,850
T B Fortune	**4,376**		4,376	
S R Mole	**10,000**	**78,220**	10,000	78,220
M A Smith	**20,000**		20,000	

(a) as at date of appointment on 1 March 2005.

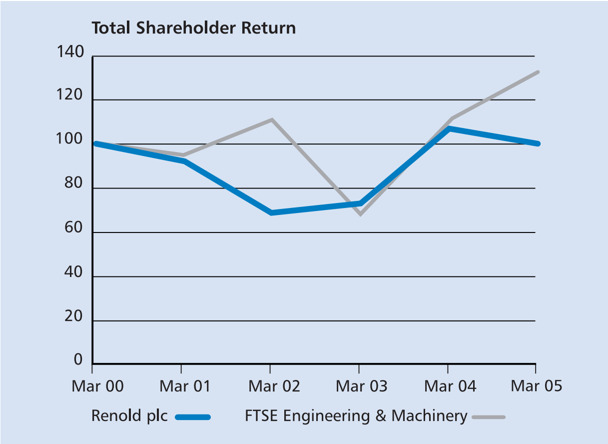
There were no non-beneficial interests held by the directors in the ordinary shares of Renold plc at the end of the year or at 2 June 2005.

At 31 March 2005 the only interest of the directors in the share capital of the Company was in the ordinary shares as stated above.

There have been no other changes in the interests of directors in the share capital of the Company between the end of the financial year and 2 June 2005.

Performance graph

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



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

Directors' emoluments

	2005					2004
	Salaries & fees £000	**Annual bonus £000**	**Benefits Cash £000**	**Benefits Non-cash £000**	**Total £000**	Total £000
Executive directors						
R J Davies (from 8.3.04)	**249**			**29**	**278**	21
D A Brown	**170**		**10**	**3**	**183**	179
S R Mole	**125**		**10**	**2**	**137**	117
I R Trotter (retired 6.4.04)	**9**				**9**	235
	553		**20**	**34**	**607**	552
Non-executive directors						
R F Leverton - Chairman	**85**				**85**	84
B A Beckett (from 1.3.05)	**2**				**2**	
T B Fortune	**26**				**26**	25
M A Smith	**27**				**27**	25
	693		**20**	**34**	**747**	686

Note: The Company has also reimbursed relocation expenses of £86,000 incurred by Mr Davies and will meet the tax liabilities arising thereon.

Directors' pension entitlements

Details of pension benefits earned in respect of each director in office at 31 March 2005 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 31.3.05 (c) £000	Transfer value at 3.4.04 (c) £000	Increased transfer value in the year (d) £000	Amounts provided in the year but not paid in respect of unfunded obligations £000
D A Brown	15	5	43	51	754	642	104	44
S R Mole	4	4	26	16	156	110	38	28

(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.

Mr R J Davies is not a member of a Company pension scheme and has made his own independent pension arrangements into which the Company made payments of £25,500 in 2004/05.

Share options

	Number of share options						
	At 3.4.04	Granted	Lapsed	At 31.3.05	Option price (pence per share)	Date from which exercisable	Expiry date
R J Davis							
Executive scheme		(a) 475,000		475,000	88.00	2.9.07	1.9.14
	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
Savings related scheme	4,735			4,735	55.08	1.2.06	31.7.06
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.

(a) Options granted under the Renold plc 2004 Inland Revenue Approved and Non Inland Revenue Approved Company Share Option Plans. All other Executive Scheme options were granted under the Renold (1995) Executive Share Option Scheme.

The middle market price of ordinary shares at 31 March 2005 was 69 pence and the range of prices during the year was 59 pence to 91.5 pence.

On behalf of the Board

T B Fortune
Chairman of Remuneration Committee
13 June 2005

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 and cash flows of the Group for the financial year.

The directors confirm that, in preparing the accounts on pages 27 to 51, the Company has used appropriate accounting policies, unless otherwise stated, 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 the Group 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 Company and the Group and to prevent and detect fraud and other irregularities.

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

Report of the Independent Auditors

To the members of Renold plc

We have audited the accounts which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the accounting policies set out in the statement of Accounting Policies and the related notes. 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 nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the 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 31 March 2005 and of the loss 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

13 June 2005

Accounting Policies

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

Change in accounting policy – The Group has adopted FRS 17 "Retirement Benefits", in these accounts. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of adopting FRS 17 are given in note 26.

Basis of consolidation – The Group accounts set out on pages 27 to 51, 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 item on the balance sheet. Positive goodwill 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. Negative goodwill is amortised through the profit and loss account in the period in which the non-monetary assets acquired are recovered. For fixed assets this is the period over which they are depreciated and for current assets the period over which they are sold or otherwise realised.

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.

Pension costs – The Group operates defined benefit and defined contribution pension schemes. Defined benefit schemes are subject to formal triennial valuations which are updated, as appropriate, at each intervening balance sheet date. Pension scheme liabilities are measured at their present value using the projected unit method, being discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension assets are measured at their year end market values.

The cost of benefits accruing during the year in respect of current and past service is charged in arriving at operating profit. The expected return on the schemes' assets and the increase in the present value of the schemes' liabilities arising from the passage of time, are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Payments to defined contribution schemes are charged against profit as incurred.

Research and development – Expenditure other than that on tangible assets is charged against the profit of the year in which it is incurred.

Group Profit and Loss Account

for the financial year ended 31 March 2005

	Note		2005 £m	2004 restated £m
Turnover	1		**197.0**	192.1
Operating costs	2			
– normal operating costs			**(193.3)**	(184.5)
– goodwill amortisation			**(1.2)**	(1.3)
– impairment of goodwill			**(2.4)**	
– exceptional redundancy and restructuring costs – continuing operations			**(4.3)**	(0.5)
– exceptional redundancy and restructuring costs – acquisition:				
Charges for redundancy and restructuring		**(6.8)**		
Release from negative goodwill		**6.8**		
– exceptional gain on disposal of property held for sale				2.8
			(201.2)	(183.5)
Operating (loss)/profit			**(4.2)**	8.6
Net interest payable	3		**(2.2)**	(2.3)
Other net finance costs	3,15		**(0.4)**	(1.6)
(Loss)/profit on ordinary activities before tax			**(6.8)**	4.7
Taxation	4		**1.6**	
(Loss)/profit for the financial year			**(5.2)**	4.7
Dividends (including non-equity)	5		**(1.1)**	(3.2)
(Loss)/retained profit for the year	17		**(6.3)**	1.5
Basic and diluted (loss)/earnings per share	6		**(7.5)p**	6.8p
Adjusted earnings per share	6		**1.4p**	4.5p

The impact of the acquisition, which was made on 14 March 2005, was not material to the continuing trading operations of the Group, other than in respect of the exceptional redundancy and restructuring costs, disclosed above, which reflect the cost of the post-acquisition restructuring and integration of the new subsidiary and the associated release of negative goodwill arising from the acquisition (see note 25). All other amounts relate to continuing operations.

The profit and loss account should be read in conjunction with the notes on pages 33 to 51.

Balance Sheets

as at 31 March 2005

	Note	Group 2005 £m	Group 2004 restated £m	Renold plc 2005 £m	Renold plc 2004 restated £m
Fixed assets					
Intangible assets	8				
– Goodwill		**14.7**	18.8		
– Negative goodwill		**(4.5)**			
Net goodwill		**10.2**	18.8		
Tangible assets	9	**49.5**	47.0	**0.2**	0.2
Investments	10			**93.4**	97.1
		59.7	65.8	**93.6**	97.3
Current assets	11				
Stocks		**47.3**	47.0		
Debtors		**51.6**	41.5	**3.1**	7.4
Cash and short-term deposits		**16.7**	8.9	**0.1**	0.1
		115.6	97.4	**3.2**	7.5
Creditors – amounts falling due within one year					
Loans and overdrafts	12	**(20.6)**	(12.1)	**(19.2)**	(14.9)
Other creditors	13	**(46.3)**	(44.4)	**(1.7)**	(3.6)
Net current assets/(liabilities)		**48.7**	40.9	**(17.7)**	(11.0)
Total assets less current liabilities		**108.4**	106.7	**75.9**	86.3
Creditors – amounts falling due after more than one year					
Loans	12	**(12.7)**	(15.5)	**(11.0)**	(13.7)
Other creditors	13	**(1.2)**	(1.4)		
Provisions for liabilities and charges	14	**(12.9)**	(1.2)		
Net assets excluding pension liability		**81.6**	88.6	**64.9**	72.6
Pension liability	15	**(41.3)**	(30.7)		
Net assets including pension liability		**40.3**	57.9	**64.9**	72.6
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				1.4
Profit and loss account	17	**16.4**	34.0	**41.0**	47.3
Shareholders' funds		**40.3**	57.9	**64.9**	72.6

Approved by the Board on 13 June 2005 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 51.

Group Cash Flow Statement

for the financial year ended 31 March 2005

	Note	2005 £m	2005 £m	2004 £m	2004 £m
Net cash inflow from operating activities	21		**6.6**		9.2
Servicing of finance	22		**(2.1)**		(3.3)
Taxation			**(1.0)**		(1.6)
Capital expenditure and financial investment					
– Purchase of tangible fixed assets		**(8.0)**		(6.0)	
– Proceeds from disposal of property held for sale				5.1	
			(8.0)		(0.9)
Acquisition	25				
– Purchase of subsidiary undertaking		**(0.1)**			
– Net cash acquired with subsidiary undertaking		**9.7**			
			9.6		
Equity dividends paid			**(3.2)**		(3.2)
Net cash inflow before use of liquid resources and financing			**1.9**		0.2
Management of liquid resources					
Transfers (to) short-term deposits			**(9.5)**		(1.0)
Financing	22				
Increase/(decrease) in debt and lease financing			**2.3**		(6.4)
(Decrease) in cash in the year	23		**(5.3)**		(7.2)

Reconciliation of net cash flow to movement in net debt	23				
(Decrease) in cash in the year		**(5.3)**		(7.2)	
Cash flow from (increase)/decrease in debt and lease financing		**(2.3)**		6.4	
Cash flow from increase in liquid resources		**9.5**		1.0	
Change in net debt resulting from cash flows			**1.9**		0.2
New finance leases					(0.5)
Other non-cash changes			**(0.1)**		(0.1)
Exchange translation difference			**0.4**		2.1
Movement in net debt in the year			**2.2**		1.7
Net debt at beginning of year			**(19.2)**		(20.9)
Net debt at end of year			**(17.0)**		(19.2)

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 31 March 2005

Statement of total recognised gains and losses

	Note	2005 £m	2004 restated £m
(Loss)/profit for the financial year		**(5.2)**	4.7
Exchange translation differences on net assets of overseas subsidiaries		**(0.1)**	(3.1)
Acturial (loss)/gain recognised in pension schemes	15	**(15.5)**	9.4
Deferred tax movement relating to pension scheme liabilities		**4.3**	(3.3)
Total recognised gains and losses relating to the financial year		**(16.5)**	7.7
Prior period adjustment	26	**(23.3)**	
Total gains and losses recognised since last Annual Report		**(39.8)**	

Reconciliation of movements in shareholders' funds

	2005 £m	2004 restated £m
(Loss)/profit for the financial year	**(5.2)**	4.7
Dividends	**(1.1)**	(3.2)
(Loss)/retained profit for the year	**(6.3)**	1.5
Other recognised gains and losses relating to the year	**(11.2)**	6.1
Exchange translation differences on net assets of overseas subsidiaries	**(0.1)**	(3.1)
Net (reduction)/increase in shareholders' funds	**(17.6)**	4.5
Opening shareholders' funds (including non-equity of £0.6m) (originally £81.2m before deducting prior year adjustment of £23.3m)	**57.9**	53.4
Closing shareholders' funds (including non-equity of £0.6m)	**40.3**	57.9

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:

	2005 Turnover £m	2005 Operating loss £m	2005 Operating assets £m	2004 restated Turnover £m	2004 restated Operating profit £m	2004 restated Operating assets £m
Power transmission	**177.3**	**3.1**	**80.5**	174.2	7.3	76.9
Machine tool and rotor	**21.7**	**0.6**	**13.0**	20.7	0.3	11.3
	199.0	**3.7**	**93.5**	194.9	7.6	88.2
Less:						
Inter activity sales	**(2.0)**			(2.8)		
Goodwill amortisation		**(1.2)**			(1.3)	
Impairment of goodwill		**(2.4)**				
Exceptional redundancy and restructuring costs		**(4.3)**			(0.5)	
Redundancy and restructuring – acquisition		**(6.8)**				
Add:						
Release from negative goodwill		**6.8**				
Exceptional gain on disposal of property held for sale					2.8	
	197.0	**(4.2)**	**93.5**	192.1	8.6	88.2

The exceptional redundancy and restructuring cost of £4.3 million is attributed to the power transmission segment (2004 – £0.3 million to the power transmission segment and £0.2 million to the machine tool and rotor segment). Of the total goodwill charge of £1.2 million, £1.0 million (2004 – £1.1 million) relates to the power transmission businesses and £0.2 million (2004 – £0.2 million) to the machine tool and rotor businesses. The impairment charge relates to the machine tool and rotor businesses (see note 2). The charge and credit of £6.8 million both arise in relation to the power transmission businesses (see note 25).

The exceptional gain of £2.8 million reported in 2004 related 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:

	2005 Turnover £m	2005 Operating loss £m	2005 Operating assets £m	2004 restated Turnover £m	2004 restated Operating profit £m	2004 restated Operating assets £m
United Kingdom	**70.9**	**(0.4)**	**36.6**	70.8	2.7	37.5
Germany	**33.1**	**2.2**	**13.9**	31.9	2.4	12.3
France	**47.7**	**(1.7)**	**20.7**	49.1	(0.6)	14.8
Rest of Europe	**16.2**	**0.5**	**3.8**	16.0	0.4	3.9
North America	**50.3**	**2.6**	**13.6**	49.2	2.2	13.2
Other countries	**21.2**	**0.5**	**4.9**	18.4	0.5	6.5
	239.4	**3.7**	**93.5**	235.4	7.6	88.2
Less:						
Intra Group sales	**(42.4)**			(43.3)		
Goodwill amortisation		**(1.2)**			(1.3)	
Impairment of goodwill		**(2.4)**				
Exceptional redundancy and restructuring costs		**(4.3)**			(0.5)	
Redundancy and restructuring – acquisition		**(6.8)**				
Add:						
Release from negative goodwill		**6.8**				
Exceptional gain on disposal of property held for sale					2.8	
	197.0	**(4.2)**	**93.5**	192.1	8.6	88.2

1. Analysis of activities continued

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

The exceptional cost of £4.3 million arises £3.3 million in the UK (2004 – £0.2 million), £0.1million in North America (2004 – £0.3 million), £0.4 million in Germany, £0.2 million in France, £0.2 million in the Rest of Europe and £0.1 million in Australia. The goodwill amortisation and the impairment charge are attributed to business acquisitions in North America. The charge and credit of £6.8 million relate to the post-acquisition restructuring and integration of the SAF business in France.

Turnover by geographical region includes intra group sales as follows: United Kingdom £27.3 million (2004 – £29.1 million), Germany £12.8 million (2004 – £11.4 million) and France £1.8 million (2004 – £2.1 million).

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

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

	2005 £m	2004 £m
United Kingdom	**25.9**	24.4
Germany	**25.1**	25.4
France	**10.0**	9.2
Rest of Europe	**34.4**	36.8
North and South America	**70.9**	70.1
Other countries	**30.7**	26.2
	197.0	192.1

2. Operating costs and exceptional items

Operating (loss)/profit is stated after charging/(crediting):

	2005		2004 restated	
	£m	**£m**	£m	£m
Change in stocks of finished goods and work in progress		**(0.8)**		(3.2)
Own work capitalised		**(0.9)**		(1.1)
Other operating income		**(3.3)**		(2.8)
Raw materials and consumables		**80.9**		72.9
Other external charges		**29.8**		31.2
Staff costs				
Gross wages and salaries	**63.1**		62.5	
Social security costs	**9.0**		8.8	
Pension costs	**4.4**		5.0	
		76.5		76.3
Redundancy and restructuring costs		**4.3**		0.5
Redundancy and restructuring costs – acquisition (note 25)		**6.8**		
Release from negative goodwill		**(6.8)**		
Depreciation – owned assets		**8.6**		8.8
– leased assets		**0.1**		
Amortisation of goodwill		**1.2**		1.3
Impairment of goodwill		**2.4**		
Operating lease rentals				
Equipment	**0.6**		0.6	
Other	**1.4**		1.4	
		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)
		201.2		183.5

2. Operating costs and exceptional items continued

The remuneration of the auditors for the parent company was £26,000 (2004 – £25,000). Remuneration of the auditors for non-audit work amounted to £158,000 (2004 – £86,000) of which £34,000 (2004 – £49,000) was incurred in the UK. The non-audit services were principally in respect of taxation, including £103,000 (2004 – £40,000) for compliance services and £9,000 (2004 – £11,000) for advisory services. In 2005 the non-audit cost also included services in relation to the adoption of International Accounting Standards (£22,000).

Expenditure on research and development charged in the year amounted to £1.9 million (2004 – £2.0 million).

Following a review of the goodwill carried in the Group Balance Sheet in relation to the Jones & Shipman acquisition, it has been concluded that the carrying value has been impaired and an exceptional charge has been made of £2.4 million, representing the balance of goodwill remaining on that acquisition.

In 2004 the exceptional gain of £2.8 million, shown in the profit and loss account, represented the profit on disposal of a property held for sale, within the United Kingdom, and was associated with the machine tool and rotor segment.

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

	2005	2004
United Kingdom	**1,049**	1,067
Germany	**381**	368
France	**509**	500
Rest of Europe	**86**	87
North America	**398**	386
Other countries	**254**	245
	2,677	2,653

3. Net interest payable and other net finance costs

	2005 £m	2004 £m
Net interest payable comprises:		
Interest payable on loans and overdrafts	**(2.3)**	(2.5)
Less: interest receivable	**0.1**	0.2
	(2.2)	(2.3)
Other net finance costs arising on retirement benefits amount to:		
Expected return on scheme assets	**9.5**	8.1
Interest on scheme liabilities	**(9.9)**	(9.7)
	(0.4)	(1.6)

4. Taxation

(a) Analysis of tax charge in the year

	2005 £m	2004 £m restated
United Kingdom		
UK corporation tax at 30% (2004 – 30%)	**0.8**	0.8
Less: double taxation relief	**(0.8)**	(0.8)
Overseas taxes		
Corporation taxes	**1.0**	1.2
Total current tax	**1.0**	1.2
Deferred tax		
United Kingdom	**(1.6)**	(0.7)
Overseas	**(1.0)**	(0.5)
Total deferred tax	**(2.6)**	(1.2)
Tax credit on (loss)/profit on ordinary activities	**(1.6)**	

4. Taxation continued

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

The tax assessed for the year is higher (2004 – lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £m	2004 £m restated
(Loss)/profit on ordinary activities before tax	**(6.8)**	4.7
Tax on ordinary activities at 30% (2004 – 30%)	**(2.1)**	1.4
Permanent differences	**0.6**	0.5
Overseas tax rate differences	**0.1**	0.1
Unrelieved tax losses	**2.1**	0.4
Utilisation of brought forward tax losses	**(0.1)**	(0.4)
Capital losses covering sale of property		(0.8)
Depreciation and other timing differences	**0.3**	0.2
Prior year adjustments	**0.1**	(0.2)
Current tax charge for the year	**1.0**	1.2

5. Dividends

	2005 £m	2004 £m
Ordinary shares		
Interim dividend paid of 1.5p (2004 – 1.5p)	**1.1**	1.1
Final dividend proposed nil (2004 – 3.0p)		2.1
	1.1	3.2

Dividends on the 6% Cumulative Preference Stock amounted to £35,000 (2004 – £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:

	2005			2004 restated		
	Earnings £m	**Weighted average number of shares Thousands**	**Per share amount Pence**	Earnings £m	Weighted average number of shares Thousands	Per share amount Pence
Basic EPS						
Earnings attributed to ordinary shareholders (after preference dividends)	**(5.2)**	**69,328**	**(7.5)**	4.7	69,313	6.8
Effects of dilutive securities:						
Employee share options		**332**			299	
Diluted EPS	**(5.2)**	**69,660**	**(7.5)**	4.7	69,612	6.8
Adjusted EPS						
Basic EPS	**(5.2)**	**69,328**	**(7.5)**	4.7	69,313	6.8
Effect of goodwill and exceptional items, after tax:						
Goodwill amortisation	**0.8**		**1.2**	0.8		1.2
Impairment of goodwill	**2.4**		**3.5**			
Redundancy and restructuring costs	**2.9**		**4.2**	0.4		0.5
Redundancy and restructuring – acquisition	**6.8**		**9.8**			
Release from negative goodwill	**(6.8)**		**(9.8)**			
Gain on disposal of property held for sale				(2.8)		(4.0)
Adjusted EPS	**0.9**	**69,328**	**1.4**	3.1	69,313	4.5

Inclusion of the dilutive securities, shown above, in the calculation of adjusted EPS does not change the amounts shown of 1.4p (2004 – 4.5p).

The adjusted earnings per share numbers have been provided in order to give a useful indication of underlying performance by the exclusion of goodwill and exceptional items.

7. Directors' emoluments

	2005 £000	2004 £000
Aggregate emoluments	**747**	686
Amounts provided but not paid in respect of unfunded pension obligations	**72**	342

During the year, retirement benefits accrued to two directors (2004 – three) under a defined benefits scheme and to two directors (2004 – three) under unfunded obligations in respect of salary in excess of the earnings cap. One director received payments in respect of a personal pension plan.

Highest paid director		
Aggregate emoluments	**278**	235
Amounts provided but not paid in respect of unfunded pension obligations		261
Accrued pension at end of year under defined benefits pension scheme		42
Amounts paid in respect of personal pension plan	**26**	

In addition to the above the Company has reimbursed relocation expenses of £86,000 to the highest paid director.

Further details are given under the headings 'Directors' emoluments' and 'Directors' pension entitlements' in the Remuneration Report on pages 21 to 23.

8. Intangible assets

	Goodwill £m	Negative goodwill £m	Group total £m
Goodwill			
Cost			
At beginning of year	23.8		23.8
Exchange adjustment	(0.7)		(0.7)
Arising on acquisition		(11.3)	(11.3)
At end of year	**23.1**	**(11.3)**	**11.8**
Amortisation			
At beginning of year	5.0		5.0
Exchange adjustment	(0.2)		(0.2)
Charge/(credit) for the year	1.2	(6.8)	(5.6)
Impairment charge	2.4		2.4
At end of year	**8.4**	**(6.8)**	**1.6**
Net book value at end of year	**14.7**	**(4.5)**	**10.2**
Net book value at beginning of year	18.8		18.8

9. Tangible assets

	Group			Renold plc		
	Properties £m	Equipment £m	Total £m	Properties £m	Equipment £m	Total £m
Cost						
At beginning of year	19.2	128.6	147.8	0.1	0.8	0.9
Exchange adjustment	0.1	1.4	1.5			
Additions at cost	0.5	7.1	7.6			
Acquisitions	1.8	1.3	3.1			
Disposals		(1.2)	(1.2)			
At end of year	**21.6**	**137.2**	**158.8**	**0.1**	**0.8**	**0.9**
Depreciation						
At beginning of year	9.0	91.8	100.8		0.7	0.7
Exchange adjustment		1.0	1.0			
Depreciation for the year	0.4	8.3	8.7			
Disposals		(1.2)	(1.2)			
At end of year	**9.4**	**99.9**	**109.3**		**0.7**	**0.7**
Net book value at end of year	**12.2**	**37.3**	**49.5**	**0.1**	**0.1**	**0.2**
Net book value at beginning of year	10.2	36.8	47.0	0.1	0.1	0.2

Net book value at the end of the year includes £3.0 million (2004 – £2.8 million) in respect of leased assets (land and buildings £2.4 million (2004 – £2.6 million), equipment £0.6 million (2004 – £0.2 million)).

The total cost of properties at 31 March 2005 comprises £16.0 million (2004 – £13.6 million) for freehold land and buildings and £5.6 million (2004 – £5.6 million) for leasehold land and buildings which relates to leases where the period unexpired is less than 50 years.

Included in cost above are properties of £4.1 million (2004 – £4.0 million) revalued in 1971 and equipment of £4.5 million (2004 – £4.4 million) revalued in 1974.

If all tangible assets had been determined under the historical cost convention, the values would not have been materially different from the figures shown above.

Future capital expenditure

At 31March 2005 capital expenditure contracted for but not provided for in these accounts amounted to £0.5 million (2004 – £5.0 million).

10. Investments

Renold plc

	Shares £m	Advances £m	Total £m
Subsidiary companies			
Cost or valuation			
At beginning of year – as previously reported	44.3	56.3	100.6
Prior year adjustment	(3.5)		(3.5)
As restated	40.8	56.3	97.1
Net advances		1.8	1.8
Deficit on revaluation	(5.5)		(5.5)
At end of year	**35.3**	**58.1**	**93.4**

The carrying value of shares in subsidiary companies has been adjusted, in accordance with the Company's accounting policy, by the reduction in prior year net asset value of certain overseas subsidiaries, following their adoption of FRS 17.

The principal subsidiary companies of Renold plc at 31 March 2005 are set out on page 52.

11. Current assets

	Group 2005 £m	Group 2004 restated £m	Renold plc 2005 £m	Renold plc 2004 restated £m
Stocks				
Raw materials and consumables	**9.5**	9.5		
Work in progress	**12.4**	12.7		
Finished products	**25.4**	24.8		
	47.3	47.0		
Debtors				
Trade debtors	**36.8**	30.7		
Amounts owed by Group subsidiaries			**2.7**	7.0
Deferred tax asset	**8.8**	5.0	**0.1**	0.2
Contract debtors	**0.5**	0.3		
Other debtors	**4.3**	4.0	**0.2**	0.1
Prepayments and accrued income	**1.2**	1.5	**0.1**	0.1
	51.6	41.5	**3.1**	7.4
Cash and short–term deposits				
Cash at bank	**5.8**	7.5	**0.1**	0.1
Short–term deposits	**10.9**	1.4		
	16.7	8.9	**0.1**	0.1
	115.6	97.4	**3.2**	7.5

The Group figures for other debtors and prepayments and accrued income include £2.7 million (2004 – £2.5 million) of amounts falling due after more than one year.

12. Loans and overdrafts

	Group 2005 £m	Group 2004 £m	Renold plc 2005 £m	Renold plc 2004 £m
Total borrowings	**33.3**	27.6	**30.2**	28.6
Less: repayable within one year or on demand	**20.6**	12.1	**19.2**	14.9
Amounts falling due after more than one year	**12.7**	15.5	**11.0**	13.7
Repayable:				
In more than one year but not more than two years	**6.7**	3.3	**6.0**	2.8
In more than two years but not more than five years	**5.9**	12.1	**5.0**	10.9
In more than five years	**0.1**	0.1		
	12.7	15.5	**11.0**	13.7
Loans comprise:				
UK term loans repayable by 2007	**18.6**	16.4	**18.6**	16.4
Bank loans – overseas	**2.8**	2.9		
	21.4	19.3	**18.6**	16.4
Less: repayable within one year	**8.7**	3.8	**7.6**	2.7
	12.7	15.5	**11.0**	13.7

Included in Group borrowings are secured borrowings of £25.6 million (2004 – £19.9 million). Security is provided by fixed and floating charges over UK assets and the assets of certain overseas subsidiaries.

13. Creditors

	Group 2005 £m	Group 2004 £m	Renold plc 2005 £m	Renold plc 2004 £m
Amounts falling due within one year				
Trade creditors	**29.1**	27.6	**0.7**	0.5
Dividends payable		2.1		2.1
Corporate taxes	**1.0**	0.9		
Other taxation and social security	**6.0**	4.6	**0.3**	0.2
Advance payments from customers	**0.3**	0.3		
Other creditors	**3.3**	2.5	**0.3**	0.3
Accruals	**6.5**	6.3	**0.4**	0.5
Finance lease obligations	**0.1**	0.1		
	46.3	44.4	**1.7**	3.6
Amounts falling due after more than one year				
Finance lease obligations	**0.3**	0.4		
Other creditors	**0.9**	1.0		
	1.2	1.4		
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	**0.3**			
After five years	**0.1**			
Total gross payments	**0.5**			
Less: finance charges	**(0.1)**			
	0.4			

14. Provisions for liabilities and charges

	Group Deferred tax provision £m	Group Pension provision £m	Group Business restructuring provision £m	Group Total £m	Renold plc Deferred tax provision £m
At beginning of year – as previously reported	2.5	11.8		14.3	0.8
Prior year adjustment	(1.3)	(11.8)		(13.1)	(0.8)
At beginning of year as restated	1.2			1.2	
Acquisition of subsidiary			1.8	1.8	
Charge to profit and loss account			10.0	10.0	
Utilised in year			(0.1)	(0.1)	
At end of year	**1.2**		**11.7**	**12.9**	

The opening balance of provisions as at 4 April 2004 has been restated on adoption of FRS 17.

(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 – as previously reported	(4.3)	2.5	(1.8)
Prior year adjustment	(0.7)	(1.3)	(2.0)
At beginning of year as restated	(5.0)	1.2	(3.8)
Exchange adjustment	(0.2)		(0.2)
Deferred tax recognised in the profit and loss account	(2.6)		(2.6)
Deferred tax recognised through the statement of total recognised gains and losses	(1.0)		(1.0)
At end of year	**(8.8)**	**1.2**	**(7.6)**

14. Provisions for liabilities and charges continued

The total deferred tax 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 – as previously reported		0.8	0.8
Prior year adjustment	(0.2)	(0.8)	(1.0)
At beginning of year as restated	(0.2)		(0.2)
Deferred tax recognised in the profit and loss account	0.1		0.1
At end of year	**(0.1)**		**(0.1)**

	2005 **£m**	2004 restated £m
The analysis of Group deferred tax recognised comprises:		
Accelerated capital allowances	**(2.6)**	(1.5)
Other timing differences	**(3.3)**	(1.1)
Tax losses carried forward	**(2.9)**	(1.2)
	(8.8)	(3.8)

During the year the Group has reported an operating profit of £3.7million 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 £5.7million (2004 – £3.2 million) has not been recognised in respect of losses in certain subsidiaries where, based on available evidence, it is considered unlikely that the losses will be recovered within the foreseeable future.

(b) Pension provision

Balances relating to pension liabilities are disclosed separately in note 15, having been adjusted in accordance with FRS 17.

(c) Business restructuring provision

This provision relates mainly to the restructuring of the SAF business, which was acquired in the year (note 25), together with amounts provided for reorganisation and restructuring of the Burton Conveyor Chain facility in the UK. It is expected that the remaining provision balance will be utilised within the next financial year.

15. Pensions

The Group operates a number of pension schemes throughout the world covering many of its employees. The principal funds are those in the United Kingdom: the Renold Group Pension Scheme ('RGPS'); the Jones & Shipman plc Retirement Benefits Plan (1971) and the Renold Supplementary Pension Scheme 1967 ('RSPS'). These three schemes are funded schemes of the defined benefit type with assets held in separate trustee administered funds. The Renold Group Money Purchase Pension Scheme is a defined contribution type scheme and membership is available to all new employees, the main defined benefit schemes having been closed to new employees in 2002.

As a result of the schemes' closure the age profile of the active membership is increasing, and consequently current service cost is likely to increase, as members of the schemes approach retirement.

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 most recent actuarial valuations of the Renold Group Pension Scheme and the Renold Supplementary Pension Scheme 1967 were at 5 April 2004. The valuations of both schemes used the projected unit method and were carried out by Barnett Waddingham, professionally qualified actuaries. The last valuation of the Jones & Shipman plc Retirement Benefits Plan (1971) was in April 2003, by William M Mercer Limited, who were the former actuarial advisors to the Group.

For all defined benefit schemes operated by the Group the disclosures in the accounts are based on the most recent actuarial valuations. Where material, these have been updated to the balance sheet date 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 as at 31 March 2005 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		
	2005	2004	2003	**2005**	2004	2003
Rate of increase in pensionable salaries	**3.3%**	3.7%	3.7%	**2.9%**	3.5%	3.4%
Rate of increase in pensions in payment and deferred pensions	**2.6%**	2.6%	2.6%	**2.1%**	2.6%	2.5%
Discount rate	**5.4%**	5.5%	5.4%	**5.6%**	6.3%	6.2%
Inflation assumption	**2.8%**	2.6%	2.6%	**2.1%**	2.6%	2.6%

15. Pensions continued

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. The present value of UK scheme liabilities has increased from £154 million in 2004 to £177.3 million in 2005. This movement of £23.3 million is largely a result of changes in actuarial assumptions, the most influential of which is that associated with mortality, having been changed to reflect the expected increase in membership longevity.

The expected long term rates of return:

		UK			Overseas	
	2005	2004	2003	**2005**	2004	2003
Equities	**8.0%**	8.0%	8.0%	**8.6%**	8.8%	8.6%
Bonds	**5.1%**	5.1%	4.9%	**6.7%**	7.0%	6.4%
Other				**6.8%**	8.0%	7.2%

The market values of assets and present values of scheme liabilities were:

		UK			Overseas	
	2005 £m	2004 £m	2003 £m	**2005 £m**	2004 £m	2003 £m
Equities	**71.6**	64.4	47.5	**7.0**	5.6	5.3
Bonds	**70.8**	68.6	72.3	**4.2**	3.6	2.8
Other				**0.9**	0.8	0.8
Total market value of assets	**142.4**	133.0	119.8	**12.1**	10.0	8.9
Present value of scheme liabilities	**(177.3)**	(154.0)	(150.9)	**(30.5)**	(28.4)	(28.6)
Deficits in schemes	**(34.9)**	(21.0)	(31.1)	**(18.4)**	(18.4)	(19.7)
Related deferred tax asset	**10.4**	6.3	9.3	**1.6**	2.4	2.7
Net pension liability	**(24.5)**	(14.7)	(21.8)	**(16.8)**	(16.0)	(17.0)

	2005 £m	2004 £m	2003 £m
Summary of Group pension liability:			
Net pension liability – UK	**(24.5)**	(14.7)	(21.8)
Net pension liability – Overseas	**(16.8)**	(16.0)	(17.0)
	(41.3)	(30.7)	(38.8)

		2005			2004	
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Amounts charged to operating profit						
Current service cost	**(2.0)**	**(0.7)**	**(2.7)**	(2.2)	(0.7)	(2.9)
Past service cost				(0.3)	(0.1)	(0.4)
	(2.0)	**(0.7)**	**(2.7)**	(2.5)	(0.8)	(3.3)
Amounts credited/(charged) to other net finance costs						
Expected return on pension scheme assets	**8.7**	**0.8**	**9.5**	7.3	0.8	8.1
Interest on pension scheme liabilities	**(8.2)**	**(1.7)**	**(9.9)**	(8.0)	(1.7)	(9.7)
	0.5	**(0.9)**	**(0.4)**	(0.7)	(0.9)	(1.6)
Amounts recorded in statement of total recognised gains and losses						
Actual return less expected return on pension scheme assets	**3.3**	**0.7**	**4.0**	8.4	0.8	9.2
Experience gains and losses arising on scheme liabilities	**(5.3)**	**1.2**	**(4.1)**	0.7	(1.1)	(0.4)
Changes in assumptions underlying the present value of the scheme liabilities	**(15.1)**	**(0.3)**	**(15.4)**	(0.3)	0.9	0.6
	(17.1)	**1.6**	**(15.5)**	8.8	0.6	9.4

15. Pensions continued

The movement in the deficits in the schemes over the year to 31 March 2005 is analysed below:

	2005 UK £m	2005 Overseas £m	2005 Total £m	2004 UK £m	2004 Overseas £m	2004 Total £m
Deficit in schemes at beginning of year	**(21.0)**	**(18.4)**	**(39.4)**	(31.1)	(19.7)	(50.8)
Current service cost	**(2.0)**	**(0.7)**	**(2.7)**	(2.2)	(0.7)	(2.9)
Past service cost				(0.3)	(0.1)	(0.4)
Employer contributions	**4.7**	**1.4**	**6.1**	4.5	1.4	5.9
Other finance income/(expense)	**0.5**	**(0.9)**	**(0.4)**	(0.7)	(0.9)	(1.6)
Actuarial (losses)/gains	**(17.1)**	**1.6**	**(15.5)**	8.8	0.6	9.4
Acquisition (note 25)		**(0.8)**	**(0.8)**			
Exchange adjustment		**(0.6)**	**(0.6)**		1.0	1.0
	(34.9)	**(18.4)**	**(53.3)**	(21.0)	(18.4)	(39.4)

The amounts charged to the Group statement of total recognised gains and losses for the year ended 31 March 2005 are set out below:

History of experience gains and losses

UK	2005	2004	2003
Difference between the expected and actual return on scheme assets:			
Amount (£m)	**3.3**	8.4	(18.2)
Percentage of scheme assets	**2.3%**	6.3%	15.2%
Experience (losses)/gains of scheme liabilities:			
Amount (£m)	**(5.3)**	0.7	1.6
Percentage of the present value of the scheme liabilities	**3.0%**	0.5%	1.1%
Total amount recognised in the statement of total recognised gains and losses:			
Amount (£m)	**(17.1)**	8.8	(26.9)
Percentage of scheme liabilities	**9.6%**	5.7%	17.8%

Overseas	2005	2004	2003
Difference between the expected and actual return on scheme assets:			
Amount (£m)	**0.7**	0.8	(1.9)
Percentage of scheme assets	**5.3%**	8.0%	21.8%
Experience gains/(losses) of scheme liabilities:			
Amount (£m)	**1.2**	(1.1)	0.1
Percentage of the present value of the scheme liabilities	**4.1%**	3.7%	0.4%
Total amount recognised in the statement of total recognised gains and losses:			
Amount (£m)	**1.6**	0.6	(3.6)
Percentage of scheme liabilities	**5.2%**	2.1%	12.6%

Total	2005	2004	2003
Difference between the expected and actual return on scheme assets:			
Amount (£m)	**4.0**	9.2	(20.1)
Percentage of scheme assets	**2.6%**	6.4%	15.6%
Experience (losses)/gains of scheme liabilities:			
Amount (£m)	**(4.1)**	(0.4)	1.7
Percentage of the present value of the scheme liabilities	**2.0%**	0.2%	0.9%
Total amount recognised in the statement of total recognised gains and losses:			
Amount (£m)	**(15.5)**	9.4	(30.5)
Percentage of scheme liabilities	**7.5%**	5.2%	17.0%

15. Pensions continued

As a result of the deficits in the main UK schemes, it has been agreed with the actuaries and trustees that, under existing arrangements, annual lump sum payments of £2.2 million will be paid to the RGPS scheme and £0.7 million to the RSPS scheme over the average remaining service lives of members, being fifteen and twelve years respectively.

The Group operates a number of defined contribution schemes. The cost for the period was £1.7 million (2004 – £1.7 million). There were outstanding contributions in creditors of £133,000 (2004 – £104,000) at the balance sheet date.

Employees of Renold plc include members of the principal UK defined benefit schemes. However, the contributions paid by the Company are accounted for as a defined contribution scheme, as the Company is unable to identify its share of the underlying assets and liabilities in the respective schemes. As a consequence, the deficit in the UK defined benefit schemes is only recognised as a liability in the Group Balance Sheet.

The costs of the contributions to the Group schemes amounted to £87,000 (2004 – £149,000). The outstanding contributions to the schemes at the year end were £8,000 (2004 – £11,000), representing the final month's unpaid contributions.

16. Called up share capital

Group and Company

	Authorised		Issued	
	2005 £m	2004 £m	**2005 £m**	2004 £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 31 March 2005 the issued Ordinary Share Capital comprised 69,335,410 (2004 – 69,313,292) ordinary shares of 25p each. During the year the Company issued 22,118 ordinary shares of 25p each for a cash consideration of £13,648 by the exercise of options under the Renold (1995) Executive, and Savings Related, Share Option Schemes.

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 as previously reported	57.3	6.0		63.3
Prior period adjustment – FRS 17	(23.3)			(23.3)
At beginning of year as restated	34.0	6.0		40.0
Exchange translation differences on net assets of overseas subsidiaries	(0.1)			(0.1)
Loss for the year	(6.3)			(6.3)
Pension actuarial cost	(11.2)			(11.2)
At end of year	**16.4**	**6.0**		**22.4**
Renold plc				
At beginning of year as previously reported	52.4	6.0	4.9	63.3
Prior period adjustment – FRS 17	(5.1)		(3.5)	(8.6)
	47.3	6.0	1.4	54.7
Exchange adjustments	(0.3)			(0.3)
Loss for the year	(6.0)			(6.0)
Deficit on revaluation of shares in subsidiaries			(1.4)	(1.4)
At end of year	**41.0**	**6.0**		**47.0**

The consolidated loss (2004 – profit) for the financial year includes a loss of £4.9 million (2004 – profit £5.1 million – restated) which is dealt with in the accounts of the parent company.

Cumulative goodwill written off directly to Group reserves at 31 March 2005, subsequent to the capital reorganisation in January 1985, amounted to £2.0 million (2004 – £2.0 million – restated).

The profit and loss account reserve includes £41.3 million (2004 – £30.7 million) in respect of the net pension scheme liabilities of the Group, stated after recognition of the deferred taxation where appropriate.

18. Operating lease obligations

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

	2005		2004	
	Properties £m	**Equipment £m**	Properties £m	Equipment £m
Leases expiring:				
Within one year	**0.4**	**0.3**	0.3	0.2
Between two and five years	**0.5**	**0.5**	0.3	0.4
Over five years	**0.9**	**0.2**	0.9	0.1
Total annual commitments	**1.8**	**1.0**	1.5	0.7

19. Contingent liabilities

Renold plc has guaranteed borrowings by subsidiary undertakings of £3.2 million (2004 – £1.3 million). Performance guarantees given to third parties in respect of Group companies were £1.2 million (2004 – £1.8 million).

In conclusion of an action commenced by the City of New York on 5 November 1999, the award made in April 2003 against Jeffrey Chain has been upheld on final appeal, and met from third party indemnification. Recovery of certain costs associated with this action is underway.

20. Share options

Share options have been granted under the Executive Share Option Schemes and the Savings Related Share Option Schemes. At 31 March 2005 unexercised options for ordinary shares amounted to 3,326,272 (2004 – 3,130,071) made up as follows:

Date normally exercisable	Option price (pence per share)	**Number of shares 2005**	Number of shares 2004
Executive Share Option Schemes			
Within seven years from:			
1 December 1997	184.30		40,000
16 July 1999 (1995 Scheme)	293.83	**56,636**	64,178
18 July 2000 (1995 Scheme)	242.67	**19,042**	19,296
17 July 2001 (1995 Scheme)	237.33	**175,000**	215,000
16 July 2002 (1995 Scheme)	137.83	**195,000**	245,000
19 July 2003 (1995 Scheme)	118.50	**125,000**	155,000
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	**474,000**	489,000
27 November 2005 (1995 Scheme)	58.50	**404,000**	414,000
28 July 2006 (1995 Scheme)	80.84	**50,000**	50,000
27 November 2006 (1995 Scheme)	83.50	**275,000**	275,000
11 March 2007 (1995 Scheme)	76.50	**125,000**	125,000
2 September 2007 (2004 Scheme)	88.00	**475,000**	
22 November 2007 (2004 Scheme)	74.30	**135,000**	
Within four years from:			
18 July 2000 (1995 Scheme)	242.67		175,704
		2,653,678	2,412,178
Savings Related Share Option Schemes			
Within six months from:			
1 February 2005 (1995 Scheme)	89.36	**122,324**	136,826
1 February 2006 (1995 Scheme)	55.08	**359,094**	381,185
1 February 2008 (1995 Scheme)	55.08	**191,176**	199,882
		672,594	717,893

21. Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	2005 £m	2004 £m restated
Operating (loss)/profit	**(4.2)**	8.6
Depreciation charges (net of profit/loss on disposals)	**8.7**	8.8
Goodwill amortisation	**1.2**	1.3
Goodwill impairment	**2.4**	
Negative goodwill release	**(6.8)**	
(Increase) in stocks		(2.7)
(Increase)/decrease in debtors	**(5.9)**	0.1
Increase/(decrease) in creditors	**3.5**	(0.8)
Movement on pension schemes	**(4.0)**	(3.3)
Increase in other provisions	**11.7**	
Exceptional gain on disposal of property held for sale		(2.8)
Net cash inflow from operating activities	**6.6**	9.2

Net cash flow from operating activities includes an outflow of £0.5 million (2004 – £0.8 million) which relates to exceptional redundancy and restructuring costs; an amount of £0.7 million (2004 – £0.1 million) was retained in creditors and £11.3 million in provisions for liabilities and charges.

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

	2005 £m	2004 £m
Servicing of finance		
Interest received	**0.1**	0.2
Interest paid	**(2.2)**	(3.5)
Net cash outflow for servicing of finance	**(2.1)**	(3.3)
Financing		
Debt due within one year: increase/(decrease) in short–term borrowings	**1.6**	(5.0)
Debt due after one year: increase/(decrease) in long–term borrowings	**0.8**	(1.4)
Capital element of finance lease payments	**(0.1)**	
Net cash inflow/(outflow) from financing	**2.3**	(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	7.5	(1.8)		0.1	**5.8**
Overdrafts	(8.3)	(3.5)		(0.1)	**(11.9)**
	(0.8)	(5.3)			**(6.1)**
Debt due after one year	(15.5)	(0.8)	3.3	0.3	**(12.7)**
Debt due within one year	(3.8)	(1.6)	(3.4)	0.1	**(8.7)**
Finance leases	(0.5)	0.1			**(0.4)**
	(19.8)	(2.3)	(0.1)	0.4	**(21.8)**
Short–term deposits	1.4	9.5			**10.9**
Total	(19.2)	1.9	(0.1)	0.4	**(17.0)**

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					
2005					
Sterling					
– Financial liabilities	**9.5**	**1.5**	**0.9**	**9.2**	**10.1**
– Preference shares	**6.0**	*	**0.6**		**0.6**
US Dollar	**6.8**	**1.9**	**10.3**	**1.1**	**11.4**
Euro	**4.6**	**2.2**	**2.1**	**8.5**	**10.6**
Other	**8.1**	**1.6**	**0.7**	**0.9**	**1.6**
			14.6	**19.7**	**34.3**
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

* Preference shares have no fixed repayment date.

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

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

(d) Currency and interest rate profile of financial assets at 31 March 2005

	2005			2004		
	Cash at bank and in hand £m	**Short–term deposits £m**	**Total £m**	Cash at bank and in hand £m	Short–term deposits £m	Total £m
Currency						
Sterling	**0.1**		**0.1**	0.1		0.1
Euro	**2.9**	**10.4**	**13.3**	5.5	0.6	6.1
Other	**2.8**	**0.5**	**3.3**	1.9	0.8	2.7
	5.8	**10.9**	**16.7**	7.5	1.4	8.9

Cash balances and short–term deposits are held with the Group's bankers. These deposits are held largely in France and 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:

	2005 Total debt £m	2004 Total debt £m
In one year or less, or on demand	**20.6**	12.2
In more than one year but not more than two years	**6.8**	3.4
In more than two years but not more than five years	**6.2**	12.3
In more than five years	**0.7**	0.8
	34.3	28.7

Debt due in more than five years includes £0.6 million (2004 – £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:

	2005 £m	2004 £m
Expiring within one year or less, or on demand	**16.5**	21.5
Expiring in more than one year but not more than two years		3.8
Expiring in more than two years		0.6
	16.5	25.9

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

	2005		2004	
	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)	**(20.6)**	**(20.6)**	(12.2)	(12.2)
Long–term borrowings	**(13.1)**	**(13.1)**	(15.9)	(15.9)
Preference shares	**(0.6)**	**(0.5)**	(0.6)	(0.5)
Short–term deposits	**10.9**	**10.9**	1.4	1.4
Cash at bank and in hand	**5.8**	**5.8**	7.5	7.5
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps		**(0.4)**		(1.1)

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
2005					
Functional currency of companies					
Sterling		**(0.1)**	**(1.3)**	**0.9**	**(0.5)**
US Dollars	**(0.3)**		**0.1**		**(0.2)**
Euro	**(0.2)**	**0.8**			**0.6**
Other currencies	**(0.5)**		**0.1**	**(0.2)**	**(0.6)**
	(1.0)	**0.7**	**(1.1)**	**0.7**	**(0.7)**
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)

(i) Gains and losses on instruments used for hedging

There were no significant unrecognised or deferred gains and losses on hedges at 31 March 2005 or at 3 April 2004.

25. Acquisition

On 14 March 2005 the Group purchased Sachs Automotive France SAS ("SAF") for a cash consideration of one Euro. This purchase has been accounted for as an acquisition. An analysis of the acquisition is provided below.

Net assets at date of acquisition:

	Book value £m	Provisional fair value adjustments £m	Provisional value to the Group £m
Tangible fixed assets	2.4	0.7	3.1
Stocks	1.2		1.2
Debtors	3.2		3.2
Creditors	(3.2)		(3.2)
Provisions (restructuring provision of £0.4 million included in book value)	(1.2)	(1.4)	(2.6)
Cash	9.7		9.7
	12.1	**(0.7)**	**11.4**
Negative goodwill arising on acquisition			(11.3)
Consideration – cash paid and costs			0.1

Due to proximity of the acquisition to the Group's year end, the fair value to the Group is assessed on a provisional basis.

Revaluation adjustments in respect of tangible fixed assets comprise an open market valuation of freehold property, together with the write down of certain items of plant and machinery. Fair value provisions have been established in respect of environmental and dilapidation liabilities. The provisional assessment of fair value to the Group has indicated that no significant adjustments to net assets are necessary as a consequence of aligning SAF accounting policies with those of the Renold Group.

Immediately prior to the acquisition of SAF by Renold, there was both a cash injection and forgiveness of inter-company loans by the former owners. In the last financial year prior to acquisition, which ran to 31 December 2004, SAF reported a pre-exceptional loss of Euros 3.9 million; the consideration given by Renold reflected the post acquisition restructuring envisaged to make SAF a viable business within the Renold Group.

25. Acquisition continued

The cash flow impact is as follows:

	£m
Costs associated with the acquisition	(0.1)
Net cash acquired	9.7
Cash inflow on acquisition	9.6

Having been acquired shortly before the Group's year end, the acquisition of SAF has not had a material impact on the continuing operating activities, subject to the reorganisation provision and negative goodwill release set out in note 2. Following the acquisition, and prior to the year end, the Group established provisions amounting to £6.8 million representing the costs of the necessary restructuring required to turn SAF into a viable business as highlighted in the Stock Exchange announcement issued on the date of the acquisition. These costs have been matched by a release from the negative goodwill account, created on acquisition as the previous owners had provided the aforementioned cash injection to fund this restructuring programme.

26. Prior year adjustment

Following the full adoption of Financial Reporting Standard 17 "Retirement Benefits" in the year, it has been necessary to restate certain comparative information. Provided below is a summary of the revisions arising from this change in accounting policy:

Group profit and loss account:

	£m
Profit for the year ended 3 April 2004 as previously reported	5.4
Impact of adopting FRS 17:	
Reversal of pension charge made under SSAP 24	3.2
Charge for pension cost in accordance with FRS 17	(3.3)
Net finance costs in accordance with FRS 17	(1.6)
Tax impact of the above changes	1.0
Restated profit for the year ended 3 April 2004	4.7

Had the former policy under Statement of Standard Accounting Practice 24 "Accounting for Pension Costs" continued through 2005, the loss for the year would have been approximately £2.0 million higher.

Group balance sheet

	£m	£m
Net assets as at 3 April 2004 as previously reported		81.2
Adjustment to eliminate the SSAP 24 prepayment	(6.4)	
Adjustment to remove the SSAP 24 pension provision (Provision for liabilities and charges)	11.8	
Adjustment to deferred tax balances (Provision £1.3million, asset £0.7 million)	2.0	
Adoption of FRS 17 - net deficit as at 3 April 2004	(30.7)	
Net prior year adjustment		(23.3)
Restated net assets as at 3 April 2004		57.9

Principal Subsidiary Companies

as at 31 March 2005

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 – Renold SAF SAS: ST SIMEON DE BRESSIEUX 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 Renold Automotive Systems, LLC 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.

Group Five Year Financial Review

Profit and loss account

	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Turnover	**197.0**	192.1	187.4	190.2	216.7
Operating profit before goodwill amortisation and exceptional items	**3.7**	7.6	9.2	7.8	16.1
(Loss)/profit on ordinary activities before tax	**(6.8)**	4.7	4.2	(5.6)	11.1
(Loss)/profit after tax for ordinary shareholders	**(5.2)**	4.7	2.5	(5.0)	7.4

Balance sheet

	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Tangible fixed assets	**49.5**	47.0	50.0	54.6	59.2
Stocks	**47.3**	47.0	46.1	46.9	52.0
Debtors	**42.8**	36.5	38.0	34.8	41.7
Creditors	**(46.1)**	(42.3)	(45.3)	(39.0)	(45.0)
Operating assets	**93.5**	88.2	88.8	97.3	107.9
Goodwill – net	**10.2**	18.8	22.6	26.2	27.7
Properties held for sale			2.3		
Net borrowings – including finance leases	**(17.0)**	(19.2)	(20.9)	(29.1)	(28.3)
Dividends and corporate tax	**7.8**	2.0	0.2	0.7	(5.3)
Provisions for liabilities and charges	**(12.9)**	(1.2)	(10.9)	(12.6)	(12.7)
Net assets excluding pension liability	**81.6**	88.6	82.1	82.5	89.3
Pension liability	**(41.3)**	(30.7)			
Net assets	**40.3**	57.9			

Key data

			2005	2004	2003	2002	2001
Operating return on average operating assets	%	1	**4.0**	8.6	9.9	7.6	15.1
Operating profit on turnover	%	1	**1.9**	4.0	4.9	4.1	7.4
Capital expenditure	£m		**7.6**	7.2	5.7	5.4	9.5
Basic (loss)/earnings per share	p		**(7.5)**	6.8	3.5	(7.2)	10.7
Dividends per ordinary share	p		**1.5**	4.5	4.5	4.5	9.25
Employees at year end			**2,839**	2,656	2,686	2,780	3,238

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

   Figures presented for 2004 onwards are stated in accordance with FRS 17 “Retirement Benefits”. Years prior to 2004 have not been adjusted.

Notice of Annual General Meeting

Notice is hereby given that the seventy-fifth Annual General Meeting of Renold plc will be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday 21 July 2005 at 2.30 pm for the following purposes:

As Ordinary Business

1. To receive and to consider the Accounts and the Reports of the Directors and of the Auditors for the year ended 31 March 2005.

2. To elect Ms B A Beckett as a director.

3. To re-elect Mr R F Leverton as a director.

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

5. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company, to hold office until the conclusion of the next General Meeting at which accounts are laid before the Company and to authorise the directors to fix their remuneration.

6. To approve the Directors' Remuneration Report contained in the Report and Accounts.

As Special Business

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

7. THAT the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £5,777,950 provided that this authority shall expire on 20 October 2006 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

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

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

(b) the allotment of equity securities under the Renold (1995) Executive Share Option Scheme, the Renold (1995) Savings Related Share Option Scheme, the Renold plc 2004 Performance Share Plan, the Renold plc 2004 Deferred Annual Bonus Scheme, the Renold plc 2004 Inland Revenue Approved Company Share Option Plan, the Renold plc 2004 Non Inland Revenue Approved Company Share Option Plan, the Renold plc 2004 Inland Revenue Approved SAYE Share Option Scheme; and

(c) the allotment of equity securities (otherwise than pursuant to paragraphs (a) and (b) above) up to an aggregate nominal amount of £866,692 (being equal to approximately 5% of the aggregate nominal amount of the Company's ordinary share capital currently in issue at the date of passing this resolution) and shall expire on 20 October 2006 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board

G R Newton
Secretary
22 June 2005

Registered Office:
Renold House
Styal Road
Wythenshawe
Manchester M22 5WL

Only the holders of ordinary shares are entitled as members to attend or be represented at the meeting.

To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at 2.30 p.m. on 19 July 2005 ("the specified time"). If the meeting is adjourned members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

A member entitled to attend and vote may appoint one or more proxies, who need not be members, to attend and vote instead of such member. A proxy may vote only on a poll. To be valid the instrument appointing a proxy must be duly executed and deposited at the Registrars of the Company not later than 48 hours before the due time of the meeting.

Copies of contracts of service of directors of the Company, other than contracts expiring, or determinable by the Company without payment of compensation within one year, and the existing Articles of Association will be available for inspection at the Company's registered office and at the offices of Eversheds, Senator House, 85 Queen Victoria Street, London EC4V 4JL during the usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting, and will be available for inspection at the place of the Annual General Meeting from 2.15 pm until close of meeting.

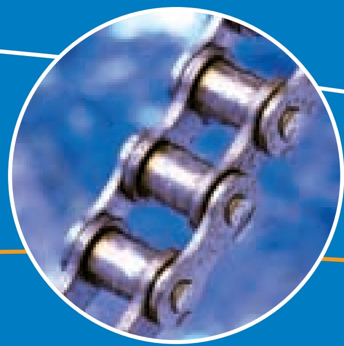
Financial Calendar

	2005
Annual General Meeting	21 July
Half year end 2005/06	30 September
Half year 2005/06 results published	mid November

	2006
Interim ordinary dividend for 2005/06 payable	end January
Year end 2005/06	31 March
Preliminary announcement of annual results 2005/06	early June

Other dividend payments

Preference dividends	1 July and 1 January

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