Annual Report 2006

RENOLD

Product Applications

Renold Hi-Tec couplings power some of the world's fastest, most technically advanced marine diesel ships.

Renold meets the exacting standards of the food, drink and packaging industry.

Renold products are specified in the oilfield industry, where compromise is not an option.

A well established name within the agricultural industry. Renold supplies products to meet the harshest of operating environments.

Heavy duty mining and quarrying installations rely on Renold products to ensure consistent performance.

Renold products are at the heart of large scale cement plants where durability is the key to success.

Some of the world's largest steel works are equipped with Renold chain, gears and couplings.

**Renold supplies products for use in a vast range of applications around the world, too numerous to mention.
Here is just a selection of those industries where Renold helps customers to achieve the important competitive edge.**

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Principal Activities

Renold plc is an international engineering group, producing a wide range of precision engineering products, and owning merchanting operations in nineteen countries.

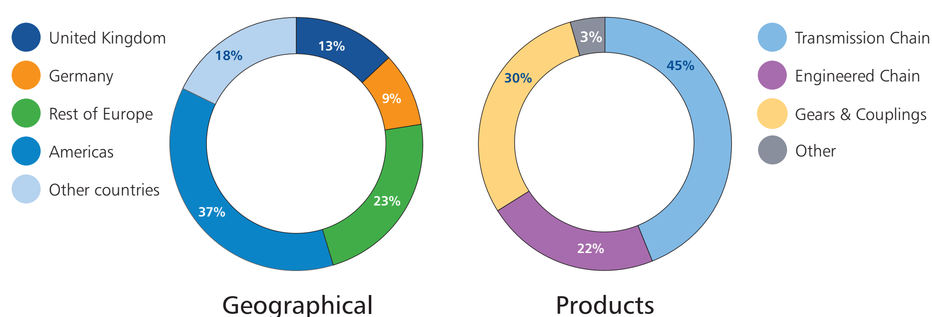
The Group's principal products include transmission and conveyor chains, gearboxes and mechanical variable speed drives; clutches, couplings and spindles.

Financial Highlights

for the financial year ended 31 March 2006

	2006 £m	2005 £m
Continuing operations:		
Turnover	**155.0**	143.2
Operating profit	**5.4**	0.4
Operating profit before exceptional items	**6.8**	4.6
Profit before tax and exceptional items	**3.2**	2.4
Profit/(loss) before tax	**1.8**	(1.8)
Discontinued operations:		
(Loss)/profit from discontinued operations including impairment charges	**(13.9)**	0.2
Other information:		
Basic and diluted (loss) per share – Group	**(19.6)p**	(0.1)p
Basic and diluted earnings/(loss) per share – continuing operations	**0.4p**	(0.4)p
Adjusted earnings per share (adjusting for the after tax effects of exceptional items)	**1.7p**	3.8p
Dividends paid per ordinary share		4.5p
Capital expenditure	**6.6**	7.6
Net debt	**20.7**	17.0

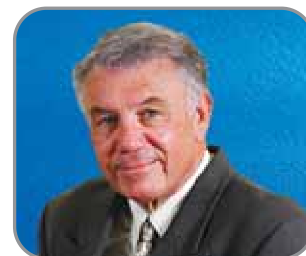
Turnover analysis – continuing operations



Geographical

Products

Chairman's Statement



OVERVIEW

It has been a year of progress towards returning the Group to its Power Transmission core competency and improving profitability and future prospects for the business.

In line with the Board's strategic direction for the Group in targeting a more tightly focused business with a substantially lower cost base and a reduced level of borrowings, the Group announced the proposed sale of its Machine Tools and Automotive businesses, the proceeds of which will be used to reduce bank debt. In the light of these proposed sales, the results of the Group show separately the results of the continuing Group businesses.

There were unprecedented steel price increases in the second half of last year and the pressures on the Group were compounded by a continuing weakness of the US Dollar. Where steel represents the major part of raw material costs, a vigorous programme of sales price increases and cost reduction was implemented and this has resulted in improved margins and profitability of the ongoing industrial power transmission business.

Continuing operations' profitability improved, reaching an operating profit before exceptional items of £6.8 million compared with £4.6 million in 2005. This result reflected strong sales growth in North America but with weaker market conditions persisting in Europe until the later part of the year. Development of the Group's activities in China continued with further contracts won.

Continuing operations recorded a pre-tax profit of £1.8 million compared with a pre-tax loss of £1.8 million in 2005. All figures take account of the new International Financial Reporting Standards and comparative numbers have been restated as appropriate.

After an impairment charge of £12.8 million relating to discontinued operations, the Group loss for the year was £13.6 million compared with a loss of £0.1 million in 2004/05.

Group net borrowings, excluding preference shares, ended the year at £20.2 million compared with £17.0 million the previous year. It is intended that proceeds from the sale of the Machine Tools and Automotive businesses will substantially reduce the level of debt going forward.

DIVIDEND

Given this year of transition the Board believes it is prudent to recommend that no dividend be paid for the year. The Board will consider future dividend policy in the light of results from the re-focused business.

BOARD CHANGES

Tony Brown, Finance Director, and Geoffrey Newton, Company Secretary, both plan to retire following the 2006 AGM. Both are long-term employees of the Company and we thank them for their unstinted contribution over many years.

Peter Bream joined the Board on 1 July, 2006 and will replace Tony Brown as Finance Director effective from the 2006 AGM. Peter Bream is an experienced accountant having been Finance Director of Provalis plc, a UK listed company, prior to his appointment. Keith Brown, Company Solicitor, will replace Geoffrey Newton as Company Secretary in a new combined role.

PROSPECTS

Overall, the economic environment continues positive although concerns remain over the negative impact of escalating raw material and energy costs. That said, the refocused business, with a reduced cost base, is better positioned to show further progress during 2006/07.

Roger Leverton,
Chairman

Renold Synergy

Our customers' experiences prove that Renold Synergy lasts longer and provides superior value for money over all other competitors' chains.

Renold Synergy's success in Europe has proliferated into the USA and Australia, with engineers around the world endorsing the outstanding wear and fatigue resistance and exceptional working life of this revolutionary chain.

An ever increasing list of applications demonstrates the flexibility of Renold Synergy, with successes documented from customers across a diverse range of industries.

A leading food manufacturer in the US producing bakery and confectionery products specified Renold Synergy on its most arduous mixer application, extending chain life from 8 weeks to 11 months.

Renold Synergy proves its worth in the demanding environment of the packaging industry, by reducing downtime for a major producer of glass and plastic packaging and enabling Europe's largest manufacturer of metal packaging to keep their high volume capacity at its optimum level.

And it doesn't end there. Renold Synergy also made it onto the big screen when the famous Pinewood Studios in the UK and a studio equipment company in Hollywood both specified Renold for use on their special effects mechanisms, and camera dollies.

Renold Synergy – the success keeps on rolling

Chief Executive's Review

Improved trading during the second half enabled the Group to achieve progress in the operating results for all the businesses last year. In 2004/05 the dramatic and rapid increase in steel prices severely impacted costs. This year steel prices have been stable and some small reductions have been seen; however, steel costs are still at least 40% higher than at the start of 2004/05. These increases have now been substantially offset by increased selling prices and cost reductions. Despite the need to pass on the increased cost of steel, sales growth was achieved. The increases in freight, utility and other energy related costs are a concern going forward.

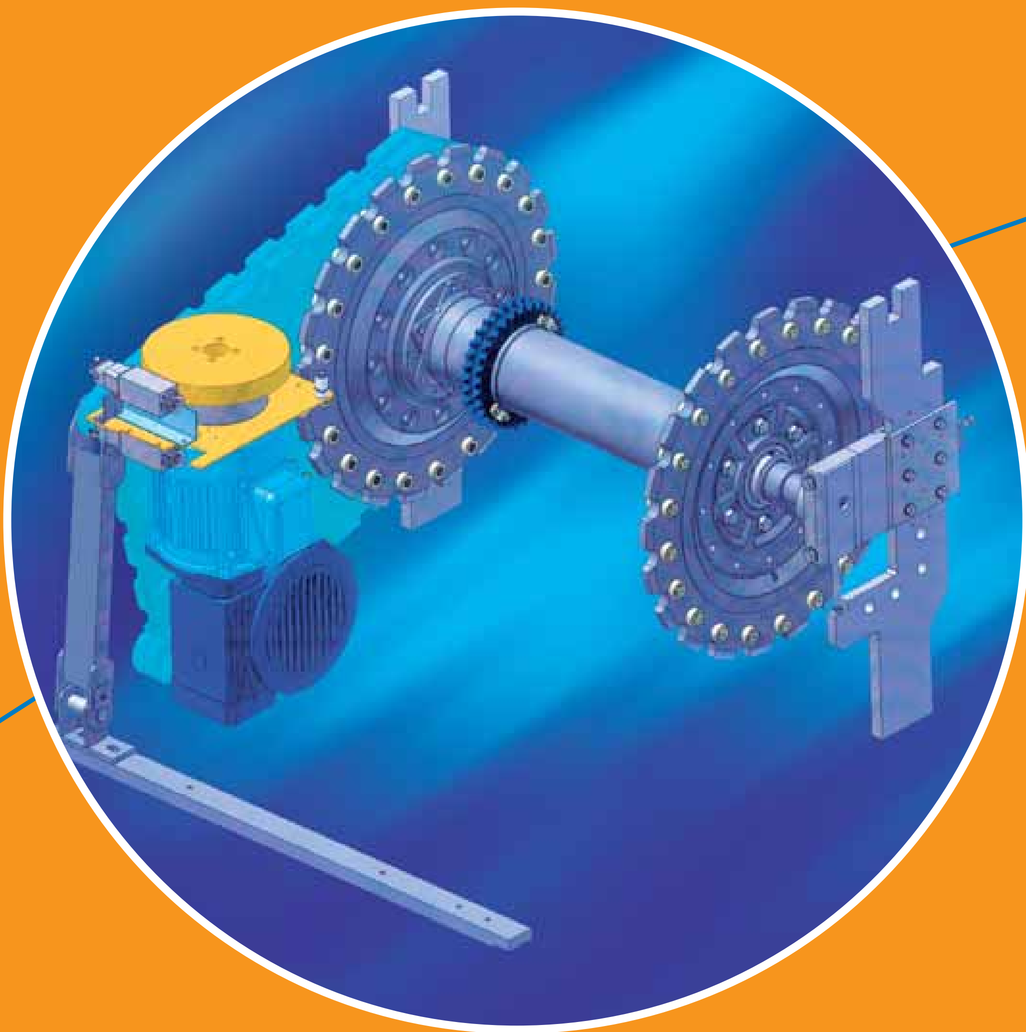
The strategy of reducing our dependence on manufacturing in the traditional areas of Europe and the US continued with the establishment of facilities in Poland, Malaysia and China. Increasingly these will provide the cost platform that will protect the existing business base and allow sales penetration into markets and countries where Renold has not traditionally been strong. These facilities will serve both local and international markets during the forthcoming year. Further investment in the sales teams has also been made in these and other growing markets.

The strategy of focusing on the core Industrial Power Transmission business was taken forward with the announcement in June of the proposed sale of the Automotive and Machine Tools businesses. The Automotive business, despite some improvement in the second half, continued to be unprofitable and to consume cash. Renold was a relatively small player in the automotive supply industry compared with the size of its major competitors. Double digit sales growth, over the past few years, driven by technical excellence, demanded significant continued investment. INA-Schaeffler KG, with over €5.0 billion sales in the automotive segment and manufacturing locations in many parts of the world, including Europe, USA and China, is in a better position to serve this market. The Automotive manufacturing and design facilities are based in Calais and St Siméon in France and Morristown, Tennessee, in the US. Automotive product manufacturing in Einbeck, Germany, has been transferred to St Siméon.

The Machine Tools business has little overlap with the core businesses but is cyclical and, at times, has a high demand for cash. The business operates from self-contained sites in Rochdale (Holroyd/Edgetek) and Leicester (Jones & Shipman). A production cell for loose gears will transfer from the Machine Tools business to the adjacent Renold Gears site after completion of the proposed transaction.

Following these proposed divestitures, Renold will be a more focused Group. Going forward it will have the ability to invest more heavily in the Industrial Power Transmission business and will accelerate changes to the manufacturing footprint and development of sales, particularly in the USA, China, Eastern Europe and South America.

Robert Davies,
Chief Executive



Slimline Gearbox Solves Complex Drive Solution

When Schindler Austria, one of the leading suppliers of escalators worldwide, wanted to simplify the main drive system for their escalators, they turned to Renold Gears to design and develop a bespoke ‘slim-line’ solution.

The moving steps of the escalator had previously been driven by a combination of drive systems consisting of gear and chain transmissions, linked to the main head-shaft, an extremely space consuming design. For aesthetical reasons and ease of maintenance, Schindler required the gearbox to be shaft mounted directly on to the head-shaft of the escalators, thereby eliminating all other drive components.

Renold faced the challenge of designing a gearbox to fit in a space no wider than 150mm whilst still providing sufficient torque to drive the escalator with a full load. The bespoke solution, which Renold Gears developed, was a main drive helical box, fitted with a standard first reduction worm and wheel drive to achieve the overall ratio required.

Renold’s ability to undertake and develop complete drive solutions in short lead times highlights our dominance in the People Movement industry.

Operations Review

The Group going forward is focused on its industrial power transmission business, which forms one business segment. The activities of the segment include the manufacture and sale of chain, gear and coupling products, which are sold through the Group's worldwide sales operations to a broad range of original equipment manufacturers and distributors.

The key performance indicators which are used to monitor performance are financial, including rate of sales growth, margin, material costs (particularly steel), payroll costs, working capital performance and net debt. The Group's performance against these key indicators is noted in the comments which follow. Other non-financial performance indicators are used but vary on a business by business basis.

CHAIN

The industrial chain business recovered well in the second half resulting in an improved performance compared with last year. Steel prices declined slightly but still remained 40% higher than at the start of 2004/05. Passing these cost increases on to customers was an essential, but time consuming, feature of the year. This process was managed in a way that allowed the majority of customers to be retained and it was pleasing to see that organic sales growth was achieved during this difficult period. The full impact of steel price increases was not recovered by increased pricing alone but the shortfall was substantially made up by cost reduction achievements.

EUROPE

Renold is the leading supplier of Industrial Chain in Europe and this position was maintained during the year. Excluding price increases, sales were relatively flat during the early part of the year but increased towards the end of the year. Germany in particular started to show signs of recovery following a lengthy period of flat sales.

The first new factory for many years was established in Goleniow, close to Szczecin, in Poland. The first chain was assembled in November. Phase 1 of this project was to transfer the assembly of special, low volume products from the Einbeck and Manchester facilities. This phase is nearly complete with over 60 new jobs already being established in Poland. An infrastructure is now being established which will allow the second phase to begin. This will include direct shipments to customers and will provide products in response to the demands of the local market. Phase 2 was originally scheduled to start at the end of 2006/07 but is being initiated six months ahead of plan. This facility is being managed by the Einbeck team who have done an excellent job of establishing the facility ahead of schedule and within budget. The local Government in Goleniow have been particularly supportive and have contributed to this success.

The creation of this new facility was timely as the demand on the Einbeck facility increased at the end of the fourth quarter and is ongoing into 2006/07. This demand has been met by modest capital investments and efficiency improvements. The transfer of Automotive product to the SAF factory at St Siméon, in June 2006, will allow a further increase in capacity with little additional investment.

The European Distribution Centres project made good progress in the year. This project is aimed at improving customer service by reducing lead times and increasing stock availability. The UK and German distribution centres are now established on a common software platform and have started to ship direct to customers. This will be rolled out across all European selling companies during the forthcoming year.

A total of 94 redundancies were made following the announcement of the closure of the facility in Burton. This work has been transferred to Poland, Manchester or outsourced. The initial planning application for redevelopment of the Burton site was rejected but an appeal has been lodged which is expected to be heard before the end of 2006. During the year 18 job losses were announced at the Seclin manufacturing facility in France.

AMERICAS

The US achieved good growth with sales up by over 13% compared with the previous year. This growth came from all segments of the business but sales through distribution were particularly strong. Sales to the two largest US Power Transmission Distributors, Motion and AIT, increased significantly. This increase in market share has moved Renold into the top three Industrial Chain manufacturers in the US.

Despite the need to increase prices, following the increase in steel costs, the OEM segment also grew. Orders increased for new products introduced over the last few years - Synergy (the world's leading transmission chain), Syno (lubrication free/dry to the touch chain) and the latest introduction XXL. This new product allows performance features to be achieved in chain that would normally need to be one size larger. This innovation has the real potential for OEM's to save size, weight and cost.

During the coming year the manufacture of certain products, which are sold mainly in North America, will be moved to the manufacturing facility in Morristown, Tennessee. This facility has progressed well with the introduction of Lean manufacturing and has completed a number of joint Lean events with customers during the year.

Renold Couplings

Renold Couplings is known world-wide as the primary choice for engineered solutions in different applications. Our products service a broad range of industries from Steel, Mining, Paper and Marine. Building on our success by servicing some of the fastest growing markets, including the Mass Transit Industry, we continue to grow business in the high economic growth regions of Asia and South America.

Across the world Renold Couplings have secured many new orders, including a major order from Anyang Steel in China who approached Renold to supply its steel mill with 18 Gear Spindles each weighing 8,500kg. Designed to operate under extremely high torque levels Renold Gear Spindles provide long service life.

In the United States we have been successful in gaining the first phase of the New York City Mass Transit Subway contract providing both the gearbox and coupling package over a four year period.

In the Marine industry Renold Hi-Tec Rubber-In-Compression Couplings are used on the cutter drive of the largest cutter suction dredger in the world, the JFJ de Nul which can operate at depths of up to 35m.

South American sales are now led by a local Sales Manager focused on the region. Starting from a relatively small base, the benefits of this focus are already being seen, with orders substantially increased. Additional resources will be added in the forthcoming year and, to fully realise the potential of the region, consideration will be given to adding a manufacturing facility the following year.

ASIA PACIFIC

Progress continues to be made in China with additional sales resources being added. All product groups are sold in China but the largest order, at over £1.5 million, came from a steel mill for large spindles for the Couplings business. Increasingly Renold chain products are being recognised for their exceptional performance and capabilities. Markets such as power generation, metals, glass and printing machines provided good order intake. In total, orders from China increased by 50%, albeit from a relatively low base, and, going forward, strong growth is again expected in the coming year.

To accelerate this growth the intent is to start manufacturing products in China, primarily to serve the local market. During the second half a lease was taken on 3,000 square metres of manufacturing space close to Shanghai. This is currently being refurbished and the product will be manufactured in this location during 2006/07. In addition to this facility a new sales office, located in the centre of Shanghai, will be opened during the year.

In addition to China, a new manufacturing facility will be opened in Malaysia in 2006/07. This will initially assemble chain for the palm oil industry but is expected to expand to satisfy the demands of other local customers.

GEARS

Gears operations have been consolidated under a single management team. Loose gears were already sold through the Gears sales team but the manufacturing responsibility was transferred from the Machine Tools & Rotors Division to the adjacent facility in Milnrow close to Manchester. The facility in South Africa was also consolidated into this grouping. South Africa, with sales of £4.5 million, manufactures, maintains and overhauls gearboxes from its base in Johannesburg and sells a range of other power transmission products.

Growth in the year came mainly from China, Germany and the USA. This success is based on providing creative design solutions for specific customer problems. A good example of this is an innovative Compact Escalator Direct Drive unit for a major European manufacturer.

The Apprentice Training School is located in the Gears Milnrow facility. Given the importance of key technicians to the Group, it is planned that this will be retained by Renold following the divestiture of Machine Tools.

COUPLINGS

It was a good year for this product group with orders up on the previous year. The growth came mainly from North America for the power generation and marine industries and from China for steel mills. Sales are underpinned by the large multi-year Mass Transit contract for Alstom/New York City. This runs until 2008 and over £2 million worth of shipments are scheduled for 2006/07. There are further customer options to extend the contract beyond 2008.

A licensing agreement was reached with David Brown that permits Renold to offer both couplings and gearboxes for Mass Transit applications. This significantly increases the available market size for Renold products. Multi-year contracts for over £30 million are currently being bid on.

The strong order performance and ongoing Alstom contract positions this product group well for another strong year.

Financial Review

OVERVIEW

The financial statements of the Group, including restated comparatives, have been prepared in accordance with International Financial Reporting Standards (IFRS). The principal differences arising from the transition to IFRS from UK Generally Accepted Accounting Practice were set out in a press release dated 23 November 2005 and details are also included in the notes to these financial statements.

As required under IFRS, the results of discontinued businesses are reported on one line in the profit and loss account.

The financial statement of the parent company, Renold plc, has been prepared under UK Generally Accepted Accounting Principles (UK GAAP) and are included on pages 67 to 74.

DISCONTINUED BUSINESSES

As announced in June 2006, the Group is at an advanced stage of negotiation for the sale of the business and certain assets of both the Automotive and Machine Tools businesses. Further information on these disposals is reported in the Chief Executive's Review.

As a consequence the Automotive and Machine Tools businesses are accounted for as discontinued operations in the financial statements.

TURNOVER

The turnover of continuing operations increased by 8% to £155.0 million, at constant exchange rates the increase was 6%. North America exhibited strong growth, up 17%, with Continental Europe up 4%, but the UK only 2% higher; elsewhere growth in the Far East was partially offset by a reduction in Australia. Sales in the second half-year, at £79.1 million were 4% higher than the first half.

OPERATING PROFIT

Operating profit before exceptional items was £6.8 million up 48% on 2004/05. Operating profit in the second half-year was £4.2 million representing a 5.3% return on sales, compared with £2.6 million in the first half or 3.4%. This demonstrates a further recovery in margins resulting from the pricing and cost actions taken following the rapid steel price increase in 2004 and early 2005, which depressed profitability particularly in the second half of the 2004/05 year.

Exceptional costs were £1.4 million, compared with £4.2 million in 2004/05, and related to redundancy and restructuring costs incurred mainly in the European chain operations.

FINANCING COSTS

Net interest cost rose to £2.2 million (2004/05: £1.9 million), there were costs of £0.7 million relating to the renegotiation of banking facilities, and a fair value gain on derivatives of £0.3 million. The net of interest costs on pension balances and the expected return on pension plan assets was a charge of £1.0 million (2004/05: £0.3 million).

PROFIT BEFORE TAX

Profit before tax and before exceptional items was £3.2 million compared with £2.4 million last year. Profit before tax after exceptional items was £1.8 million compared with a loss of £1.8 million in 2004/05.

TAXATION

The tax charge of £1.5 million (2004/05: £1.5 million credit) for the year represented higher than a normal percentage of the profit before tax mainly due to losses, including redundancy and restructuring costs, arising in subsidiaries where it is considered unlikely that they will be recovered in the foreseeable future.

DISCONTINUED OPERATIONS

As noted above the Automotive and Machine Tools businesses have been reported as discontinued operations with a loss, before disposal impairment charges, of £1.1 million in the year compared with a profit of £0.2 million in 2004/05. Details of the results of the discontinued operations are given in Note 5 to the financial statements.

RESULTS FOR THE FINANCIAL PERIOD

The loss for the year was £13.6 million (stated after disposal impairment charges of £12.8 million) compared with £0.1 million in 2004/05; the basic and diluted loss per share was 19.6p (2004/05: 0.1p loss). The basic and diluted earnings per share from continuing operations was 0.4p (2004/05: loss 0.4p).

BALANCE SHEET

Net assets at 31 March 2006 were £40.6 million (2004/05: £56.1 million) after an impairment charge of £12.8 million in relation to discontinued operations, details of which are shown in Note 13. The liability for retirement benefit obligations was £53.9 million (2004/05: £53.2 million) before allowing for a deferred tax asset of £12.7 million (2004/05: £14.3 million).

CASH FLOW AND BORROWINGS

Cash inflow from continuing operations was £4.7 million (2004/05: £8.6 million); there was a net cash outflow of £2.7 million for redundancy and restructuring costs in the year (2004/05: £4.9 million inflow).

Cash inflow from discontinued operations was £1.7 million (2004/05: £2.0 million outflow).

Payment for purchase of property, plant and equipment was £6.7 million (2004/05: £7.7 million), of which £2.9 million (2004/05: £3.9 million) related to discontinued activities. Proceeds of disposals, including the sale of leasehold improvements at the Bredbury factory site totalled £3.2 million.

Group net borrowings at 31 March 2006 were £20.7 million (2005: £17.0 million) comprising cash and cash equivalents £17.8 million (2005: £24.5 million) and borrowings of £38.5 million (2005: £41.5 million).

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. Note 25 to the Accounts provides details of financial instruments.

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.

Interest rate swaps have been used to fix interest rates on certain Group borrowings. At 31 March 2006 the Group had 31% of its gross debt at fixed interest rates. Cash deposits are placed short-term with banks where security and liquidity are the primary objectives.

Certain dollar denominated borrowings taken out in the UK to finance the acquisition of the Jeffrey Chain Corporation in 2000 have been designated as a hedge of the net investment in US subsidiaries, the fair value of these borrowings was £5.4 million at 31 March 2006 (31 March 2005: £4.6 million).

PENSIONS

Information on the Group's pension schemes is set out in Note 18 to the financial statements, including the key assumptions used by the actuary in arriving at the IAS 19 funding position. This year, for the first time, information has been provided in the note on the mortality assumptions used for the main UK schemes.

The gross pension deficits before taxation are as follows:

	2006			2005		
	Assets	**Liabilities**	**Deficit**	Assets	Liabilities	Deficit
	£m	**£m**	**£m**	£m	£m	£m
UK Schemes						
– funded	**162.7**	**195.6**	**32.9**	142.4	177.2	34.8
Overseas Schemes						
– funded	**15.5**	**17.9**	**2.4**	12.4	12.1	(0.3)
– unfunded		**18.6**	**18.6**		18.7	18.7
	178.2	**232.1**	**53.9**	154.8	208.0	53.2

During the year the assets of the funded schemes rose by £23.4 million due mainly to the return on assets exceeding the expected return by £16.2 million, and to UK deficit reduction payment of £3.1 million made in the year. The funding deficit did not materially change, however, as liabilities increased by £21.5 million due to actuarial losses caused primarily by a reduction in bond rates, with that used for discounting UK liabilities falling from 5.4% to 5.0%.

The overseas deficit comprises £2.4 million in respect of defined benefit schemes, and £18.6 million relating principally to the unfunded German scheme which, as is common in Germany, is a "pay as you go" scheme which does not require to be pre-funded. There is no obligation for deficit funding payments for this type of scheme.

The key issues for the Group are those relating to the UK schemes, further details of which are given below:

There are three UK defined benefit pension schemes, the main scheme which is the Renold Group Pension Scheme (RGPS), the Renold Supplementary Pension Scheme (RSPS), and the Jones & Shipman Retirement Benefit Scheme (J&S).

As at 31 March 2006	RGPS £m	RSPS £m	J&S £m	Total £m
IAS 19 liabilities	125.9	30.9	38.8	195.6
Market value of assets	102.2	23.6	36.9	162.7
Deficit on IAS 19 basis	23.7	7.3	1.9	32.9
Annual deficit reduction payment (based on funding valuations)	2.2	0.7	0.2	3.1
Total members (approx)	6,200	120	1,080	7,400
of which active are	625	20	70	715

For the UK schemes, the sensitivity to change in bond yields has been estimated assuming that the value of bond and annuity assets would change in line with the change in yields, but that the equity values would be unchanged; for a 0.5% increase in bond yields the UK deficit would reduce by some £12 million; for a 0.5% reduction in bond yields the UK deficit would increase by some £14 million.

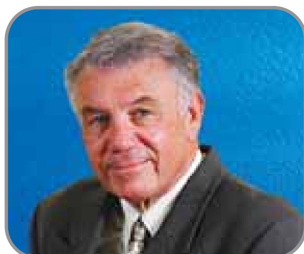
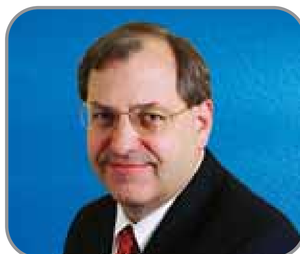
The UK schemes' assets at 31 March 2006 were invested 48% in equities and 52% in bonds. Using the expected rates of return on the different asset groups, the weighted average rate of expected return is 6.3%. This rate is used in determining the amount of expected return on plan assets shown as income in the profit and loss account. If the same 6.3% rate were to be used to discount the past service liabilities, rather than the corporate bond rate required by IAS 19, then the value of UK scheme liabilities would reduce to £160.3 million compared with assets of £162.7 million.

The sensitivity of the UK schemes to change in projected mortality has also been estimated; an increase in the post retirement mortality rate of 15%, broadly equivalent to a change of one year in life expectancy at age 65, would reduce the projected deficit by £7 million; conversely, a reduction in the post retirement mortality rate of 15% would increase the deficit by £7 million. The mortality projections used for the RGPS make allowance for a higher mortality rate than that of the standard PA92 table as a mortality review carried out at the time of the last valuation indicated that this would be appropriate.

The deficits in the UK schemes are being funded over the remaining service lives of active members at the rate of £3.1 million per year in total. These deficit reduction payments were established at the most recent actuarial valuations as at April 2004 for the RGPS and RSPS, and at April 2003 for the J&S scheme. Funding rates will be revised following the next triennial valuations which will incorporate the new Scheme Specific Funding requirements.

Tony Brown,
Finance Director

Directors' Biographies

From left to right:

Roger Leverton FCA (age 67)
Chairman
was appointed to the Board and became Chairman in 1998. He was formerly Chairman of Betts Group Holdings Limited, Chairman of Infast Group plc and Group Chief Executive of Pilkington plc.

Bob Davies BSc Hons CEng MIEE (age 52)
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.

Peter Bream MA ACA (age 39)
Executive Director
joined the Group on 1 July 2006. He was formerly Finance Director of Provalis plc, a UK listed company, for three years until March 2006. Prior to joining Provalis, Peter was a Divisional Finance Director for API Group plc. Peter is a chartered accountant and has an engineering degree from Cambridge University.

Tony Brown BSc Hons ACMA (age 59)
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 52)
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.

Mark Smith FCA (age 67)
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, Bradford & Bingley plc 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
P E Bream Executive Director
D A Brown Finance Director

NON-EXECUTIVE DIRECTORS
B A Beckett
M A Smith

COMPOSITION OF BOARD COMMITTEES

AUDIT COMMITTEE
M A Smith (Chairman)
R F Leverton
B A Beckett

NOMINATION COMMITTEE
R F Leverton (Chairman)
M A Smith
B A Beckett

REMUNERATION COMMITTEE
B A Beckett (Chairman)
R F Leverton
M A Smith

COMPANY SECRETARY
G R Newton

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Website: www.renold.com

AUDITORS
PricewaterhouseCoopers LLP, Manchester

MERCHANT BANKERS
KBC Peel Hunt

STOCKBROKERS
KBC Peel Hunt

REGISTRAR
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Telephone: 0870 162 3131
e-mail: shareholder.services@capitaregistrars.com
Website: www.capitaregistrars.com

Report of the Directors

for the financial year ended 31 March 2006

To be presented to the seventy-sixth Annual General Meeting of RENOLD plc to be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Tuesday, 19 September 2006 at 11.30 a.m.

The Notice of Meeting is given, together with explanatory notes, on pages 75 to 79.

Group results

The profit for the year before tax from continuing operations was £1.8 million compared with a loss of £1.8 million for the previous year.

The announcements in June 2006, relating to the disposal of the Group's Automotive and Machine Tool businesses, are in line with the Board's strategy to focus the Group on the core activities of the manufacture and sale of industrial power transmission products comprising chains, gears and couplings, and these are the principal continuing activities of the Group. A review of the development of the business and of the business divestments since the year end is contained in the Chief Executive's Review on page 5 and in the Operations Review on pages 7 and 9.

An indication of future developments and prospects is also given in those pages and in the Chairman's Statement on page 3.

Dividends

No final dividend per ordinary share is recommended.

Preference dividend payments were made on 1 July 2005 and 1 January 2006.

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 14. All these directors were directors throughout the year except for Mr S R Mole who resigned as a director on 1 June 2005 and Mr T B Fortune who retired on 21 July 2005. Mr P E Bream was appointed on 1 July 2006 and will be standing for election at the forthcoming Annual General Meeting.

Mr R J Davies 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 Smith does not have a service contract with the Company or any of its subsidiaries.

Mr D A Brown will retire following the Company's Annual General Meeting in September 2006 and Mr P E Bream will take over as Finance Director from that date.

The Company maintained liability insurance for its directors and officers throughout the year. It is proposed to extend this cover as permitted by recent changes to the Companies Act 1985 and details are given in the Notice of the Annual General Meeting which accompanies this report.

Biographical details of the directors are on page 13.

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 20 to 23. No director had any interests in contracts of significance in relation to the Company's business during the year.

Share capital

Changes in share capital during the year are set out in note 19 to the financial statements on page 52.

Major shareholders

As at 6 July 2006, 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	16.35
Prudential plc	12.83

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

Platinum Fund Managers Ltd	8.73
Steel Partners II LP	7.54
Lowland Investment Company Plc	6.84

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.

During the year the principal chain manufacturing locations in Germany and at Bredbury UK successfully renewed their ISO14001 certifications which cover environmental systems. A Group Health, Safety and Environment Executive was appointed during the year to co-ordinate Group actions and compliance.

Employees
At 31 March 2006 the Renold Group employed 2,863 people, including 1,021 in the UK and 1,140 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 2006 amounted to £1.8 million.

Financial instruments
An explanation of the Group policies on the use of financial instruments and the Group's financial risk management objectives and its exposure to risks are contained in the Financial Review on pages 10 to 12 and in the notes to the financial statements.

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 2006 trade creditors of the Group's businesses in the UK and overseas represented 72 days' purchases, compared with 67 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
19 July 2006

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 2006 with the provisions of the Combined Code.

Board

The Board presently comprises a non-executive 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 13.

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 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 since 1994 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 September 2006.

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 of the Board and its committees during the year and individual attendance by Board and committee members at those meetings.

	Board	**Audit**	**Nomination**	**Remuneration**	**Risk**
Number held	**9**	**3**	**1**	**4**	**3**
Number attended					
R F Leverton	9	3	1	4	
R J Davies	9				3
B A Beckett	9	3	1	4	
D A Brown	9				3
T B Fortune	3	1	1	2	
S R Mole	1				
M A Smith	9	3	1	4	

All directors in office at the time of the Annual General Meeting held on 21 July 2005 were in attendance for the meeting.

Mr S R Mole and Mr T B Fortune attended all meetings they were eligible to attend during their time as directors.

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 have considerable experience on audit committees in other listed companies. The Chief Executive, Finance Director and other 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 internal audit reports and the conduct of the external audit. The external auditors, who attend by invitation, 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.

The Committee has a formal process for evaluating the effectiveness of the Audit Committee, the internal audit function and the external audit process.

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 2005/06 was to consider the reconstitution of the Board following the resignation of Mr S R Mole.

Remuneration Committee

The Remuneration Committee is a committee of the Board comprised of the non-executive directors and has been chaired by Ms B A Beckett following Mr T B Fortune's retirement from the Board in July 2005. 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.

During the year the Committee, in conjunction with Monks Partnership, conducted a comparative pension's market practice review and as a result has made a number of recommendations to the Pension Trustees in order to continue ongoing liabilities.

The Remuneration Report is set out on pages 20 to 23.

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 2006, 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 regularly to review how business risks, as identified by the Board, 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. Since the year end an independent Trustee Company has been appointed to provide a Chairman of the Board of Trustees of the principal 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 financial statements.

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 and all directors receive copies of analysts' reports of which the Company is made aware.

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 Remuneration Report sets out the remuneration policies operated by the Company in respect of the directors and complies with the Companies Act 1985, amended by the Listing Rules of the Financial Services Authority.

This report is submitted to shareholders by the Board for approval at the forthcoming Annual General Meeting on 19 September 2006 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 has been chaired by Ms B A Beckett since 21 July 2005. 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 (Chairman of the Committee until his retirement from the Board on 21 July 2005), Ms B A Beckett, Mr R F Leverton and Mr M A Smith. The Chief Executive attends meetings at the request of the Chairman to assist the Committee in their deliberations but does not take part in the Committee's recommendations on his own remuneration.

The non-executive directors do not have service agreements and have no automatic right of re-appointment. They do not participate in the Company pension or share option schemes and apart from their fees and expenses do not receive any benefits from the Company. The determination of the remuneration of non-executive directors is the responsibility of the whole Board.

The Committee determines the terms and conditions of employment, including remuneration, for the executive directors. Monks Partnership (part of PricewaterhouseCoopers LLP) have been appointed by the Committee to provide independent 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 incentive arrangements for the Executive Directors as approved at the Annual General Meeting in July 2004. These comprise the following:

- A discretionary performance related annual bonus scheme which has a maximum of 60% of basic salary. A proportion of this bonus is based on group profit targets and the balance on personal objectives. A bonus of approximately 20% was awarded for 2005/06.
- 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 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 matching shares to vest and increasing to 100% on a straight line basis until the percentage growth in the CPI is exceeded by 6% per annum compounded. No re-testing of the performance criteria will occur.
- 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. No award was made in 2005/06.

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. Under the Renold plc 2004 Inland Revenue Approved Company Share Option Plan and the Renold plc 2004 Non Inland Revenue Approved Company Share Option Plan (together "the 2004 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.

The performance targets under the 2004 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 2004 Executive Scheme in the same year an award is made under the Renold plc 2004 Performance Share Plan. No options were granted under the 2004 Executive Scheme in 2005/06.

In addition, the Company operates a savings-related Share Option Scheme ("SAYE Scheme") in which the executive directors are eligible to participate on the same terms as all UK employees. Options granted under this scheme have been exercisable on completion of either a three-year or five-year savings contract. The options granted during the year under the SAYE Scheme were made under a three-year savings contract at a discount of 10%.

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

Mr D A Brown participates 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 (£105,600 in 2005/06 with a shadow earnings cap to be applied for future years). 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 £26,400 in 2005/06. 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
P E Bream	29 June 2006	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 2006, 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 2006		31 March 2005	
	Shares	Options	Shares	Options
R F Leverton	8,000		8,000	
R J Davies	85,000	610,744	85,000	600,000
B A Beckett				
D A Brown	65,502	181,594	65,502	170,850
M A Smith	20,000		20,000	

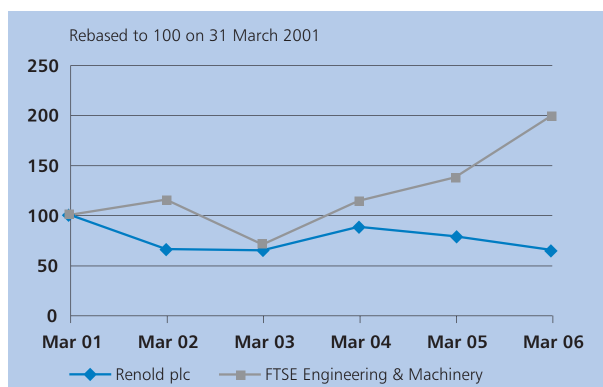
There were no non-beneficial interests held by the directors in the ordinary shares of Renold plc at the end of the year or at 6 July 2006.

At 31 March 2006 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 6 July 2006.

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

	2006					2005
	Salaries & fees £000	Annual bonus £000	Benefits Cash £000	Benefits Non-cash £000	Total £000	Total £000
Executive directors						
R J Davies	265	50		30	345	278
D A Brown	170	35	10	3	218	183
S R Mole (resigned 1.6.05)	21		2		23	137
I R Trotter (retired 6.4.04)						9
	456	85	12	33	586	607
Non-executive directors						
R F Leverton – Chairman	85				85	85
B A Beckett (from 1.3.05)	29				29	2
M A Smith	32				32	27
T B Fortune (retired 21.7.05)	9				9	26
	611	85	12	33	741	747

Directors' pension entitlements

Details of pension benefits earned in respect of each director in office at 31 March 2006 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 31.3.06 (c) £000	Transfer value at 31.3.05 (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	16	5	58	56	932	754	171	117

(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 but before any adjustment for actuarial reduction for early retirement.

(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 £26,400 in 2005/06.

Share options

	Number of share options				Option price	Date from	
	At 31.3.05	Granted	Lapsed	At 31.3.06	(pence per share)	which exercisable	Expiry date
R J Davies							
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
Savings related scheme		10,744		10,744	54.30	1.3.09	31.8.09
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
	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
		10,744		10,744	54.30	1.3.09	31.8.09

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 2006 was 57 pence and the range of prices during the year was 39.5 pence to 62 pence.

On behalf of the Board

B A Beckett
Chairman of Remuneration Committee
19 July 2006

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' Reports, shown on page 25 and page 66, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements of both the Group and the Company.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for the financial year. In preparing those financial statements, the directors are required to:

(1) select appropriate accounting policies and apply them consistently;

(2) make judgements and estimates that are reasonable and prudent;

(3) state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained; and

(4) prepare those financial statements on the going concern basis, unless they consider that to be inappropriate.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The applicable accounting standards referred to in (3) above are: (a) UK Generally Accepted Accounting Principles (UK GAAP) for the Company; and (b) International Financial Reporting Standards (IFRS), as adopted by the European Union and implemented in the UK, for the Group.

The directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company and the Group and, in that context, to have proper regard to the establishment of the appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The directors are required to prepare financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections the auditors consider to be appropriate for the purpose of enabling them to give their audit report.

The directors confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors intend to publish the financial statements 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 financial statements. 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 Group financial statements of Renold plc for the year ended 31 March 2006 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Change in Shareholders' Equity and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Renold plc for the year ended 31 March 2006, and on the information in the directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the Group financial statements. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Report of the Directors, the directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Review, the Financial Review, the Operations Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group financial statements 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 Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 31 March 2006 and of its loss and cash flows for the year then ended;

- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and

- the information given in the Report of the Directors is consistent with the Group financial statements.

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

19 July 2006

Accounting Policies

Basis of preparation – The consolidated financial statements for the year ended 31 March 2006 have been prepared in accordance with International Financial Reporting Standards (IFRS), and International Financial Reporting Interpretations Committee (IFRIC) interpretations. These include standards and interpretations endorsed by the European Union (EU). In addition, the financial statements have been prepared in accordance with those parts of the Companies Act 1985 applicable to groups reporting under IFRS. The financial statements have been prepared using historical cost principles except that certain items, including derivatives, are measured at fair value.

The 31 March 2006 financial statements are the Group's first consolidated financial statements prepared under IFRS. The Renold Group adopted IFRS from 4 April 2004. Consequently, the comparative figures for the year to 31 March 2005 have been restated to comply with IFRS, with the exception of IAS 32 and IAS 39, the standards on financial instruments, which have been applied from 1 April 2005, under the transitional arrangements. As required by IFRS 1 ("First-time Adoption of International Financial Reporting Standards") note 27 provides an explanation of how the transition from UK GAAP to IFRS has affected the Group's reported financial statements. Furthermore, the exemptions permitted under IFRS 1 and adopted by the Group, are explained in note 27 and, where appropriate, in the Accounting Policies.

The impact of IFRSs issued but not yet effective at the balance sheet date would not have a significant effect on these financial statements.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Basis of consolidation – The consolidated financial statements incorporate the financial statements of Renold plc ("the Company") and enterprises controlled by the Company (its subsidiaries). Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated. Under the transitional options of IFRS 1 business combinations that occurred prior to the transition date have not been restated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

Foreign currency translation – Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements are presented in sterling, which is the functional and presentation currency of the parent.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction or average rates where applicable. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Assets and liabilities of overseas subsidiaries are translated into sterling at the exchange rates ruling at the end of the financial year. Income statements and cash flows 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 directly to reserves. When a foreign entity is sold related exchange differences previously taken to reserves, are recognised in the income statement as part of the gain or loss on sale.

As permitted by IFRS 1 the Group has elected to deem cumulative currency differences to be nil as at 4 April 2004. Accordingly, the gain or loss on disposal of a foreign operation thereafter will not include currency translation differences arising before 4 April 2004.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquired entity over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill arising on the acquisition of an entity is included as an intangible asset. Goodwill is not amortised but is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment charge is recognised immediately in the income statement.

In circumstances where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the consideration paid ("negative goodwill"), the excess is recognised immediately as a gain in the income statement.

As permitted by IFRS 1, the Group elected not to apply IFRS 3 "Business Combinations" to business acquisitions that occurred before 4 April 2004. Therefore, the carrying amount of goodwill (being cost less accumulated amortisation) included under UK GAAP forms the "cost" of goodwill recognised under IFRS at the date of transition. Goodwill that was written-off directly to reserves under former UK GAAP will not be taken into account when determining the gain or loss on disposal of previously acquired businesses after 4 April 2004.

(b) Computer software

Computer software that is not integral to an item of plant and equipment is recognised separately as an intangible asset. Amortisation is charged on a straight line basis so as to charge the cost of software to the income statement over its expected useful life which is between three and five years. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

(c) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are only recognised as intangible assets in circumstances where certain strict criteria are satisfied. These include the expectation that it is probable that the project will be a success, considering its commercial and technological feasibility, and that all associated costs can be measured reliably. Otherwise development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

Property, plant and equipment are stated at cost, being purchase cost plus any incidental costs of acquisition, less accumulated depreciation.

Depreciation is calculated on a straight-line basis so as to charge the depreciable amount of the respective asset to the income statement over its expected useful life. The useful lives of assets are as follows:

Freehold buildings – 50 years

Leasehold properties – 50 years or the period of the lease if less

Plant and equipment – 3 to 25 years according to type of asset

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

As permitted by IFRS 1, at 4 April 2004, the Group has measured its freehold properties on a fair value basis and used that value as deemed cost at the transition date.

Asset impairment – Intangible assets and property, plant and equipment are reviewed, at least annually, to ensure that assets are not carried above their recoverable amounts. Where some indication of impairment exists, calculations are made of the discounted cash flows resulting from continued use of the assets (value in use) or from their disposal (fair value less costs to sell). Where these values are less than the carrying amount of the assets, an impairment loss is charged to the income statement.

Leases – 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 at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. The corresponding liability to the leasing company, net of finance charges, is included as an obligation under finance leases in creditors. The interest element of the lease payment is charged to the income statement on a basis which produces a consistent rate of charge over the period of the liability.

Leases where a significant portion of the risk and reward of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Government grants in respect of capital expenditure are treated as deferred income 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.

Inventories are stated at the lower of cost and estimated net realisable value, after due allowance for obsolete or slow moving items. 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. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. 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 financial statements, unrealised profit on sales within the Group is deducted from inventories.

Taxation – The tax charge comprises current tax payable and deferred tax.

The Group is subject to taxes in numerous jurisdictions. The current tax charge represents an estimate of the amounts payable to tax authorities in respect of taxable profits. It is based on tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Currently enacted, or substantially enacted, tax rates as at the balance sheet date are used in the determination of deferred income tax.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised or taxable profit will be available against which unused tax losses can be utilised before they expire.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Revenue comprises the fair value of goods and services provided to external customers after deducting value added tax or other sales related taxes and trade discounts. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of goods are transferred to the buyer. 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 estimated reliably. At, and from this point, an appropriate portion of the anticipated contract profit is recognised in the profit and loss account following a percentage-of-completion method. If losses are envisaged then these are provided as soon as the potential loss is identified.

Trade receivables are recognised and carried at the original invoice amount less an allowance for any identified impairment. The impairment allowance is established when there is objective evidence that the Group will not collect all amounts due under the original terms of the transaction. The impairment is charged to the income statement and represents the difference between the carrying amount and the recoverable amount.

Employee benefits

(a) Pension obligations

Group companies have various pensions scheme arrangements matching the local conditions and practices in the countries in which they operate.

The Group operates a number of defined benefit schemes around the world. The cost is calculated by independent actuaries using the projected unit credit method. Any past service costs resulting from enhanced benefits are recognised immediately in income, unless the changes are conditional on the employees remaining in service for a specified period of time (the "vesting period"). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Actuarial gains and losses, which represent differences between the expected and actual returns on scheme assets and the effect of changes in actuarial assumptions, are recognised in the Statement of Recognised Income and Expense in the period in which they occur.

The defined benefit liability or asset recognised in the balance sheet represents the net total for each scheme of the present value of the benefit obligation at the balance sheet date, less any past service costs not yet recognised, less the fair value of plan assets (for funded schemes) at the balance sheet date. If a scheme records a surplus, the asset recognised is limited to the amount of any unrecognised past service cost and the present value of any amount expected to be recoverable by the Group by way of refunds or reduction in future contributions.

For defined contribution schemes, the Group's contributions are charged to the income statement in the period in which they fall due. Once the contributions have been paid the Group has no further payment obligation.

(b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the income statement, with the corresponding amount being recognised in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting

conditions, using a Black-Scholes pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

As permitted by IFRS 1 the Group has applied IFRS 2 "Share-based Payment" only to equity-settled awards granted after 7 November 2002 and which vested after 1 January 2005.

Exceptional items are items in the profit from operations which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's financial performance. These items are separately disclosed as memorandum information on the face of the Income Statement with additional information provided in the notes to the financial statements.

Financial instruments – In accordance with the options available under IFRS 1 the Group has elected to apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" prospectively from 1 April 2005. Consequently, the relevant comparative information prior to that date remains stated in accordance with UK GAAP. The accounting policy for periods up to 31 March 2005 is as set out in the 31 March 2005 Annual Report. Under UK GAAP derivative financial instruments were not recognised as assets or liabilities on the balance sheet and gains and losses arising on them were not recognised until the hedged transaction occurred. The accounting policy of the Group for financial instruments, following the adoption of IAS 32 and IAS 39 is as follows:

The principal derivative financial instruments used by the Group are forward foreign currency exchange contracts and interest rate swaps, used to manage the exposure to exchange rate and interest rate movements. Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Changes in their fair values are recognised in the income statement.

Hedge accounting, as specified by IAS 39, is not generally applied to transactional hedging relationships, such as hedges on forecast or committed transactions. However, if it is deemed appropriate for one-off material transactions, the Group retains the option to apply hedge accounting and take the necessary steps to satisfy the specific requirements of IAS 39.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the income statement.

From 1 April 2005 the Group's Preference Shares have been classified as liabilities. Dividends payable on the Preference shares are included within net finance costs. Under UK GAAP the shares were included as part of Shareholders' funds and the dividends payable on the shares were regarded as an appropriation of profit.

Financial risk management

The principal financial risks to which the Group is exposed relate to:

(a) Foreign exchange risk

Transactional foreign currency exposures are managed principally by the use of forward foreign exchange contracts to avoid fluctuations in earnings and cash flows relating to these exposures. Foreign currency exchange risk on the translation of net investments is managed partly through borrowings denominated in the local currency.

(b) Interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group reviews the mix of fixed and floating debt and has interest rate swaps to manage part of this exposure.

(c) Liquidity risk

The Group maintains a mix of short and medium term facilities to ensure that it has sufficient available funds for ongoing operations.

(d) Credit risk

The Group has no significant concentrations of credit risk with sales made to a wide spread of customers, industries and geographies. Individual businesses have a greater concentration of credit risk to major customers. Policies are in place to ensure that credit risk on individual customers is kept to a minimum.

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet to the extent that there is no right of offset with cash balances.

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Costs related to ongoing activities of the Group are not provided in advance.

Assets held for sale and discontinued operations – Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. For this to be the case, the asset must be available for immediate sale in its present condition, management must be committed to and have initiated a plan to sell the asset which, when initiated, was expected to result in a completed sale within a year. Assets that are classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

A discontinued operation is a component of the business that has either been disposed of, or satisfies the criteria to be classified as held for sale, and represents a separate major line of business or geographical area of operations ("disposal group") and is part of a single co-ordinated plan to achieve such a disposal. The post-tax profit or loss on a discontinued operation is shown as a single amount on the face of the Group Income Statement, separate from the continuing results of the Group; prior year amounts are restated on a comparable basis. In the Balance Sheet the assets relevant to the "disposal group" are reported as a separate line item within current assets; liabilities associated with the disposal group are similarly disclosed as a line item below current liabilities. Comparative balance sheet amounts are not restated.

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are paid or approved by the Company's shareholders.

Consolidated Income Statement

for the year ended 31 March 2006

	Note	2006 £m	2005 £m
Continuing operations:			
Revenue	1	**155.0**	143.2
Operating costs	2	**(149.6)**	(142.8)
Operating profit		**5.4**	0.4
Operating profit before exceptional items		**6.8**	4.6
Exceptional items	2	**(1.4)**	(4.2)
Operating profit		**5.4**	0.4
Financial expenses		**(14.1)**	(11.8)
Financial income		**10.5**	9.6
Net financing costs	3	**(3.6)**	(2.2)
Profit/(loss) before tax		**1.8**	(1.8)
Taxation	4	**(1.5)**	1.5
Profit/(loss) for the financial year from continuing operations		**0.3**	(0.3)
Discontinued operations:			
(Loss)/profit for the financial year from discontinued operations	5	**(13.9)**	0.2
(Loss) for the financial year		**(13.6)**	(0.1)
Earnings per share	6		
Basic and diluted (loss) per share		**(19.6)p**	(0.1)p
Basic and diluted earnings/(loss) per share from continuing operations		**0.4p**	(0.4)p

Consolidated Statement of Recognised Income and Expense

for the year ended 31 March 2006

	2006 £m	2005 £m
(Loss) for the year	**(13.6)**	(0.1)
Net income/(expense) recognised directly in equity:		
Foreign exchange translation differences	**1.1**	0.1
Gains on fair value of hedging net investments in foreign operations	**1.1**	
Actuarial (losses) on retirement benefit obligations	**(5.3)**	(15.9)
Tax on items taken directly to equity	**1.7**	4.6
Total expense recognised directly in equity	**(1.4)**	(11.2)
Total recognised income and expense for the year	**(15.0)**	(11.3)
Change in equity following adoption of IAS 39	**(0.2)**	
Total recognised income and expense	**(15.2)**	(11.3)

The notes on pages 34 to 63 form part of these financial statements.

Consolidated Balance Sheet

as at 31 March 2006

	Note	**2006 £m**	2005 £m
Assets			
Non-current assets			
Goodwill	8	**17.1**	15.7
Other intangible fixed assets	8	**0.2**	0.5
Property, plant and equipment	9	**38.2**	64.2
Other non-current assets	11	**0.3**	0.4
Deferred tax assets	17	**18.4**	17.0
		74.2	97.8
Current assets			
Inventories	10	**36.5**	47.3
Trade and other receivables	11	**25.8**	41.7
Derivative financial instruments	25	**0.2**	
Cash and cash equivalents	12	**17.8**	24.5
		80.3	113.5
Asset held for sale	13	**3.4**	
Assets of discontinued operations	13	**37.1**	
		120.8	113.5
Total assets		**195.0**	211.3
Liabilities			
Current liabilities			
Borrowings	14	**(12.4)**	(28.5)
Trade and other payables	15	**(31.3)**	(45.5)
Provisions	16	**(0.4)**	(11.7)
Current tax liabilities		**(0.7)**	(1.0)
		(44.8)	(86.7)
Liabilities directly associated with discontinued operations	13	**(28.1)**	
		(72.9)	(86.7)
Net current assets		**47.9**	26.8
Non-current liabilities			
Borrowings	14	**(25.6)**	(13.0)
Derivative financial instruments	25	**(0.1)**	
Preference shares	14	**(0.5)**	
Trade and other payables	15	**(0.7)**	(0.9)
Deferred tax liabilities	17	**(0.7)**	(1.4)
Retirement benefit obligations	18	**(53.9)**	(53.2)
		(81.5)	(68.5)
Total liabilities		**(154.4)**	(155.2)
Net assets		**40.6**	56.1
Equity			
Issued share capital	19	**17.4**	17.9
Share premium	21	**6.0**	6.0
Other reserves	21	**2.7**	0.5
Retained earnings	21	**14.5**	31.7
Total shareholders' equity		**40.6**	56.1

The notes on pages 34 to 63 form part of these financial statements.

Approved by the Board on 19 July 2006 and signed on its behalf by:

Roger Leverton
Director

Robert Davies
Director

Consolidated Cash Flow Statement

for the year ended 31 March 2006

	2006 £m	2005 £m
Cash flows from operating activities (Note 24)		
Cash generated from operations – continuing	**4.7**	8.6
Cash generated/(absorbed) by operations – discontinued	**1.7**	(2.0)
	6.4	6.6
Income taxes paid	**(1.7)**	(1.0)
Net cash from operating activities	**4.7**	5.6
Cash flows from investing activities		
Purchase of property, plant and equipment	**(6.7)**	(7.7)
Purchase of intangible assets	**(0.2)**	(0.3)
Proceeds on disposal of property, plant and equipment	**3.2**	
Purchase of subsidiary		(0.1)
Cash acquired on purchase of subsidiary		9.7
Interest received		0.1
Net cash from investing activities	**(3.7)**	1.7
Cash flows from financing activities		
Financing costs paid	**(3.3)**	(2.2)
Increase in borrowings	**6.9**	2.4
Issue of ordinary shares	**0.1**	
Payment of finance lease liabilities	**(0.1)**	(0.1)
Equity dividends paid		(3.2)
Net cash from financing activities	**3.6**	(3.1)
Net increase in cash and cash equivalents	**4.6**	4.2
Net cash and cash equivalents at beginning of year	**4.8**	0.6
Effects of exchange rate changes	**0.2**	
Net cash and cash equivalents at end of year (Note 12)	**9.6**	4.8

The notes on pages 34 to 63 form part of these financial statements.

Notes to the Consolidated Financial Statements

1. Segmental information

Primary reporting format – business segment

The Group's continuing activities are in one class of business, Industrial Power Transmission. During the year the Group's former segments, Automotive and Machine Tools, have been classified, and accounted for, as disposal groups. The consolidated income statement for continuing operations therefore relates wholly to the Industrial Power Transmission business.

Segment assets and liabilities

The tables shown below provide an analysis of the distribution of assets and liabilities between continuing and discontinued activities, and how they relate to the former business segments.

Reconciliation of segment assets to consolidated total assets:

	2006 £m	2005 £m
Assets allocated to segments:		
– Industrial Power Transmission	**116.6**	115.8
– Automotive		36.1
– Machine Tools		17.6
	116.6	169.5
Unallocated corporate assets	**1.7**	0.3
Cash and cash equivalents	**17.8**	24.5
Deferred tax	**18.4**	17.0
	154.5	211.3
Asset held for sale	**3.4**	
Assets of discontinued operations	**37.1**	
Consolidated total assets	**195.0**	211.3

Reconciliation of segment liabilities to consolidated total liabilities:

	2006 £m	2005 £m
Liabilities allocated to segments:		
– Industrial Power Transmission	**(86.3)**	(81.8)
– Automotive		(25.4)
– Machine Tools		(3.7)
	(86.3)	(110.9)
Unallocated corporate liabilities		(0.4)
Preference shares (Note 19)	**(0.5)**	
Derivative financial instruments	**(0.1)**	
Borrowings	**(38.0)**	(41.5)
Current and deferred tax	**(1.4)**	(2.4)
	(126.3)	(155.2)
Liabilities directly associated with assets of discontinued operations	**(28.1)**	
Consolidated total liabilities	**(154.4)**	(155.2)

1. Segmental information continued

As at 31 March 2005 the following information is provided for the segments at that date:

	Capital expenditure		Depreciation	Amortisation
	Property, plant and equipment £m	Computer software £m	£m	£m
Industrial Power Transmission	3.4	0.3	(5.8)	(0.2)
Automotive	6.7		(2.0)	
Machine Tools	0.4		(0.8)	
	10.5	0.3	(8.6)	(0.2)

Included in capital expenditure for Automotive in 2005 is an amount of £3.2 million in respect of tangible asset additions arising through business combinations.

The disclosures provided for 2006 in notes 8 and 9 relate to Industrial Power Transmission, unless otherwise stated.

Secondary reporting format – geographical segments

The operations of the Group are based in six main geographical areas. The UK is the home country of the parent. The main operations in the principal territories are as follows:

United Kingdom
Germany
France
Rest of Europe
United States and Canada
Other countries

The sales analysis in the table below is based on the location of the customer; the analysis of assets and capital expenditure is based on the location of the assets:

	Revenue		Segment assets		Capital expenditure	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
United Kingdom	**20.4**	20.0	**29.5**	50.4	**1.6**	2.0
Germany	**14.6**	14.2	**19.5**	18.9	**1.7**	2.1
France	**7.4**	7.5	**5.9**	41.2	**0.1**	5.7
Rest of Europe	**28.2**	26.7	**6.7**	6.0	**0.1**	0.1
North America	**57.2**	48.8	**41.2**	40.0	**0.8**	0.7
Other countries	**27.2**	26.0	**13.8**	13.0	**0.2**	0.2
	155.0	143.2	**116.6**	169.5	**4.5**	10.8
Unallocated assets			**37.9**	41.8		
Asset held for sale			**3.4**			
Discontinued operations			**37.1**		**2.1**	
	155.0	143.2	**195.0**	211.3	**6.6**	10.8

Included within capital expenditure shown for France in 2005 is an amount of £3.2 million in respect of property, plant and equipment additions arising through business combinations.

In accordance with IFRS 5, comparative geographical data for revenue has been restated to reflect only continuing activities of the Group. The geographical analysis of segment assets and capital expenditure at 31 March 2005 remains as presented for the Group at that date.

2. Operating costs and exceptional items

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

	2006		2005	
	£m	**£m**	£m	£m
Change in stocks of finished goods and work in progress		**(1.1)**		(0.2)
Own work capitalised		**(0.1)**		(0.6)
Other operating income		**(0.8)**		(1.0)
Raw materials and consumables		**58.8**		56.1
Other external charges		**21.9**		17.5
Employee costs				
Gross wages and salaries	**52.3**		48.9	
Social security costs	**6.2**		5.7	
Pension costs – Defined benefit	**2.6**		2.6	
– Defined contribution	**0.5**		0.6	
Cost of share-based incentive plans	**0.2**		0.1	
		61.8		57.9
Depreciation of property, plant and equipment				
– owned assets		**5.1**		5.7
– leased assets		**0.1**		0.1
Amortisation of intangible assets		**0.1**		0.2
Other operating lease rentals payable				
– plant and machinery	**0.3**		0.6	
– property	**1.6**		1.2	
		1.9		1.8
(Profit) on disposal of property, plant and equipment		**(0.1)**		
Research and development expenditure		**0.2**		0.7
Remuneration of auditors for audit work		**0.4**		0.3
Trade receivables impairment charge				0.1
Exceptional items:				
Redundancy and restructuring charges		**1.4**		4.2
		149.6		142.8

(b) Auditors' remuneration

In addition to audit fees of £0.4 million (2005 – £0.3 million) in relation to continuing operations, audit fees of £0.1 million (2005 – £0.1 million) were incurred relating to discontinued operations.

During the year the Group (including its overseas subsidiaries) obtained the following non-audit services from the Group's auditor and network firms:

	2006 £000	2005 £000
Taxation services – Compliance	**78**	103
– Advisory	**15**	9
Advisory services in relation to the adoption of IFRS	**17**	22
Other services	**14**	24
Total non-audit services	**124**	158

Included in the Group audit fee is an amount of £30,000 (2005 – £26,000) paid in respect of the parent company. Of the total non-audit services provided to the Group £60,000 (2005 – £34,000) was incurred in the UK.

2. Operating costs and exceptional items continued

(c) Exceptional items

	2006 £m	2005 £m
UK Burton conveyor chain factory restructuring	**0.3**	3.2
Other redundancy and restructuring charges	**1.1**	1.0
	1.4	4.2

During the year additional charges of £0.3 million were incurred in relation to the rationalisation and reorganisation of the Burton factory, commenced in 2005. Other redundancy and restructuring costs incurred in the year in continuing operations were principally in Germany (£0.3 million (2005 – £0.4 million)) and France (£0.5 million (2005 – £0.1 million)), with £0.3 million (2005 – £0.5 million) being incurred in other territories.

(d) Employees and key management compensation

Employee costs, including directors, are set out in 2(a) above. Key management personnel is represented by the Board of Directors and their aggregate emoluments were as follows:

	2006 £000	2005 £000
Aggregate emoluments	**741**	747

Further details of the remuneration of directors are provided in the auditable part of the Remuneration Report on pages 20 to 23 under the headings "Directors' emoluments" and "Directors' pension entitlements".

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

	2006		2005	
	Continuing	Discontinued	Continuing	Discontinued
United Kingdom	**778**	**239**	815	234
Germany	**361**	**24**	366	15
France	**102**	**550**	103	406
Rest of Europe	**99**		86	
North America	**414**	**16**	391	7
Other countries	**254**		254	
	2,008	**829**	2,015	662

3. Net financing costs

	2006		2005	
	£m	£m	£m	£m
Financial expenses:				
Interest payable on bank loans and overdrafts		**(2.3)**		(2.0)
Interest cost on pension plan balances		**(11.1)**		(9.8)
Costs associated with refinancing		**(0.7)**		
		(14.1)		(11.8)
Financial income:				
Interest receivable on bank deposits and cash equivalents	**0.1**		0.1	
Expected return on pension plan assets	**10.1**		9.5	
Fair value gains on derivative instruments	**0.3**			
		10.5		9.6
Net financing costs		**(3.6)**		(2.2)

4. Taxation

Analysis of tax charge/(credit) in the year

	2006 £m	2005 £m
United Kingdom		
UK corporation tax at 30% (2005 – 30%)	**0.5**	0.7
Less: double taxation relief	**(0.5)**	(0.7)
Overseas taxes		
Corporation taxes	**1.3**	1.0
Total current tax	**1.3**	1.0
Deferred tax		
United Kingdom	**0.3**	(1.6)
Overseas	**(0.4)**	(0.9)
Total deferred tax	**(0.1)**	(2.5)
Tax charge/(credit) on loss on ordinary activities	**1.2**	(1.5)
Analysed as:		
Continuing	**1.5**	(1.5)
Discontinued	**(0.3)**	
	1.2	(1.5)

	2006 £m	2005 £m
Tax on items taken directly to equity		
Deferred tax on pension plan balances	**1.6**	4.6
Deferred tax on other direct movements on reserves	**0.1**	
	1.7	4.6

Factors affecting the Group tax charge for the year

The Group's tax charge in future years will be affected by the profit mix and effective tax rates in the different countries where the Group operates. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries.

The tax assessed for the year is higher (2005 – higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2006 £m	2005 £m
Profit/(loss) on ordinary activities before tax		
Continuing operations	**1.8**	(1.8)
Discontinued operations	**(1.4)**	0.2
	0.4	(1.6)
Tax on ordinary activities at 30% (2005 – 30%)	**0.1**	(0.5)
Effects of:		
Permanent differences	**0.1**	0.6
Overseas tax rate differences	**0.3**	0.1
Unrelieved tax losses	**1.6**	0.4
Utilisation of brought forward tax losses	**(0.4)**	(0.1)
Depreciation and other timing differences	**(0.1)**	0.4
Prior year adjustments	**(0.3)**	0.1
Current tax charge (continuing operations)	**1.3**	1.0

5. Discontinued operations

As described in note 13, the Group has announced the proposed disposal of its Automotive and Machine Tool businesses. The results of these discontinued businesses are set out below:

	2006			2005		
	Automotive £m	**Machine Tools £m**	**Total discontinued £m**	Automotive £m	Machine Tools £m	Total discontinued £m
External revenue	**49.3**	**20.8**	**70.1**	35.3	18.5	53.8
Operating (loss)/profit before exceptional items	**(1.6)**	**0.1**	**(1.5)**	(1.2)		(1.2)
Redundancy, restructuring and impairment of plant and equipment	**0.7**	**(0.2)**	**0.5**	(6.9)		(6.9)
Negative goodwill arising on acquisition				11.3		11.3
Impairment of goodwill					(2.6)	(2.6)
Operating (loss)/profit	**(0.9)**	**(0.1)**	**(1.0)**	3.2	(2.6)	0.6
Net financing costs	**(0.3)**	**(0.1)**	**(0.4)**	(0.3)	(0.1)	(0.4)
(Loss)/profit before tax	**(1.2)**	**(0.2)**	**(1.4)**	2.9	(2.7)	0.2
Taxation	**0.5**	**(0.2)**	**0.3**			
(Loss)/profit after tax	**(0.7)**	**(0.4)**	**(1.1)**	2.9	(2.7)	0.2
Impairment on classification as disposal groups	**(9.1)**	**(3.7)**	**(12.8)**			
Taxation						
Net impairment on classification as disposal groups	**(9.1)**	**(3.7)**	**(12.8)**			
(Loss)/profit for the year on discontinued operations	**(9.8)**	**(4.1)**	**(13.9)**	2.9	(2.7)	0.2

In 2005/2006 a gear making operation was transferred to Industrial Power Transmission. Previously the activities of this operation had been reported as part of the Machine Tools businesses, having been physically located within the main UK Machine Tools facility. The turnover for this operation in 2006 was £1.9 million, with an operating profit of £0.2 million.

The cash flows attributed to discontinued operations comprise:

	2006 £m	2005 £m
From operating activities	**1.7**	(2.0)
From investing activities	**(2.8)**	5.7
From financing activities	**(0.5)**	(0.1)

In 2005 the cash inflow from investing activities reflects cash acquired with the purchase of Sachs Automotive France SAS (£9.7 million), offset by cash outflows arising from the purchase of property, plant and equipment in that year.

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:

	2006 Earnings £m	2006 Weighted average number of shares Thousands	2006 Per-share amount Pence	2005 Earnings £m	2005 Weighted average number of shares Thousands	2005 Per-share amount Pence
Basic EPS						
Earnings attributed to ordinary shareholders	**(13.6)**	**69,350**	**(19.6)**	(0.1)	69,328	(0.1)
Effect of dilutive securities:						
Employee share options		**63**			332	
Diluted EPS	**(13.6)**	**69,413**	**(19.6)**	(0.1)	69,660	(0.1)
Earnings per share from continuing operations:						
Basic EPS	**(13.6)**	**69,350**	**(19.6)**	(0.1)	69,328	(0.1)
Post tax loss/(profit) from discontinued operations (Note 5)	**1.1**		**1.6**	(0.2)		(0.3)
Impairment on classification as disposal groups (Note 5)	**12.8**		**18.4**			
Basic EPS from continuing operations	**0.3**	**69,350**	**0.4**	(0.3)	69,328	(0.4)
Earnings per share from discontinued operations:						
Post tax (loss)/profit from discontinued operations (Note 5)	**(1.1)**	**69,350**	**(1.6)**	0.2	69,328	0.3
Impairment on classification as disposal groups (Note 5)	**(12.8)**		**(18.4)**			
Basic EPS from discontinued operations	**(13.9)**	**69,350**	**(20.0)**	0.2	69,328	0.3

Inclusion of the dilutive securities, shown above, does not change the amounts shown for basic EPS for both continuing and discontinued operations.

	2006 Earnings £m	2006 Weighted average number of shares Thousands	2006 Per-share amount Pence	2005 Earnings £m	2005 Weighted average number of shares Thousands	2005 Per-share amount Pence
Adjusted EPS for continuing activities:						
Basic EPS from continuing operations	**0.3**	**69,350**	**0.4**	(0.3)	69,328	(0.4)
Effect of exceptional items, after tax:						
Redundancy and restructuring costs	**0.9**		**1.3**	2.9		4.2
Adjusted EPS	**1.2**	**69,350**	**1.7**	2.6	69,328	3.8

Inclusion of the dilutive securities, shown above, in the calculation of adjusted EPS does not change the amounts shown of 1.7p (2005 – 3.8p).

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

7. Dividends paid

	2006 £m	2005 £m
Ordinary shares		
Final dividend paid of Nil (3.0p)		2.1
Interim dividend paid of Nil (1.5p)		1.1
		3.2

The final dividend payment recorded above, under 2005, was that proposed in respect of the year ended 31 March 2004.

8. Intangible assets

Cost	**Goodwill £m**	**Computer software £m**	**Total £m**
At 1 April 2005	18.3	2.4	20.7
Exchange adjustment	1.4		1.4
Additions[1]		0.2	0.2
Relating to disposal groups	(2.6)	(0.8)	(3.4)
At 31 March 2006	**17.1**	**1.8**	**18.9**
Accumulated amortisation and impairment			
1 April 2005	2.6	1.9	4.5
Amortisation charge[2]		0.3	0.3
Relating to disposal groups	(2.6)	(0.6)	(3.2)
At 31 March 2006		**1.6**	**1.6**
Net book amount at 31 March 2006	**17.1**	**0.2**	**17.3**
Net book amount at 31 March 2005	15.7	0.5	16.2

[1] "Additions" includes £nil (2005 – £0.2 million) in respect of discontinued operations.
[2] "Amortisation charge" includes £0.2 million (2005 – £nil) in respect of discontinued operations.

Cost	**Goodwill £m**	**Computer software £m**	**Total £m**
At 3 April 2004	18.8	2.1	20.9
Exchange adjustment	(0.5)		(0.5)
Additions		0.3	0.3
At 31 March 2005	**18.3**	**2.4**	**20.7**
Accumulated amortisation and impairment			
3 April 2004		1.7	1.7
Impairment charge	2.6		2.6
Amortisation charge		0.2	0.2
At 31 March 2005	**2.6**	**1.9**	**4.5**
Net book amount at 31 March 2005	**15.7**	**0.5**	**16.2**
Net book amount at 2 April 2004	18.8	0.4	19.2

8. Intangible assets continued

As at 31 March 2006 the amount of goodwill retained in the balance sheet as an intangible asset relates to the acquisition of Jeffrey Chain. This business is defined as a cash generating unit (CGU) for impairment testing purposes. Goodwill is tested for impairment at least annually and following that exercise in 2005/06 no impairment charge has been recognised in the period (2005 – an impairment charge of £2.6 million was made to eliminate the goodwill remaining in relation to the Jones & Shipman acquisition).

The recoverable amount of the CGU has been determined on a value in use basis. Value in use is calculated as the net present value of post tax cash flows derived from detailed financial plans. The most significant assumptions relevant to the determination of the recoverable amount are the growth rate and discount rate. The cash flows are extrapolated from the approved plans at a nominal growth rate of 3.1%. A discount rate of 10.2% has been used.

9. Tangible assets

Property, plant and equipment	**Land and buildings £m**	**Plant and equipment £m**	**Total £m**
Cost			
At 1 April 2005	30.9	134.8	165.7
Exchange adjustment	0.4	2.0	2.4
Additions[1]	0.2	6.2	6.4
Disposals	(3.1)	(8.9)	(12.0)
Reclassified as asset held for sale	(3.5)		(3.5)
Relating to disposal groups	(3.9)	(44.9)	(48.8)
At 31 March 2006	**21.0**	**89.2**	**110.2**
Aggregate depreciation			
At 1 April 2005	3.5	98.0	101.5
Exchange adjustment		1.5	1.5
Charge for the year[2]	0.4	7.8	8.2
Disposals	(1.9)	(7.0)	(8.9)
Reclassified as asset held for sale	(0.1)		(0.1)
Relating to disposal groups	(0.1)	(30.1)	(30.2)
At 31 March 2006	**1.8**	**70.2**	**72.0**
Impairment			
Impairment at 1 April 2005			
Impairment losses recognised in the period		0.8	0.8
Relating to disposal groups		(0.8)	(0.8)
At 31 March 2006			
Total depreciation and impairment:			
At 31 March 2006	**1.8**	**70.2**	**72.0**
At 31 March 2005	3.5	98.0	101.5
Net book amount at 31 March 2006	**19.2**	**19.0**	**38.2**
Net book amount at 31 March 2005	27.4	36.8	64.2

[1] "Additions" includes £2.0 million (2005 – £3.9 million) in respect of discontinued operations.

[2] "Charge for the year" includes £3.0 million (2005 – £2.8 million) in respect of discontinued operations.

9. Tangible assets continued

Net book amount for plant and equipment includes £0.5 million (2005 – £0.6 million) in respect of assets acquired under finance leases.

Included within the land and buildings net book amount at 31 March 2006 is an amount of £1.7 million representing the carrying value of the Automotive factory in Calais, France. Although the business at Calais forms part of the discontinued operations, the ownership of this site will remain with the Renold Group post-disposal and the facility will be made available to the purchaser under a short-term rental arrangement until alternative facilities are completed. The asset has been retained within fixed assets and classified as a corporate asset in note 1.

The impairment recognised in the period relates to plant and equipment that is identified to be in excess of capacity requirements and is carried at its fair value less costs to sell.

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 3 April 2004	28.4	126.6	155.0
Exchange adjustment	0.1	1.3	1.4
Acquisitions	1.9	1.3	3.2
Additions	0.5	6.8	7.3
Disposals		(1.2)	(1.2)
At 31 March 2005	**30.9**	**134.8**	**165.7**
Aggregate depreciation			
At 3 April 2004	3.0	90.2	93.2
Exchange adjustment		0.9	0.9
Charge for the year	0.5	8.1	8.6
Disposals		(1.2)	(1.2)
At 31 March 2005	**3.5**	**98.0**	**101.5**
Net book amount at 31 March 2005	**27.4**	**36.8**	**64.2**
Net book amount at 2 April 2004	25.4	36.4	61.8

Under the options available within IFRS 1 ("First-time adoption of IFRS"), the Group chose to measure its freehold land and buildings on a fair value basis and has adopted this valuation as deemed cost as at the date of transition, 4 April 2004. The valuation was undertaken by Colliers CRE, Chartered Surveyors, and resulted in an uplift of £15.2 million against the previous carrying value.

Future capital expenditure

At 31 March 2006 capital expenditure contracted for but not provided for in these financial statements amounted to £0.1 million (2005 – £0.5 million).

10. Inventories

	2006 £m	2005 £m
Materials	**6.6**	9.5
Work in progress	**8.1**	12.4
Finished products	**21.8**	25.4
	36.5	47.3

Inventories pledged as security for liabilities amounted to £21.3 million (2005 – £16.9 million).

Write-offs taken to the income statement amount to £0.5 million (2005 – £0.2 million).

11. Trade and other receivables

	2006		2005	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Trade receivables	**24.6**		38.6	
Less: provision for impairment of receivables	**(0.6)**		(1.3)	
Trade receivables – net	**24.0**		37.3	
Other receivables	**0.8**	**0.2**	3.4	0.3
Prepayments and accrued income	**1.0**	**0.1**	1.0	0.1
	25.8	**0.3**	41.7	0.4

The Group has recognised a loss of £0.1 million (2005 – £0.1 million) for the impairment of its trade receivables during the year. Where appropriate the non-current receivables have been fair valued using an effective interest rate of 5.7%. The Group has no significant concentration of credit risk.

12. Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	**8.7**	13.6
Short-term bank deposits	**4.8**	10.9
Cash equivalents	**4.3**	
Cash and cash equivalents	**17.8**	24.5

Cash equivalents comprise highly liquid investments with maturities of three months or less.

In the Group cash flow statement, net cash and cash equivalents are shown after deducting bank overdrafts, as follows:

	2006 £m	2005 £m
Cash and cash equivalents (as shown above)	**17.8**	24.5
Less: Overdrafts (Note 14)	**(8.2)**	(19.7)
Net cash and cash equivalents	**9.6**	4.8

13. Assets classified as held for sale and associated liabilities

(a) Assets held for sale

	2006 £m	2005 £m
Property	**3.4**	

As announced during the second half-year, the Group is in the process of selling the former Burton-on-Trent factory site in the United Kingdom and accordingly the asset has been reclassified from property, plant and equipment.

13. Assets classified as held for sale and associated liabilities continued

(b) Discontinued operations

As announced on 6 June 2006, the Board is in advanced negotiations to dispose of the Automotive business. It was also announced on 26 June 2006 that Renold was at an advanced stage of negotiation for the disposal of the Machine Tool business. These announcements are in line with the Board's strategy to focus on the Group's core activity of the manufacture and the sale of Industrial Power Transmission products.

Further details on the background leading to the negotiations for the disposal of these businesses is set out in the Chief Executive's Review on page 5.

The Automotive and Machine Tools business segments have been accordingly accounted for as disposal groups and balance sheet assets and liabilities have been reclassified and disclosed separately on the balance sheet as discontinued operations. A summary of the trading results of the disposal groups is shown in note 5.

Set out below is a summary of the net assets of the disposal groups as at 31 March 2006:

	Automotive		Machine Tools		
	Carrying value before impairment £m	Impairment £m	Carrying value before impairment £m	Impairment £m	Carrying value of disposal groups after impairment £m
Non-current assets					
Intangible assets			0.2	(0.2)	
Property, plant and equipment	13.8	(9.1)	4.0	(3.5)	5.2
Current assets					
Inventory	7.2		7.4		14.6
Trade and other receivables	10.7		6.6		17.3
	31.7	**(9.1)**	**18.2**	**(3.7)**	**37.1**

Following the classification as discontinued operations, the net assets have been re-evaluated on a "fair value less costs to sell" basis and, as shown in the table above, an impairment of the assets has been recognised. In accordance with IFRS 5, the impairment has been allocated on a pro rata basis to the non-current assets. This allocation is solely for the purposes of preparing the financial statements in accordance with relevant international accounting standards. It should not be interpreted as being representative of values assigned to the assets by the vendor or purchaser in the context of a sale and purchase agreement.

In assessing the fair value, less costs to sell, it was not considered appropriate to take into account any consideration that could be contingent on future performance and incorporated in current negotiations by way of deferred consideration.

The net liabilities directly associated with assets of the disposal groups are as follows:

	Automotive £m	Machine Tools £m	Total £m
Current liabilities			
Trade and other payables	(16.2)	(6.7)	(22.9)
Provisions	(2.9)		(2.9)
Non-current liabilities			
Trade and other payables	(0.4)		(0.4)
Retirement benefit obligations	(1.7)		(1.7)
Deferred tax liabilities		(0.2)	(0.2)
	(21.2)	**(6.9)**	**(28.1)**

14. Borrowings

	2006 £m	2005 £m
Amounts falling due within one year		
Overdrafts	**8.2**	19.7
Bank loans	**4.1**	8.7
Obligations under finance leases	**0.1**	0.1
	12.4	28.5
Amounts falling due after more than one year		
Bank loans	**25.2**	12.7
Obligations under finance leases	**0.4**	0.3
	25.6	13.0
Preference shares	**0.5**	
	26.1	13.0
Total borrowings	**38.5**	41.5

Secured borrowings:

Included in Group borrowings are secured borrowings of £31.6 million (2005 – £25.6 million). Security is provided by fixed and floating charges over UK assets and the assets of certain overseas subsidiaries.

Finance leases:	2006 £m	2005 £m
Obligations under finance lease		
Minimum payments under finance leases are as follows:		
Amounts payable within one year	**0.1**	0.1
Amounts payable between two and five years	**0.5**	0.3
Amounts payable after five years		0.1
Total gross payments	**0.6**	0.5
Less: Finance charges allocated to future periods	**(0.1)**	(0.1)
	0.5	0.4
Allocated as:		
Current obligations	**0.1**	0.1
Non-current obligations	**0.4**	0.3
	0.5	0.4

Preference shares:

All payments of dividends on the 6% cumulative preference shares have been paid on the due dates. The preference shares 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.

15. Trade and other payables

	2006 Current £m	2006 Non-current £m	2005 Current £m	2005 Non-current £m
Trade payables	**17.8**		29.1	
Other tax and social security	**2.9**		5.8	
Other payables	**3.5**		3.5	
Accruals and deferred income	**7.1**	**0.7**	7.1	0.9
	31.3	**0.7**	45.5	0.9

16. Provisions

	Business restructuring provision £m
At beginning of year	11.7
Exchange adjustments	0.1
Net (credit) to income statement[1]	(1.4)
Utilised in year[2]	(7.1)
Relating to disposal groups	(2.9)
At end of year	**0.4**

[1] "Net (credit) to income statement" includes an amount of £1.7 million relating to discontinued operations.
[2] "Utilised in year" includes £3.9 million relating to discontinued operations.

Business restructuring provision

This provision relates mainly to the restructuring of the SAF business, together with amounts provided for reorganisation and restructuring of a UK based business.

17. Deferred tax

	Assets		Liabilities		Net	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Continuing operations						
Accelerated capital allowances	**2.3**	2.7	**(0.9)**	(2.7)	**1.4**	
Pension plans	**12.6**	13.5	**0.1**	0.8	**12.7**	14.3
Tax losses	**3.2**	2.3	**0.2**	0.5	**3.4**	2.8
Other timing differences	**0.3**	(1.5)	**(0.1)**		**0.2**	(1.5)
Tax asset/(liabilities)	**18.4**	17.0	**(0.7)**	(1.4)	**17.7**	15.6
Net off (liabilities)/assets	**(0.7)**	(1.4)	**0.7**	1.4		
Net tax assets	**17.7**	15.6			**17.7**	15.6
Discontinued operations						
Other timing differences			**(0.2)**		**(0.2)**	
Tax liabilities			**(0.2)**		**(0.2)**	
Net tax liabilities			**(0.2)**		**(0.2)**	
Total net tax assets	**17.7**	15.6	**(0.2)**		**17.5**	15.6

The net deferred tax asset recoverable after more than one year is £17.5 million (2005 – £15.6 million).

The movement in the net deferred tax asset in the year is as follows:

	Opening balance £m	Deferred tax arising on adoption of IAS 32/39 £m	Recognised in income statement £m	Recognised directly in equity £m	Closing balance £m
Accelerated capital allowances	2.7		(0.4)		**2.3**
Pension plans	13.5		(2.5)	1.6	**12.6**
Tax losses	2.3		0.9		**3.2**
Other timing differences	(1.5)	0.1	1.6	0.1	**0.3**
	17.0	0.1	(0.4)	1.7	**18.4**

The movement in the net deferred tax liability in the year is as follows:

	Opening balance £m	Recognised in income statement £m	Closing balance £m
Accelerated capital allowances	(2.7)	1.8	**(0.9)**
Pension plans	0.8	(0.7)	**0.1**
Tax losses	0.5	(0.3)	**0.2**
Other timing differences		(0.3)	**(0.3)**
	(1.4)	0.5	**(0.9)**

During the year the Group has reported an operating profit of £6.8 million before exceptional items from continuing operations. 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 £6.1 million (2005 – £5.7 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.

18. 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 financial statements 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 2006 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	
	2006	2005	**2006**	2005
Rate of increase in pensionable salaries	**3.4%**	3.3%	**2.9%**	2.8%
Rate of increase in pensions in payment and deferred pensions	**2.8%**	2.6%	**1.8%**	1.8%
Discount rate	**5.0%**	5.4%	**5.2%**	5.6%
Inflation assumption	**2.9%**	2.8%	**2.2%**	2.2%
Expected return on plan assets	**6.3%**	6.5%	**8.0%**	8.5%

The predominant defined benefit obligation for funded schemes within the Group resides in the UK (£195.6 million of the £213.5 million Group obligation for funded schemes). In addition to the assumptions shown above, mortality assumptions have a significant bearing on the calculated obligation. In the determination of the UK defined benefit obligation, as at 31 March 2006, the post-retirement mortality assumptions are based on the PA92 series tables published by the UK Actuarial Profession. The post-retirement mortality rates used for the Renold Group Pension Scheme (which represents the principal defined benefit obligation) are based on projections to calendar year 2020 for non-pensioners and 2004 for current pensioners reduced by 10% for non-pensioners and female pensioners and 20% for male pensioners. This reduction to mortality rates reflects the results of mortality experience carried out by the actuary as part of the actuarial valuation as at 5 April 2004.

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.

18. Pensions continued

The fair values of plan assets were:

	UK 2006 £m	UK 2005 £m	Overseas 2006 £m	Overseas 2005 £m	Total 2006 £m	Total 2005 £m
Equities	**78.2**	71.6	**9.2**	7.0	**87.4**	78.6
Bonds	**84.5**	70.8	**3.8**	4.2	**88.3**	75.0
Other			**2.5**	1.2	**2.5**	1.2
Total market value of assets	**162.7**	142.4	**15.5**	12.4	**178.2**	154.8
Present value of scheme liabilities	**(195.6)**	(177.2)	**(36.5)**	(30.8)	**(232.1)**	(208.0)
Deficits in schemes	**(32.9)**	(34.8)	**(21.0)**	(18.4)	**(53.9)**	(53.2)

Pension commitments

Pension obligations:

The movement in the present value of the defined benefit obligation is as follows:

	2006 UK £m	2006 Overseas £m	2006 Total £m	2005 UK £m	2005 Overseas £m	2005 Total £m
Opening obligation	**(177.2)**	**(30.8)**	**(208.0)**	(154.0)	(28.6)	(182.6)
Current service cost	**(2.1)**	**(0.7)**	**(2.8)**	(2.0)	(0.7)	(2.7)
Interest cost[1]	**(9.5)**	**(1.7)**	**(11.2)**	(8.2)	(1.7)	(9.9)
Contributions by plan participants	**(0.8)**	**(0.2)**	**(1.0)**	(0.9)	(0.1)	(1.0)
Actuarial gains and losses	**(15.2)**	**(6.3)**	**(21.5)**	(20.4)		(20.4)
Gains on curtailments	**0.1**	**0.3**	**0.4**			
Liabilities extinguished on settlements	**1.0**		**1.0**			
Benefits paid	**8.1**	**2.3**	**10.4**	8.3	1.5	9.8
Business combination					(0.8)	(0.8)
Exchange adjustment		**(1.1)**	**(1.1)**		(0.4)	(0.4)
Relating to disposal groups		**1.7**	**1.7**			
Closing obligation	**(195.6)**	**(36.5)**	**(232.1)**	(177.2)	(30.8)	(208.0)

[1] "Interest cost" includes £0.1 million (2005 – £0.1 million) in respect of discontinued operations.

The total defined benefit obligation can be analysed as follows:

	2006 UK £m	2006 Overseas £m	2006 Total £m	2005 UK £m	2005 Overseas £m	2005 Total £m
Obligations related to funded pension plans	**(195.6)**	**(17.9)**	**(213.5)**	(177.2)	(12.1)	(189.3)
Obligations related to unfunded pension plans		**(18.6)**	**(18.6)**		(18.7)	(18.7)
	(195.6)	**(36.5)**	**(232.1)**	(177.2)	(30.8)	(208.0)

18. Pensions continued

Pension assets:

The movement in the present value of the defined benefit plan assets is as follows:

	2006 UK £m	2006 Overseas £m	2006 Total £m	2005 UK £m	2005 Overseas £m	2005 Total £m
Opening assets	**142.4**	**12.4**	**154.8**	133.0	10.6	143.6
Expected return on plan assets	**9.1**	**1.0**	**10.1**	8.7	0.8	9.5
Actuarial gains and losses	**14.5**	**1.7**	**16.2**	3.3	1.2	4.5
Assets distributed on settlement	**(0.9)**		**(0.9)**			
Contributions by the employer	**4.9**	**0.6**	**5.5**	4.8	0.3	5.1
Contributions by plan participants	**0.8**	**0.2**	**1.0**	0.9	0.1	1.0
Benefits paid	**(8.1)**	**(1.3)**	**(9.4)**	(8.3)	(0.5)	(8.8)
Exchange adjustment		**0.9**	**0.9**		(0.1)	(0.1)
Closing assets	**162.7**	**15.5**	**178.2**	142.4	12.4	154.8
Balance sheet reconciliation:						
Plan obligations	**(195.6)**	**(36.5)**	**(232.1)**	(177.2)	(30.8)	(208.0)
Plan assets	**162.7**	**15.5**	**178.2**	142.4	12.4	154.8
Retirement benefit obligation	**(32.9)**	**(21.0)**	**(53.9)**	(34.8)	(18.4)	(53.2)

The net amount of actuarial gains and losses taken to the statement of recognised income and expense is as follows:

	2006 £m	2005 £m
Actuarial gains and losses arising on scheme obligations[1]	**(21.5)**	(20.4)
Actuarial gains and losses arising on scheme assets	**16.2**	4.5
Net actuarial gains and losses	**(5.3)**	(15.9)

[1] "Actuarial gains and losses arising on scheme obligations" includes a gain of £0.1 million (2005 – nil) relating to discontinued operations.

An analysis of amounts charged to operating costs is set out below:

	2006 £m	2005 £m
Operating costs – continuing		
Current service cost	**(2.8)**	(2.6)
Gains on curtailments	**0.1**	
Liabilities extinguished on settlements	**1.0**	
Assets distributed on settlements	**(0.9)**	
	(2.6)	(2.6)
Amounts relating to discontinued operations		
Current service cost		(0.1)
Gains on curtailments	**0.3**	
Total cost of retirement benefits	**(2.3)**	(2.7)

18. Pensions continued

The cumulative amount of actuarial losses recognised in equity since 4 April 2004 was £21.2 million (2005 – £15.9 million). Of this amount £nil (2005 – loss £0.1 million) related to discontinued operations. The Group expects to contribute approximately £5.7 million to defined benefit schemes in the year to 31 March 2007.

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, £0.7 million to the RSPS scheme and £0.2 million to the Jones & Shipman scheme over the average remaining service lives of members, being fifteen, twelve and fifteen years respectively.

The Group operates a number of defined contribution schemes. The cost for the period was £0.5 million (2005 – £0.6 million). There were outstanding contributions in creditors of £nil (2005 – £0.1 million) at the balance sheet date.

19. Called up share capital

	Authorised		Issued	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Equity interests				
Ordinary shares of 25p each	**23.1**	23.1	**17.4**	17.3
Non-equity interests				
6% Cumulative Preference Stock (£1 units)		0.6		0.6
		23.7		17.9

Following the adoption of IAS 32 and IAS 39 on 1 April 2005, the preference shares have been reclassified from that date and are recorded as a component of borrowings (Note 14). In addition, in accordance with IAS 39, the preference shares were assessed on a fair value basis at an amount of £0.5 million, resulting in an adjustment of £0.1 million to the carrying amount. This adjustment was taken to retained earnings as part of the adjustment made upon adoption of IAS 32 and IAS 39.

At 31 March 2006 the issued Ordinary Share Capital comprised 69,429,220 (2005 – 69,335,410) ordinary shares of 25p each. During the year the Company issued ordinary shares of 25p each for a cash consideration of £51,671 (2005 – £13,648) by the exercise of options under the Renold (1995) Executive, and Savings Related, Share Option Schemes.

20. Share-based payments

Details of the share-based payment arrangements are provided in the Remuneration Report on pages 20 to 23.

Share options have been granted under the Executive Share Option Schemes and the Savings Related Share Option Schemes. At 31 March 2006 unexercised options for ordinary shares amounted to 3,591,299 (2005 – 3,326,272) made up as follows:

Date normally exercisable	Option price (pence per share)	**Number of shares 2006**	Number of shares 2005
Executive Share Option Schemes			
Within seven years from:			
16 July 1999 (1995 Scheme)	293.83	**52,307**	56,636
18 July 2000 (1995 Scheme)	242.67	**19,042**	19,042
17 July 2001 (1995 Scheme)	237.33	**145,000**	175,000
16 July 2002 (1995 Scheme)	137.83	**155,000**	195,000
19 July 2003 (1995 Scheme)	118.50	**97,500**	125,000
22 December 2003 (1995 Scheme)	94.50	**10,000**	20,000
18 June 2004 (1995 Scheme)	102.00		125,000
28 November 2004 (1995 Scheme)	67.34	**297,000**	474,000
27 November 2005 (1995 Scheme)	58.50	**381,000**	404,000
28 July 2006 (1995 Scheme)	80.84	**50,000**	50,000
27 November 2006 (1995 Scheme)	83.50	**245,000**	275,000
11 March 2007 (1995 Scheme)	76.50	**125,000**	125,000
2 September 2007 (2004 Scheme)	88.00	**475,000**	475,000
22 November 2007 (2004 Scheme)	74.30	**135,000**	135,000
		2,186,849	2,653,678
Savings Related Share Option Schemes			
Within six months from:			
1 February 2005 (1995 Scheme)	89.36		122,324
1 February 2006 (1995 Scheme)	55.08	**238,473**	359,094
1 February 2008 (1995 Scheme)	55.08	**167,919**	191,176
1 March 2009 (2004 Scheme)	54.30	**998,058**	
		1,404,450	672,594

20. Share-based payments continued

The fair value per option granted in the period and the assumptions used in the calculation are as follows:

	2006 Savings Related Scheme	2005 Executive Share Option Scheme	
Grant date	**24.1.2006**	22.11.2004	2.9.2004
Share price at date of grant	**62.0p**	74.3p	88p
Exercise price	**54.3p**	74.3p	88p
Number of employees	**198**	7	1
Shares under option	**999,779**	135,000	475,000
Vesting period (years)	**3**	3	3
Expected volatility	**29.9%**	35.0%	41.1%
Option life (years)	**3.5**	10	10
Expected life (years)	**3.1**	6	6
Risk free interest rate	**4.2%**	4.5%	4.9%
Assumed dividends expressed as a dividend yield	**4.0%**	6.1%	5.1%
Possibility of ceasing employment before vesting	**3%**	Zero	Zero
Fair value per option	**14.6p**	15.5p	24.7p

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. Dividend yields indicated above are an expression of assumed dividends over the respective periods included in the calculation. These assumptions may not be borne out in practice. A reconciliation of option movements over the year to 31 March 2006 is shown below:

Executive share option scheme

	2006		2005	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 April	**2,653,678**	**99.14p**	2,412,178	118.17p
Granted			610,000	84.97p
Lapsed	**(466,829)**	**99.88p**	(351,500)	206.94p
Exercised			(17,000)	63.70p
Outstanding at 31 March	**2,186,849**	**98.98p**	2,653,678	99.14p
Exercisable at 31 March	**90,000**	**62.67p**	473,829	97.35p

Savings related share option scheme

	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 April	**672,594**	**61.31p**	717,893	61.61p
Granted	**999,779**	**54.30p**		
Lapsed	**(174,113)**	**79.16p**	(40,181)	67.45p
Exercised	**(93,810)**	**55.08p**	(5,118)	55.08p
Outstanding at 31 March	**1,404,450**	**54.53p**	672,594	61.31p
Exercisable at 31 March	**238,473**	**55.08p**	3,554	60.17p

20. Share-based payments continued

Executive share option scheme

Range of exercise prices	2006 Weighted average exercise price	2006 Number of shares	2006 Weighted average remaining life Expected	2006 Weighted average remaining life Contractual	2005 Weighted average exercise price	2005 Number of shares	2005 Weighted average remaining life Expected	2005 Weighted average remaining life Contractual
58.5p to 101p	**75.16p**	**1,718,000**	**3.5**	**7.5**	76.18p	1,958,000	4.3	8.3
101p to 293.83p	**186.24p**	**468,849**	**0.1**	**2.8**	193.02p	695,678	0.7	7.2

Savings related share option scheme

Range of exercise prices	2006 Weighted average exercise price	2006 Number of shares	2006 Weighted average remaining life Expected	2006 Weighted average remaining life Contractual	2005 Weighted average exercise price	2005 Number of shares	2005 Weighted average remaining life Expected	2005 Weighted average remaining life Contractual
54.3p to 89.36p	**54.53p**	**1,404,450**	**2.4**	**2.6**	61.31p	672,594	1.4	1.6

The weighted average share price during the period for options exercised over the year was 59.14p (2005: 79.26p). The total charge for the year relating to employee share based payment plans was £158,000 (2005: £51,000), all of which related to equity-settled share-based transactions. After deferred tax, the total charge was £180,000 (2005: £74,000).

21. Statement of changes in shareholders' equity

	Share capital £m	Share premium account £m	Retained earnings £m	Currency translation reserve £m	Hedging reserve £m	Total equity £m
At 3 April 2004	17.9	6.0	46.6			70.5
Loss for the year			(0.1)			(0.1)
Foreign exchange translation difference			(0.4)	0.5		0.1
Actuarial gains and losses			(15.9)			(15.9)
Dividends			(3.2)			(3.2)
Tax on items recognised directly in equity			4.6			4.6
Employee share options:						
– value of employee services			0.1			0.1
As at 31 March 2005	17.9	6.0	31.7	0.5		56.1
Effect of adoption of IAS 32 and IAS 39	(0.6)		(0.2)			(0.8)
At 1 April 2005 restated	17.3	6.0	31.5	0.5		55.3
Loss for the year			(13.6)			(13.6)
Foreign exchange translation difference				1.1		1.1
Actuarial gains and losses			(5.3)			(5.3)
Gains on fair value of hedging net investments in foreign operations					1.1	1.1
Tax on items recognised directly in equity			1.7			1.7
Employee share options:						
– value of employee services			0.2			0.2
– proceeds from shares issued	0.1					0.1
At 31 March 2006	**17.4**	**6.0**	**14.5**	**1.6**	**1.1**	**40.6**

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of foreign operations. The hedging reserve is used to record the proportion of the gains or losses on hedging instruments used to hedge against movements in net investments in foreign operations that are determined to be effective.

Cumulative goodwill written off directly to Group reserves at 31 March 2006, subsequent to the capital reorganisation in January 1985, amounted to £2.0 million (2005 – £2.0 million).

Included in retained earnings is an amount of £11.0 million (net of tax) (2005 – £11.1 million) relating to the revaluation of freehold property that was undertaken at the date of IFRS adoption. The amount is not distributable until it is realised.

22. Operating lease obligations

At the end of the year there were outstanding commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2006			2005		
	Properties		**Equipment**	Properties		Equipment
	Continuing £m	**Discontinued £m**	**Continuing £m**	Continuing £m	Discontinued £m	Continuing £m
Leases expiring:						
Within one year	**1.0**	**0.2**	**0.4**	1.0	0.2	0.5
Between two and five years	**3.3**	**0.7**	**0.7**	3.5	0.7	0.8
Over five years	**13.6**	**0.2**	**0.1**	5.4	0.4	
Total annual commitments	**17.9**	**1.1**	**1.2**	9.9	1.3	1.3

23. Contingent liabilities

Performance guarantees given to third parties in respect of Group Companies were £2.9 million (2005 – £1.2 million).

24. Reconciliation of profit/(loss) before tax to net cash flows from operations

	2006 £m	2005 £m
Cash generated from operations:		
Continuing operations:		
Profit/(loss) before taxation	**1.8**	(1.8)
Depreciation and amortisation	**5.4**	6.0
Equity share plans	**0.2**	0.1
Net finance costs	**3.6**	2.2
(Increase)/decrease in inventories	**(1.8)**	0.2
(Increase) in receivables	**(0.4)**	(4.1)
Increase in payables	**2.7**	5.2
(Decrease)/increase in provisions	**(2.7)**	4.9
Movement on pension schemes	**(3.8)**	(4.1)
Movement in derivative financial instruments	**(0.3)**	
Cash generated from continuing operations	**4.7**	8.6
Discontinued operations:		
(Loss)/profit before taxation	**(1.4)**	0.2
Depreciation and amortisation	**3.1**	2.8
Plant and equipment impairment	**0.8**	
Goodwill impairment		2.6
Negative goodwill release		(11.3)
(Gain) on plant and equipment disposals	**(0.1)**	
Net finance costs	**0.4**	0.4
(Increase) in inventories	**(0.6)**	(0.2)
Decrease/(increase) in receivables	**0.2**	(1.8)
Increase/(decrease) in payables	**5.3**	(1.5)
(Decrease)/increase in provisions	**(5.7)**	6.8
Movement on pension schemes	**(0.3)**	
Cash generated/(absorbed) by discontinued operations	**1.7**	(2.0)
Cash generated from operations	**6.4**	6.6

25. Financial instruments

These notes should be read in conjunction with the narrative disclosures in the Financial Review on page 11.

(a) The balance sheet position on financial instruments at 31 March 2006 is set out below:

	£m
Current assets:	
Forward foreign currency contracts – cash flow hedge	**0.2**
Non-current liabilities:	
Interest rate swaps	**(0.1)**

These disclosures are made under IAS 32 and IAS 39 which under the transitional arrangements have been applied from 1 April 2005.

(b) Short-term receivables and payables

The carrying amount of short-term receivables and payables (being those with a remaining life of less than one year) is deemed to approximate to their fair value.

(c) Interest rate swap

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2006 was $14.4 million and £0.5 million (1 April 2005 – $19.4 million and £1.0 million).

At 31 March 2006 the fixed interest rates vary from 8.3% to 11.0% (1 April 2005 – 6.8% to 9.5%) and floating rates are 7.6% (US LIBOR plus 250 basis points) and 7.2% (LIBOR plus 250 basis points).

The loss deferred in equity will reverse in the income statement during the next three years (being the remaining life of the swap to 31 March 2009).

(d) Hedge of net investment in foreign entity

The Group has dollar denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in the USA. The fair value of the dollar borrowings at 31 March 2006 was £5.4 million (1 April 2005 – £4.6 million). A foreign exchange loss of £0.5 million on translation of the borrowings into sterling is included as a part of the hedging reserve movement.

25. Financial instruments continued

(e) Currency and interest rate profile of financial liabilities of the Group

Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Fixed rate £m	Floating rate £m	Total £m
2006					
Sterling					
– Financial liabilities	**11.0**	**0.5**	**0.5**	**14.8**	**15.3**
– Preference shares	**6.0**	*	**0.5**		**0.5**
US Dollar	**8.3**	**1.5**	**8.8**	**5.7**	**14.5**
Euro	**4.3**	**2.0**	**1.7**	**4.4**	**6.1**
Other	**8.1**	**1.3**	**0.5**	**1.6**	**2.1**
			12.0	**26.5**	**38.5**
2005					
Sterling					
– Financial liabilities	9.5	1.5	0.9	19.4	20.3
US Dollar	6.8	1.9	10.3	2.9	13.2
Euro	4.6	2.2	2.1	4.5	6.6
Other	8.1	1.6	0.7	0.7	1.4
			14.0	27.5	41.5

* 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.

(f) Currency and interest rate profile of financial assets at 31 March 2006

	2006			2005		
Currency	**Cash at bank and in hand £m**	**Short-term deposits £m**	**Total £m**	Cash at bank and in hand £m	Short-term deposits £m	Total £m
Sterling	**1.6**		**1.6**	5.9		5.9
Euro	**5.5**	**4.8**	**10.3**	2.9	10.4	13.3
Other	**5.9**		**5.9**	4.8	0.5	5.3
	13.0	**4.8**	**17.8**	13.6	10.9	24.5

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.

25. Financial instruments continued

(g) Maturity of financial liabilities

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

	2006 Total debt £m	2005 Total debt £m
In one year or less, or on demand	**12.3**	28.4
In more than one year but not more than two years	**21.7**	6.8
In more than two years but not more than five years	**2.1**	6.2
In more than five years	**2.4**	0.1
	38.5	41.5

Debt due in more than five years includes £0.5 million at 31 March 2006 in respect of Renold plc's preference shares.

(h) 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:

	2006 £m	2005 £m
Expiring within one year or less, or on demand	**17.7**	16.5

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 2007.

26. Acquisition in the prior period

The Group acquired Sachs Automotive France SAS ("SAF") on 14 March 2005. Provisional fair values of the assets and liabilities acquired were established in the financial statements at 31 March 2005. No adjustments have been required to the fair values previously reported on a provisional basis.

27. Explanation of the transition to International Financial Reporting Standards (IFRS)

Details of the impact of the transition to IFRS have been provided on the Group's website (www.renold.com) in two separate statements entitled "Update on IFRS" and "Renold plc IFRS Restatement". These statements can be found on the "Investors – Investor Relations" page of the Website, under the "Useful Information" sub-section. However, in order to provide a summary of the key issues and changes to the financial statements (covered in greater detail in the statements provided on the website), this note explains the impact of the transition to IFRS.

The Group previously prepared its financial statements under UK Generally Accepted Accounting Principles ("UK GAAP"). European Law requires that all listed companies prepare consolidated financial statements in accordance with IFRS. The relevant Regulation applies to all accounting periods beginning on or after 1 January 2005. This determines that the "transition date" for Renold plc is 4 April 2004, being the start of the earliest period of comparative information.

Guidance on the transition to IFRS is provided in IFRS 1 ("First Time Adoption of IFRS"). This standard allows exemptions from the application of certain IFRSs to assist in the transition process. The principal exemptions adopted by Renold can be summarised as;

(1) Business combinations prior to the date of transition are not restated. Accordingly, the carrying value of goodwill was not adjusted at the transition date.

(2) IAS 32 and 39, the international standards on financial instruments, are adopted only with effect from 1 April 2005 and therefore 2005 comparative information covered by these standards remains stated in accordance with UK GAAP.

(3) Cumulative translation differences for foreign operations that are recognised separately in equity under IFRS are deemed to be reset to zero at the transition date.

(4) Freehold properties have been measured on a fair value basis at the date of transition and this valuation is treated as the deemed cost of the respective properties.

(5) The international standard in respect of Share Based Payments (IFRS 2) only applies to awards made after 7 November 2002 and which vest after 1 January 2005.

The tables below provide a high level summary to put into context the relative importance of the main financial adjustments that arise following the adoption of IFRS. These tables show the change in the comparative period's income statement, the balance sheet at the date of transition (4 April 2004), the comparative balance sheet at 31 March 2005 and the opening balance sheet as adjusted for the adoption of IAS 32 and 39. A cross reference is given where appropriate at the head of each column to the narrative which sets out the background to the adjustment.

27. Explanation of the transition to International Financial Reporting Standards (IFRS) continued

The effect of the transition to IFRS on the income statement for the year ended 31 March 2005 is as follows:

	UK GAAP £m	Negative goodwill released £m (a)	Goodwill £m (b)	Depreciation £m (c)	Employee benefits £m (d)	Share-based payments £m (e)	Taxation £m (f)	IFRS £m
Revenue	197.0							197.0
Operating costs (excluding goodwill and exceptional items)	(193.3)			(0.1)	(0.1)	(0.1)		(193.6)
Operating profit before goodwill and exceptional items	3.7			(0.1)	(0.1)	(0.1)		3.4
Goodwill amortisation and impairment	(3.6)		1.0					(2.6)
Exceptional items	(4.3)	4.5						0.2
Operating profit	(4.2)	4.5	1.0	(0.1)	(0.1)	(0.1)		1.0
Net financing costs	(2.6)							(2.6)
Loss before tax	(6.8)	4.5	1.0	(0.1)	(0.1)	(0.1)		(1.6)
Tax	1.6						(0.1)	1.5
Loss for the financial period	(5.2)	4.5	1.0	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)

The effect of the transition to IFRS on the balance sheet at 4 April 2004 is as follows:

	UK GAAP £m	Property at deemed cost £m (c)	Proposed dividends £m (g)	Employee benefits £m (d)	Taxation £m (f)	IFRS £m
Total assets	183.4	15.2			(4.0)	194.6
Total liabilities	(125.5)		2.1	(0.5)	(0.2)	(124.1)
Net assets	57.9	15.2	2.1	(0.5)	(4.2)	70.5
Share capital and reserves	51.9	15.2	2.1	(0.5)	(4.2)	64.5
Share premium	6.0					6.0
Total equity	57.9	15.2	2.1	(0.5)	(4.2)	70.5

27. Explanation of the transition to International Financial Reporting Standards (IFRS) continued

The effect of the transition to IFRS on the balance sheet at 31 March 2005 is as follows:

	UK GAAP £m	Property at deemed cost £m (c)	Goodwill £m (a)/(b)	Employee benefits £m (d)	Share-based payments £m (e)	Taxation £m (f)	IFRS £m
Total assets	195.5	15.2	5.5			(4.9)	211.3
Total liabilities	(155.2)			(1.0)		1.0	(155.2)
Net assets	40.3	15.2	5.5	(1.0)		(3.9)	56.1
Share capital and reserves	34.3	15.2	5.5	(1.0)	(0.1)	(3.9)	50.0
Share premium	6.0				0.1		6.1
Total equity	40.3	15.2	5.5	(1.0)		(3.9)	56.1

The effect of adopting IAS 32 and 39 at 1 April 2005 is as follows:

	IFRS (Pre IAS 32 and 39) £m	Reclassification of preference shares net of fair value adjustment £m (i)	Deferred tax £m (i)	Recognition of financial instruments £m (i)	Adjustment to trade receivable provisions £m (i)	IFRS (Post IAS 32 and 39) £m
Total assets	211.3		0.1		0.1	211.5
Total liabilities	(155.2)	(0.5)		(0.5)		(156.2)
Net assets	56.1	(0.5)	0.1	(0.5)	0.1	55.3
Share capital and reserves	50.0	(0.5)	0.1	(0.5)	0.1	49.2
Share premium	6.1					6.1
Total equity	56.1	(0.5)	0.1	(0.5)	0.1	55.3

(a) Following an acquisition in March 2005 the UK GAAP balance sheet retained an amount of £4.5 million in respect of the surplus of fair value of assets acquired over the consideration paid ("negative goodwill"). Following a review of the acquisition accounting for the purposes of IFRS adoption it was concluded that no revision was necessary to the existing amount £4.5 million. However, IFRS requires the immediate recognition in the income statement of negative goodwill arising on acquisition, and hence this amount has been transferred to income for the period.

(b) Under UK GAAP capitalised goodwill was amortised over its estimated economic life, subject to the immediate recognition of any identified impairment. Under IFRS goodwill is not subject to amortisation but is tested annually for impairment. In the year to 31 March 2005 an impairment charge of £2.4 million was made in the UK GAAP financial statements. Therefore, as illustrated in the table, the adoption of IFRS has given rise to an improvement in the reported result of £1.0 million, representing the net reversal of amortisation charges made under the former UK GAAP policy.

(c) The revaluation of the Group's freehold properties noted above resulted in an increase in the deemed cost of £15.2 million over the carrying value retained under UK GAAP. The associated impact on the annual depreciation charge is an increase of £0.1 million.

27. Explanation of the transition to International Financial Reporting Standards (IFRS) continued

(d) In the UK GAAP financial statements for 2005 Renold accounted for pensions in accordance with FRS 17 ("Retirement Benefits") which in most respects is similar to the respective international standard IAS 19 ("Employee Benefits"). However, a number of technical differences have given rise to revisions in the former FRS 17 disclosure. IAS 19 also introduces more prescriptive guidance on the treatment of other employee benefits. The total impact of adopting IAS 19 has increased the charge to income by £0.1 million. The recognition of certain Jubilee and other potential service related awards, together with the revisions to FRS 17, resulted in additional liabilities of £0.5 million at 4 April 2004 and £1.0 million at 31 March 2005.

(e) In respect of share options granted by the Company no charge to income was required under UK GAAP because the exercise price was the same as the option price at the date of grant. Following the adoption of IFRS it was necessary to recognise a charge of £0.1 million due to the requirement to adopt a fair value assessment of the options granted.

(f) The net effect of IFRS adjustments on the taxation charge for the year was £0.1 million. The primary change to the balance sheet deferred tax provision results from additional liabilities recognised in respect of the property revaluation noted under (c) above.

(g) Under UK GAAP the final dividend for the 31 March 2004 year was provided in the results for that year; under IFRS the final dividend can only be recognised as a liability in the year it is declared. Consequently the 2004 final dividend provision has been reversed. (No final dividend was declared in 2005).

(h) Not shown in the tables above, because there is no impact on net assets, is the reclassification from property, plant and equipment to intangible assets of software that is not an integral part of the related hardware. The reclassifications were £0.4 million and £0.3 million in the 4 April 2004 and 31 March 2005 balance sheets respectively.

(i) As permitted under IFRS 1 the Group has adopted IAS 32 and 39 prospectively from 1 April 2005. These standards set out the accounting rules surrounding the recognition, measurement, disclosure and presentation of financial instruments. As a result of adopting these standards net assets were reduced by £0.8 million on 1 April 2005. There were three principal areas explaining this change. Firstly, preference shares (£0.5 million stated at fair value) were formerly shown as part of Shareholders' Funds but under IFRS definitions these have been reclassified and disclosed as liabilities. Secondly, derivative financial instruments (£0.3 million) have been recognised as assets and liabilities measured at fair value. This adjustment results mainly from the interest rate swap taken out by the Group in relation to its US dollar borrowing costs. Net assets were increased by £0.1 million following the reassessment of trade receivable provisions on a basis consistent with the criteria established by IAS 39. A deferred tax asset of £0.1 million was recognised as a result of these changes.

As indicated at the time of publishing the detailed transitional statements, accounting practice surrounding IFRS is continuing to evolve. In response to developing practice it has been deemed appropriate to reflect certain minor revisions of a presentational nature. These changes have not altered the post-transition net equity previously reported at 4 April 2004 or 31 March 2005.

The adoption of IFRS has no impact on the actual cash flows of the underlying businesses. However, IAS 7 ("Cash Flow Statements") introduces revised definitions that in turn lead to a revised presentation. The change in presentation is illustrated in the IFRS statements on the Group's website.

Group Five Year Financial Review

		Prepared under IFRS		Prepared under UK GAAP		
		2006	2005	2004	2003	2002
		£m	£m	£m	£m	£m
Group revenue		**225.1**	197.0	192.1	187.4	190.2
Less discontinued operations		**(70.1)**	(53.8)			
Revenue from continuing operations		**155.0**	143.2	192.1	187.4	190.2
Operating profit before exceptional items (and goodwill amortisation under UK GAAP) – continuing		**6.8**	4.6	7.6	9.2	7.8
Operating profit		**5.4**	0.4	8.6	6.8	2.4
Profit/(loss) before tax		**1.8**	(1.8)	4.7	4.2	(5.6)
Taxation		**(1.5)**	1.5		(1.7)	0.6
		0.3	(0.3)	4.7	2.5	(5.0)
Discontinued operations:						
(Loss)/profit from discontinued operations		**(13.9)**	0.2			
(Loss)/profit for the year		**(13.6)**	(0.1)	4.7	2.5	(5.0)
Net assets employed						
Property, plant and equipment, plus intangible software		**38.4**	64.7	47.0	50.0	54.6
Working capital and other net assets		**30.7**	43.0	41.2	38.8	42.7
Operating assets		**69.1**	107.7	88.2	88.8	97.3
Assets of discontinued operations		**37.1**				
Liabilities of discontinued operations		**(28.1)**				
Properties held for sale		**3.4**			2.3	
Goodwill		**17.1**	15.7	18.8	22.6	26.2
Net debt		**(20.7)**	(17.0)	(19.2)	(20.9)	(29.1)
Dividends				(2.1)	(2.1)	(2.1)
Deferred and current taxation		**17.0**	14.6	12.8	2.3	2.8
Provisions		**(0.4)**	(11.7)	(1.2)	(10.9)	(12.6)
Net assets excluding pension obligations		**94.5**	109.3	97.3	82.1	82.5
Pension obligations		**(53.9)**	(53.2)	(39.4)		
Total net assets		**40.6**	56.1	57.9	82.1	82.5
Other data and ratios						
Operating return on average operating assets	%[1]	**7.7**	4.7	8.6	9.9	7.6
Operating profit on turnover	%[1]	**4.4**	3.2	4.0	4.9	4.1
Capital expenditure	£m	**6.6**	7.6	7.2	5.7	5.4
Basic (loss)/earnings per share	p	**(19.6)**	(0.1)	6.8	3.5	(7.2)
Dividends per ordinary share	p		4.5	4.5	4.5	4.5
Employees at year end (continuing)		**2,008**	2,015	2,656	2,686	2,780

[1] Based on operating profit before exceptional items (and goodwill amortisation under UK GAAP).

Figures presented for 2004 under UK GAAP include pension liabilities and associated deferred tax assets assessed in accordance with FRS 17 “Retirement Benefits”. Years prior to 2004 have not been adjusted.

Had IFRS been adopted in 2002 to 2004 the main adjustments to the UK GAAP figures as presented above would have been in respect of pension obligations, the revaluation of freehold properties and goodwill.

Principal Subsidiary Companies

as at 31 March 2006

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)
Poland	Renold Polska sp.z o.o.
Sweden	Renold Transmission AB
Switzerland	Renold (Switzerland) GmbH

NORTH AMERICA

Canada	Renold Canada Limited
USA	Renold Holdings Inc – Renold Inc FACTORY: WESTFIELD, NY – 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.

Report of the Independent Auditors

To the members of Renold plc

We have audited the Parent Company financial statements of Renold plc for the year ended 31 March 2006 which comprise the balance sheet, and the related notes. These Parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Renold plc for the year ended 31 March 2006.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, including the Directors' Remuneration Report and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 Parent Company financial statements give a true and fair view and whether the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Report of the Directors is consistent with the Parent Company financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company financial statements. The other information comprises only the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Review, the Financial Review, the Operations Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Parent Company financial statements, 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 Parent Company financial statements and the part of the Directors' Remuneration Report to be audited 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 Parent Company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs at 31 March 2006;

- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Report of the Directors is consistent with the Parent Company financial statements.

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

19 July 2006

Accounting Policies – Company

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

In the year the Company has adopted FRS 20 "Share-based payment", FRS 21 "Events after the balance sheet date", FRS 23 "The effects of changes in foreign exchange rates", FRS 25 "Financial instruments: disclosure and presentation", FRS 26 "Financial instruments: measurement", and FRS 28 "Corresponding amounts". With the exception of the adoption of FRS 25 and FRS 26, where specific transitional provisions of those standards have been applied, the changes in accounting policy have been accounted for as a prior period adjustment, and the Company balance sheet as at 31 March 2005 has been restated as detailed in Note (xi).

As permitted by Section 230 of the Companies Act 1985 the Parent Company has not presented its own profit and loss account.

Basis of accounting – The financial statements have been prepared in compliance with the Companies Act 1985 and in accordance with UK Generally Accepted Accounting Principles (UK GAAP). They have been prepared under the historical cost convention.

Foreign currencies – Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Financial instruments and risk management – The Company adopted FRS 25 and FRS 26 with effect from 1 April 2005. In accordance with the transitional provisions of those standards, the comparative information for 2005 has not been restated. The accounting policies of the Company for 2005 and 2006 in respect of financial instruments are consistent with those of the Group, and are detailed in the consolidated financial statements. In accordance with paragraph 3(c) of FRS 25, the Company is exempt from the disclosure requirements of paragraphs 51 to 95 of FRS 25. The Company's financial instruments are consolidated with those of the Group and are incorporated into the disclosures in note 25.

Tangible fixed 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:

Leasehold properties – the period of the lease

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.

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

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.

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.

Pension costs – Employees of the Company participate in the pension schemes operated by the Renold plc Group in the UK. These include pension schemes of the defined benefit and defined contribution types. However, the contributions paid by the Company are accounted for as defined contribution schemes in all cases. This is because the Company is unable to identify its share of the underlying assets and liabilities in the respective schemes, as required by Financial Reporting Standard 17 (Retirement Benefits). Therefore, contributions paid to the respective pension schemes are charged to the profit and loss account as incurred. Disclosures associated with the Renold Group defined benefit schemes are provided in the Renold plc Group financial statements.

Share-based compensation – The Company operates equity-settled share-based compensation plans as detailed in the Group financial statements. The fair value of Company employee services received in exchange for the grant of the options is recognised as an expense in the income statement, with the corresponding amount being recognised in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions, using a Black-Scholes pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, an update is made of the estimates of the number of options that are expected to become exercisable. The impact of the revision of original estimates, if any, is recognised in the income statement, and a corresponding adjustment made to equity over the remaining vesting period.

As permitted under the transitional provisions of FRS 20, the Company has applied the standard only to equity-settled awards granted after 7 November 2002 and which vested after 1 January 2005.

Dividends – Final dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders, while interim dividend distributions are recognised in the period in which the dividends are declared and paid. Dividends receivable from subsidiary undertakings are similarly recognised on this basis.

Cash flow statement – As permitted by Financial Reporting Standard 1 (Cash Flow Statements (revised 1996)), the financial statements do not contain a cash flow statement as the financial statements of the Group, which are publicly available, contain a cash flow statement.

Related party transactions – The Company has taken advantage of the exemption not to disclose related party transactions with other members of the Group under Financial Reporting Standard 8 (Related Party Disclosures) as these transactions are fully eliminated on consolidation.

Company Balance Sheet

as at 31 March 2006

	Note	2006 £m	2005 £m
Fixed assets			
Tangible assets	i	**0.2**	0.2
Investments in subsidiary undertakings	ii	**55.7**	93.4
		55.9	93.6
Current assets			
Debtors	iii	**2.0**	1.4
Cash and short-term deposits		**21.9**	0.1
		23.9	1.5
Creditors – amounts falling due within one year			
Creditors	iv	**(2.1)**	(1.7)
Bank borrowings	v	**(2.5)**	(19.2)
Net current assets/(liabilities)		**19.3**	(19.4)
Total assets less current liabilities		**75.2**	74.2
Creditors – amounts falling due after more than one year			
Bank borrowings	v	**(20.8)**	(11.0)
Preference shares	v	**(0.5)**	
Derivative financial instruments	vi	**(0.1)**	
Net assets		**53.8**	63.2
Capital and reserves			
Called up share capital	viii	**17.4**	17.9
Share premium	ix	**6.0**	6.0
Profit and loss account	ix	**30.4**	39.3
Shareholders' funds		**53.8**	63.2

Approved by the Board on 19 July 2006 and signed on its behalf by:

Roger Leverton
Director

Robert Davies
Director

The balance sheet should be read in conjunction with the notes on pages 70 to 74.

Notes to the Company Financial Statements

(i) Tangible assets

	Properties £m	Equipment £m	Total £m
Cost			
At beginning of year	0.1	0.8	0.9
Additions at cost		0.1	0.1
At end of year	**0.1**	**0.9**	**1.0**
Depreciation			
At beginning of year		0.7	0.7
Depreciation for the year		0.1	0.1
At end of year		**0.8**	**0.8**
Net book value at end of year	**0.1**	**0.1**	**0.2**
Net book value at beginning of year	0.1	0.1	0.2

(ii) Investments in subsidiary undertakings

	Shares £m	Advances £m	Total £m
Subsidiary companies			
Cost or valuation			
At beginning of year	35.3	58.1	93.4
Net advances/(repayments)		(25.6)	(25.6)
Deficit on revaluation	(12.1)		(12.1)
At end of year	**23.2**	**32.5**	**55.7**

The principal subsidiary companies of Renold plc at 31 March 2006 are set out on page 65.

(iii) Debtors

	2006 £m	2005 £m
Amounts owed by Group undertakings	**1.5**	1.0
Deferred tax asset	**0.3**	0.1
Other debtors	**0.1**	0.2
Prepayments and accrued income	**0.1**	0.1
	2.0	1.4

(iv) Creditors

	2006 £m	2005 £m
Amounts falling due within one year:		
Trade creditors	**0.5**	0.7
Amounts owed by Group undertakings	**0.1**	
Other taxation and social security	**0.3**	0.3
Other creditors	**0.9**	0.3
Accruals	**0.3**	0.4
	2.1	1.7

(v) Borrowings

	2006 £m	2005 £m
Amounts falling due within one year:		
Bank loans	**2.5**	19.2
Amounts falling due after one year:		
Bank loans	**20.8**	11.0
Repayable:		
In more than one year but not more than two years	**20.8**	6.0
In more than two years but not more than five years		5.0
	20.8	11.0
Total bank loans	**23.3**	30.2
Preference shares	**0.5**	
Total borrowings	**23.8**	30.2

Bank borrowings are secured by fixed and floating charges over the assets of UK subsidiaries.

All payments of dividends on the 6% cumulative preference shares have been paid on the due dates. The preference shares 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.

(vi) Derivative financial instrument

	2006 £m
Interest rate swap contract	**0.1**

Upon adoption of FRS 25 and FRS 26 on 1 April 2005, the above contract was recognised at its fair value of £0.4 million and recorded as a financial liability (Note xi). The fair value movement in the period of £0.3 million has been taken to profit and loss account for the year.

(vii) Pensions

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.

(viii) Called up share capital

	Authorised 2006 £m	Authorised 2005 £m	Issued 2006 £m	Issued 2005 £m
Equity interests				
Ordinary shares of 25p each	**23.1**	23.1	**17.4**	17.3
Non-equity interests				
6% Cumulative Preference Shares (£1 units)		0.6		0.6
		23.7		17.9

Following the adoption of FRS 25 and FRS 26 on 1 April 2005, the preference shares have been reclassified from that date and are recorded as a component of borrowings (Note v). In addition, in accordance with FRS 26, the preference shares were assessed on a fair value basis at an amount of £0.5 million, resulting in an adjustment to the carrying amount of £0.1 million (Note xi).

At 31 March 2005 the issued Ordinary Share Capital comprised 69,429,220 (2005 – 69,335,410) Ordinary shares of 25p each. During the year the Company issued 93,810 ordinary shares of 25p each for a cash consideration of £51,671 by the exercise of options under the Renold Savings Related Share Option Scheme.

Share options have been granted under the Executive Share Option Schemes and the Savings Related Share Option Schemes. At 31 March 2006 unexercised options for ordinary shares amounted to 3,591,299 (2005 – 3,326,272) made up as follows:

Date normally exercisable	Option price (pence per share)	Number of shares 2006	Number of shares 2005
Executive Share Option Schemes			
Within seven years from:			
16 July 1999 (1995 Scheme)	293.83	**52,307**	56,636
18 July 2000 (1995 Scheme)	242.67	**19,042**	19,042
17 July 2001 (1995 Scheme)	237.33	**145,000**	175,000
16 July 2002 (1995 Scheme)	137.83	**155,000**	195,000
19 July 2003 (1995 Scheme)	118.50	**97,500**	125,000
22 December 2003 (1995 Scheme)	94.50	**10,000**	20,000
18 June 2004 (1995 Scheme)	102.00		125,000
28 November 2004 (1995 Scheme)	67.34	**297,000**	474,000
27 November 2005 (1995 Scheme)	58.50	**381,000**	404,000
28 July 2006 (1995 Scheme)	80.84	**50,000**	50,000
27 November 2006 (1995 Scheme)	83.50	**245,000**	275,000
11 March 2007 (1995 Scheme)	76.50	**125,000**	125,000
2 September 2007 (2004 Scheme)	88.00	**475,000**	475,000
22 November 2007 (2004 Scheme)	74.30	**135,000**	135,000
		2,186,849	2,653,678
Savings Related Share Option Schemes			
Within six months from:			
1 February 2005 (1995 Scheme)	89.36		122,324
1 February 2006 (1995 Scheme)	55.08	**238,473**	359,094
1 February 2008 (1995 Scheme)	55.08	**167,919**	191,176
1 March 2009 (2004 Scheme)	54.30	**998,058**	
		1,404,450	672,594

Further details of share-based payment schemes operated by the Company are provided in the Remuneration Report and note 20 of the consolidated financial statements.

(ix) Reserves

	Profit and loss account £m	Share premium £m	Total reserves £m
At beginning of year as previously reported	41.0	6.0	47.0
Prior year adjustment (Note xi)	(1.7)		(1.7)
At beginning of year as restated	39.3	6.0	45.3
Adoption of FRS 26 (Note xi)	(0.2)		(0.2)
At 1 April 2005 as restated	39.1	6.0	45.1
Loss for the year	(8.8)		(8.8)
Employee share option schemes – value of employee services	0.1		0.1
At end of year	**30.4**	**6.0**	**36.4**

As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented in these financial statements. The Company's loss for the financial year was £8.8 million (2005 as restated – loss £1.0 million).

(x) Contingent liabilities

The Company has guaranteed borrowings by subsidiary undertakings of £6.0 million (2005 – £3.2 million). Performance guarantees given to third parties in respect of Group Companies were £0.2 million (2005 – £1.2 million).

(xi) Restatement of prior year amounts

The Company's balance sheet for 2005 has been restated to reflect the impact of Financial Reporting Standards adopted for the first time in the year. The financial impact of this restatement on the balance sheet at 31 March 2005 and, as a consequence of FRS 25 and FRS 26, the balance sheet at 1 April 2005 is set out below:

	31 March 2005 as reported £m	FRS 21 events after balance sheet date £m	31 March 2005 as restated £m	FRS 25 and 26 Financial derivatives £m	Associated deferred tax £m	Preference shares reclassification at fair value £m	1 April 2005 as restated £m
Tangible fixed assets	0.2		0.2				0.2
Investments	93.4		93.4				93.4
Current assets							
Debtors	3.1	(1.7)	1.4		0.1		1.5
Cash and deposits	0.1		0.1				0.1
	3.2	(1.7)	1.5		0.1		1.6
Creditors – amounts falling due within one year	(20.9)		(20.9)				(20.9)
Net current assets	(17.7)	(1.7)	(19.4)		0.1		(19.3)
Total assets less current liabilities	75.9	(1.7)	74.2		0.1		74.3
Creditors – amounts falling due after more than one year	(11.0)		(11.0)	(0.4)		(0.5)	(11.9)
Net assets	64.9	(1.7)	63.2	(0.4)	0.1	(0.5)	62.4
Called up share capital	17.9		17.9			(0.6)	17.3
Share premium	6.0		6.0				6.0
Profit and loss account	41.0	(1.7)	39.3	(0.4)	0.1	0.1	39.1
Equity shareholders' funds	64.9	(1.7)	63.2	(0.4)	0.1	(0.5)	62.4

FRS 21 requires that dividends declared and approved after the balance sheet date should not be recognised as an asset/liability in the manner they were under former UK practice. Instead dividends are recognised in the period in which they are declared and approved. The change in accounting policy resulted in a decrease in shareholders' funds of £1.7 million, being the derecognition of final dividends formerly treated as receivable from subsidiary undertakings. The same dividend is now recorded as income received in the year to 31 March 2006.

FRS 20 (Share-based payment) has been adopted but the net adjustment has no effect on shareholders' funds as at 31 March 2005.

With effect from 1 April 2005, under the transitional provisions, the Company's interest rate swap contract, held in respect of US dollar borrowings, has been recognised at its fair value of £0.4 million, together with an associated deferred tax asset of £0.1 million. In addition, the Company's preference shares (£0.6 million) have been reclassified from forming a part of the Company's equity to forming a component of debt. At the point of transfer the shares were assessed on a fair value basis at £0.5 million, the adjustment of £0.1 million being taken to profit and loss reserves.

Notice of Annual General Meeting

Notice is hereby given that the seventy-sixth Annual General Meeting of Renold plc (the "Company") will be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Tuesday 19 September 2006 at 11.30 am for the following purposes:

As Ordinary Business

1. To receive and adopt the accounts for the year ended 31 March 2006, together with the Reports of the Directors and of the Auditors.

2. To re-elect Mr R J Davies as a director.

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

4. To elect Peter Edward Bream 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 for the year ended 31 March 2006.

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 Resolutions 8, 9, 10 and 11 as Special Resolutions:-

7. THAT, subject to and in accordance with Article 15 of the Articles of Association of the Company, the directors be generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") (in substitution for any existing authority to allot relevant securities) to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act 1985) up to a maximum nominal amount of £5,785,768 (being approximately one third of the current issued share capital) provided that such authority shall expire on 18 December 2007, but so 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 by this resolution had not expired.

8. THAT subject to the passing of the Ordinary Resolution numbered 7 above, and in accordance with Article 16 of the Articles of Association of the Company, the directors be empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by the said Ordinary Resolution, as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that this power shall be limited to allotments of equity securities:

   (a) in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive offer to the holders of shares in the Company 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 any territory or the regulations or requirements of any regulatory authority or any stock exchange in any territory;

   (b) under the Renold plc 2004 Performance Share Plan, the Renold plc 2004 Deferred Annual Bonus Scheme, the Renold plc 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 £867,865 (being equal to 5% of the aggregate nominal amount of the Company's ordinary share capital currently in issue at the date of passing this resolution) and such power shall expire on 18 December 2007 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.

9. To amend article 130.8 of the Articles of Association of the Company by the deletion of the current article 130.8 and the insertion of the following new wording in its place:

"130.8 the Company's "Adjusted Capital and Reserves" will be established by the following calculations:

Add:-

(i) the amount paid up on the Company's issued share capital (including any shares held as treasury shares); and

(ii) the amount standing to the credit of the reserves of the Company (which include any share premium account, capital redemption reserve and any credit balance on the Company's profit and loss account or retained earnings),

using the figures shown on the then latest audited balance sheet.

Then:-

(iii) deduct any debit balances on profit and loss account or retained earnings at the date of the audited balance sheet (if such a deduction has not already been made on that account);

(iv) make any adjustments needed to reflect any changes since the date of the balance sheet to the amount of paid up share capital or reserves; and

(v) exclude the effect on the reserves of the company of any retirement benefit scheme surplus or deficit (net of applicable deferred taxation) which would otherwise be reflected in accordance with any applicable accounting standards."

(**Notes:** Articles 127 - 130 of the Articles of Association of the Company set a limit on the borrowing powers of the Company, which is calculated based on a multiple of one and a half times the adjusted capital and reserves. The introduction of International Accounting Standards ("IAS") may result in greater volatility in the annual results of listed companies and, in particular, IAS 19 relating to pension scheme assets and liabilities, which may cause a company to breach the borrowing restrictions set out in its articles. The current article 130.8 is to be replaced in order to exclude any effect of applicable accounting standards (including IAS 19) relating to the assets and liabilities of any pension scheme in so far as they would effect the calculation of the reserves of the Company).

10. To amend articles 186.1, 186.2 and 186.3 of the Articles of Association of the Company by the deletion of the current articles 186.1, 186.2 and 186.3 and the insertion of the following new wording in their place:

"186.1 Subject to the provisions of, and so far as may be permitted by, the Statutes but without prejudice to any indemnity to which the person concerned may be otherwise entitled, the Company may indemnify every director, alternate director, auditor, secretary or other officer of the Company against all costs, charges, losses, expenses and liabilities incurred by him in the execution and discharge of his duties or the exercise of his powers or otherwise in relation to or in connection with his duties, powers or office, including any liability which may attach to him in respect of any negligence, default, breach of duty or breach of trust in relation to anything done or omitted to be done or alleged to have been done or omitted to be done by him as a director, alternate director, auditor, secretary or other officer of the Company.

186.2 *Subject to the provisions of, and so far as may be permitted by, the Statutes, the Company shall be entitled to fund the expenditure of every director, alternate director or other officer of the Company incurred or to be incurred:*

186.2.1 *in defending any criminal or civil proceedings; or*

186.2.2 *in connection with any application under sections 144(3), 144(4) or 727 of Act."*

(**Notes:** The current articles relating to directors' indemnification are to be amended to allow the company to permit funding of directors defence proceedings and broaden the scope of directors indemnities in line with the Companies (Audit, Investigations and Community Enterprise) Act 2004).

11. To amend articles:

2.2 by the insertion of a new definition of "*electronic communication*" in the following terms *"has the same meaning as that given to it in section 15 of the Electronic Communications Act 2000"*

2.2 by the insertion at the end of the definition of "in writing" of the words *"including (to the extent permitted by law) sent by electronic communication"*

60 by the insertion after the words ".... such notice or form of proxy by any person entitled thereto .... " of the words *"(including in both cases where given by electronic communication)"* and the insertion of new articles 60.2 and 60.3 in the following terms:

"60.2 For the purposes of Article 60.1 (and for the avoidance of doubt):

60.2.1 notice in writing is to include any case in which notice of the meeting is sent by electronic communication to the address notified by any of the persons referred to in Article 60.1 as being entitled to receive such notice;

60.2.2 a notice in writing of a meeting is also to be treated as given to a person entitled to receive such notice where:

60.2.2(a) the Company and that person have agreed that notices of meetings may instead be accessed by him on a website;

60.2.2(b) the meeting is a meeting to which the agreement in Article 60.2.2(a) applies;

60.2.2(c) the person is notified in the manner agreed by him and the Company of the publication of the notice on a website, the address of that website and the place on that website where the notice may be accessed and how it may be accessed; and

60.2.2(d) the notice continues to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting.

60.3 A notice which is treated as given to a person by virtue of Article 60.2 is treated as given at the same time as the notification referred to in Article 60.2.2(c)"

79 by the insertion of a new article 79.2 in the following terms:

"79.2 If the Directors in their discretion decide, a proxy appointment may be sent by electronic communication"

80.1 by the insertion after the words "An instrument" of the words "*that is not being sent by electronic communication*"

80.1.2 by the insertion after the words "…. pursuant to Article 80.1.1 …." of the words "*or 80.2*" and by the insertion of a new Article 80.2 (with all subsequent Articles being renumbered accordingly) in the following terms:

"*80.2* *A proxy appointment which is being sent by electronic communication must be received at an address specified by the Company for the purpose of receiving such communications:*

80.2.1 *in (or by way of a note to) the notice convening the meeting; or*

80.2.2 *in any form of proxy appointment sent out by the Company; or*

80.2.3 *in any invitation contained in an electronic communication to appoint a proxy issued by the Company;*

in each case not less than 48 hours before the time of the meeting or adjourned meeting at which the person named in the proxy form proposes to vote."

82 by the insertion after the words "…. An instrument …." of the words "*, including one sent by electronic communication*"

171 by the renumbering of Article 171 as "*Article 171.1*", the replacement after the words "…. by the Company either personally …." of the word "or" by a "," and the insertion after the words "…. for the service of notices or documents …. " of the words "*or by electronic communication*".

171 by the insertion of a new Article 171.2 in the following terms:

"*171.2* *Any notice or document sent by electronic communication shall be deemed to be served on the day of transmission. Proof that a notice or other document sent by electronic communication was sent in accordance with guidance issued by the Institute of Chartered Secretaries and Administrators shall be conclusive evidence that notice was given."*

173 by the insertion after the words "…. of any member in pursuance of these Articles …." of the words "*or by electronic mail or electronic communication*"

174 by the insertion after the words "…. within the United Kingdom for service of Notices …. " of the words "*or an address to which notices may be sent using electronic communication*"

180 by the renumbering of Article 180 as "Article 180.1" and the insertion a new Article 180.2 in the following terms:

"180.2 *the provisions of this Article 180 shall apply to any address, number or location supplied by a member for the purposes of electronic communication"*

189 by the insertion of a new article 189 in the following terms:

"189 Electronic Communication

189.1 *Where these Articles require the Company to send, circulate or despatch notices or documents to its members, the Company shall be deemed to have complied with that requirement in relation to any member if either:*

189.1.1 *the Company and the member have agreed to use electronic communication to send such notices or documents; and*

189.1.2 *the notices or documents are notices or documents to which the agreement applies; and*

189.1.3 *copies of the notices or documents are sent by electronic communication to the address, number or other location notified by the member to the Company for that purpose; or*

189.1.4 *the Company and the member have agreed to the member having access to notices or documents on a website, and:*

189.1.5 *the notices or documents are notices or documents to which the agreement applies; and*

189.1.6 *the member is notified of the publication of the notices or documents on the website, the address of the website, the place on the website where the notices or documents can be accessed and how they can be accessed, and the period of time for which the notices or documents will be available on the website.*

189.2 *The period of time referred to in Article 189.1.6 must not be less than 21 days from the date of notification or, if later, until the conclusion of any general meeting to which the notices or documents relate.*

189.3 *If the notices or documents are published on the website for a part only of the period of time referred to in Article 189.1.6, they will be treated as being published throughout the period if the failure to publish throughout that period is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.*

189.4 *Where the Company sends notices or documents to shareholders by electronic communication in accordance with Article 189.1, it must also make the notices or documents available to members in printed form and free of charge on request during normal business hours for a period of not less than 21 days from the date of communication or notification or, if later, until the conclusion of any general meeting to which the notices or documents relate.*

189.5 *The printed copies referred to in Article 189.4 must be made available in sufficient numbers to satisfy demand from its members and be made available at the Registered Office and also at the Transfer Office."*

(**Notes**: The articles of association are to be generally updated to permit the use of electronic communication between the Company and its members).

By order of the Board

G R Newton
Secretary

19 July 2006

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

Notes:

Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and, on a poll, to vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.

In order to be valid, any form of proxy and power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must reach the Company's Registrars, Capita Registrars, of Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA not less than 48 hours before the time of the meeting or of any adjournment of the meeting.

As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders who hold shares in uncertificated form must be entered on the Company's share register at 11.30am on 17 September 2006 in order to be entitled to attend and vote at the Annual General Meeting. Such shareholders may only cast votes in respect of shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Copies of the service contracts of each of the Directors, the register of Directors' interests in shares of the Company kept pursuant to section 325 of the Companies Act 1985 and the articles of association of the Company (updated to include the amendments proposed in this notice) will be available for inspection at the registered office of the Company and the offices of Eversheds, Senator House, 85 Queen Victoria Street, London EC4V 4JL during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting from at least 15 minutes prior to and until the conclusion of the Annual General Meeting.

Biographical details of each Director who is being proposed for election or re-election by shareholders, including their membership of Board committees, are set out at page 13 of the Annual Report and Accounts.

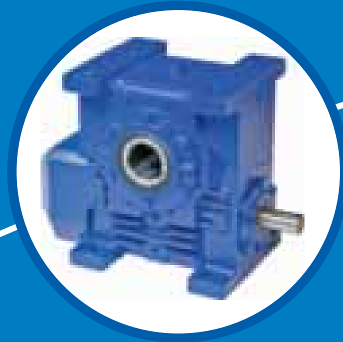
Financial Calendar

	2006
Annual General Meeting	19 September
Half year end 2006/07	30 September
Half year 2006/07 results published	mid November

	2007
Interim ordinary dividend for 2006/07 payable	end January
Year end 2006/07	31 March
Preliminary announcement of annual results 2006/07	early June

Other dividend payments

Preference dividends	1 July and 1 January



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

RENOLD

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