Annual Report 2007

RENOLD

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Front cover, left: Couplings used in power generation in Azerbaijan.

Front cover, centre: Chain used on offshore cable-laying ship.

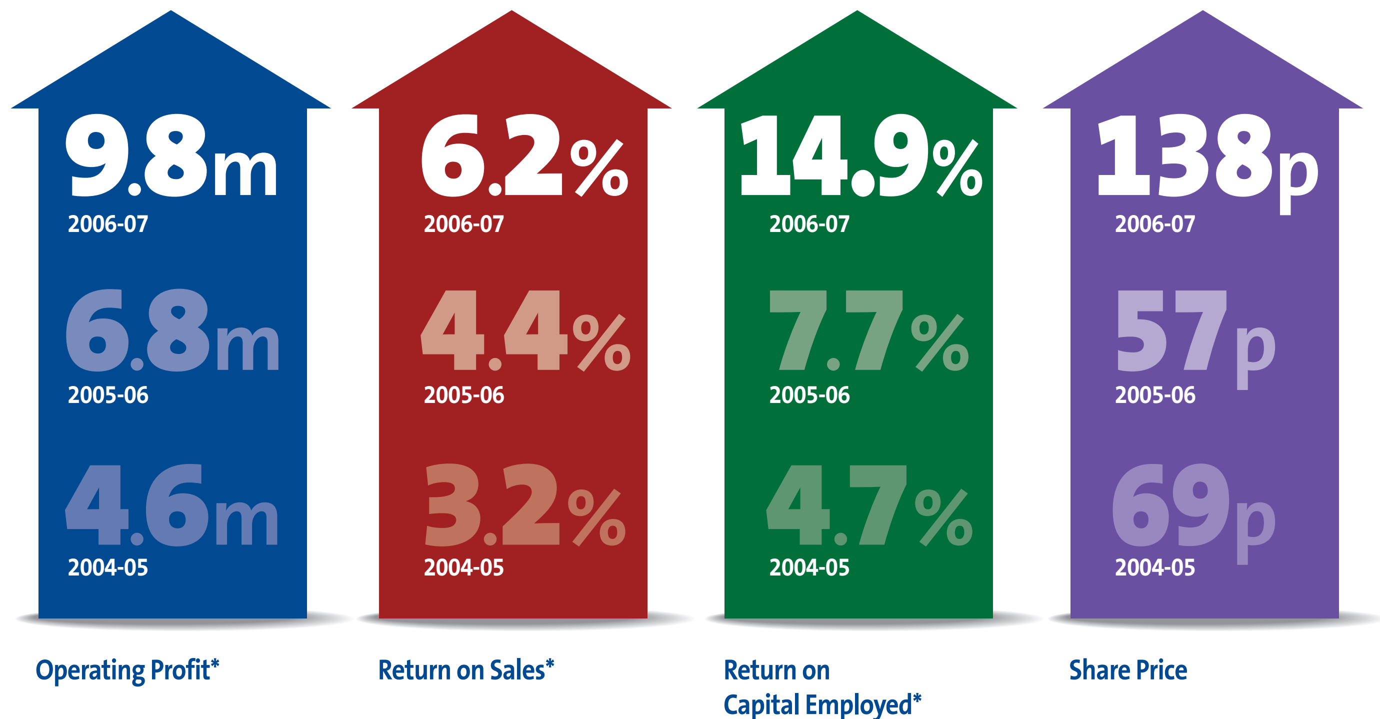
Front cover, right: Gearboxes supplied to steel mill.

Above, left: Hi-Tec Couplings helping to power diesel engined ships.

Above, centre: Chain used in printing industry ensuring performance with little lubrication.

Above, right: Chain supplied to oil industry where specification makes all the difference.

Performance at a glance



*Based on pre-exceptional operating profit from continuing operations.

Principal Activities

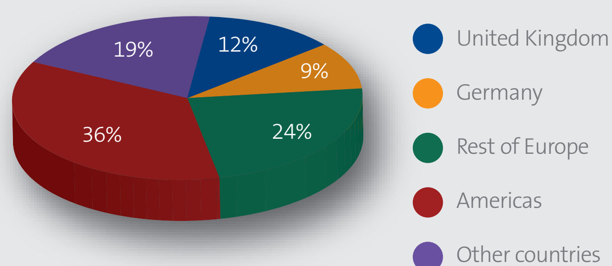
Renold plc is an international engineering group, producing a wide range of precision engineering products, operating in nineteen countries worldwide.

The principal activities of the Group are the manufacture and sale of industrial chains and related power transmission products.

Financial Highlights for the year ended 31 March 2007

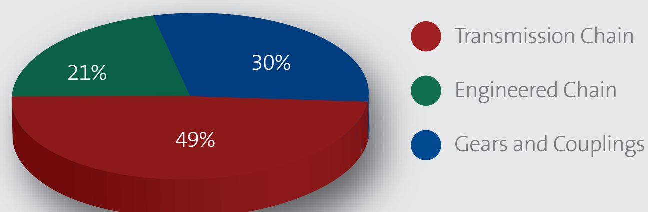
Turnover analysis - continuing operations

Geographical



United Kingdom
Germany
Rest of Europe
Americas
Other countries

Products



Transmission Chain
Engineered Chain
Gears and Couplings

	2007 £m	2006 £m
Continuing operations:		
Turnover	**159.3**	155.0
Operating profit	**3.9**	5.4
Operating profit before exceptional items	**9.8**	6.8
Profit before tax and exceptional items	**7.3**	3.2
Profit before tax	**1.4**	1.8
Discontinued operations:		
(Loss) for the year from discontinued operations	**(13.5)**	(13.9)
Other information:		
Basic loss per share – Group	**(18.3)p**	(19.6)p
Basic earnings per share – continuing operations	**1.2p**	0.4p
Adjusted earnings per share (adjusting for the after tax effects of exceptional items) – continuing operations	**8.4p**	1.7p
Capital expenditure	**5.8**	6.6
Net debt	**19.4**	20.7

Chairman's Statement

It is a great pleasure in my first statement to shareholders, as the Chairman of your Board, to report a year of excellent delivery against our strategic objectives, and the prospect of further progress in the coming years.

Our strategy has been to focus on our main Industrial Chain business and to give that business the operating and financial structure its needs to succeed – both in the mature markets where we are a leader, and in key new developing markets.

We have made significant progress in executing this strategy during the last year. We have disposed of the Automotive and Machine Tool businesses, reduced Group borrowings and refinanced them under much more favourable terms. These steps, combined with improved profit and cash generation, have given the company its strongest financial position for many years.

At constant exchange rates our sales have grown in all overseas regions where the company is represented; China, in particular, represented a small but very fast growing segment.

The Profit and Cash Enhancement (PACE) programme we presented in March 2007 is on schedule. One third of the Chain direct labour is now in China and other low cost territories which is well ahead of plan. We opened greenfield manufacturing facilities in Malaysia and China during the year, and these have shipped products in time and on budget. In May we announced the acquisition of a 90% interest in a manufacturing business in China, which significantly enhances our worldwide capacity, and reduces our capex requirements this year by £4 million. Further manufacturing volume was transferred to our Polish facility, which opened the previous year. The PACE programme is already providing superior returns from our established markets and building a competitive basis for our growth in developing regions.

Sales growth, a stronger and more efficient company, and the tangible benefits of the PACE programme served to boost profit before tax and exceptional items from continuing operations to £7.3 million an increase of 2.3 times on the previous year. Part of the focus of PACE is the continued strengthening of the balance sheet and a reduction in the volatility of earnings. Net debt reduced slightly in the year to £19.4 million from £20.7 million last year and further progress is expected. The net pension deficit on UK funded liabilities also fell from £23.0 million down to £19.7 million with considerable progress having been made late in the year on the asset management activities and work continuing on liability management. Arrangements have been made to appropriately hedge on-going foreign exchange exposure which had some negative impact during the year and also to manage steel price changes which were relatively benign during the year.

Bob Davies and his team have stretching targets for PACE in the coming year, and I am confident they will continue to meet and exceed those targets, as they have done over the past year.

The Board believe it is prudent to recommend that no dividend will be paid this year. The Board will consider future dividend policy in light of the results from the business going forward.

Finally, I would also like to welcome David Shearer to the Company, he joined the Board on 1 May 2007 as a non-executive director. David has served as the senior partner of Deloitte & Touche in Scotland and Northern Ireland and on the Main Board of HBOS plc. He brings us a wealth of experience from these senior roles.

At Renold, we have always been proud of our leadership in the specialised industrial markets we serve. We are now also very committed to a strategy that is both delivering financial results in the short term and building a platform for long term profitable growth. My Board colleagues and I look forward to another year of taking this strategy forward with confidence.

Matthew Peacock
Chairman

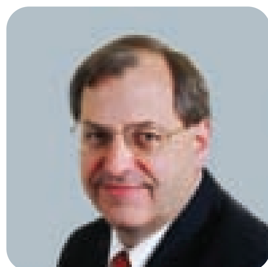
Huge chain drives offshore application

A huge length of chain, weighing in at over 11 tonnes and measuring 225 feet in length, has been designed and manufactured in the UK by Renold. It is used to drive a 3,000 tonne capacity carousel for the laying of undersea pipe and umbilical cable for the offshore oil industry. The carousel, dubbed Colossus, is 24 metres in diameter and weighs, when empty, some 450 tonnes. When fully wound it is capable of storing up to 120 kilometres of cable for such things as connecting land to offshore rigs and wellheads.

Designed and built by The Engineering Business for Subsea 7 the giant carousel is positioned on its side on an offshore support vessel for the winding and subsequent laying of cable. The design team at The Engineering Business considered a variety of drive options for turning the carousel but eventually opted for a chain drive system with four AC motors positioned around the carousel like points of the compass.

The chain has an expected life span of more than 20 years despite the harsh environments in which it will be operating. It is secured around the circumference of the carousel where it engages with sprockets attached to the electric motors. As the sprockets turn, the teeth, designed with a special rack tooth form, drive the chain which turns the carousel. A special feature of the chain is its extended pins, to allow for up to 30mm of lateral movement. The whole reel structure sits atop a series of uniquely designed sprung roller units that are depressed when the reel is fully loaded. As the carousel is unwound it is slowly pushed up by the rollers and the chain's extended pins allow for this lateral movement.

The equipment was commissioned just 36 weeks after the initial kick off meeting and, according to Subsea 7's equipment manager, Brian O'Neill, it's working very well.



Chief Executive's Review

Overview

The year was notable for the successful delivery of a number of significant initiatives. The sale of the Automotive and Machine Tool businesses followed by refinancing with The Royal Bank of Scotland, enhanced the financial stability of the Group. The opening of manufacturing facilities in Malaysia and China, and the increased output from Poland helped drive down the cost base.

The operating profit before exceptional items from continuing operations improved to £9.8 million, representing a 44% increase over the previous year. This improvement is despite a weaker US dollar resulting in a £1.2 million adverse impact compared with the previous year.

This improved operating result from continuing operations reflects sales growth in all overseas regions where the Company is represented with Group sales increasing 6% at constant exchange rates to £159.3 million. Europe recovered well from the weaker markets of the past few years. Some softening was seen in the USA, particularly in the second half. The additional resources in China have borne fruit, sales doubling again albeit from a relatively low base. This sales growth, along with numerous cost reduction initiatives, boosted profit before tax and exceptional items from continuing operations to £7.3 million, a 128% increase on the previous year.

Technology Leadership

The Industrial Chain business provides 70% of Renold's sales. By market share, we are the number 2 global player operating in over 90 countries with direct sales teams in 18 of these. Renold maintains a technology leadership in Industrial Chain. This is evidenced by our Synergy product range, which carries a significant price premium to all competing brands. Customers are willing to pay this premium because the products wear and maintenance characteristics can significantly lower their cost of ownership. Applications such as the Thames Barrier, theme park rides and certain continuous process industry applications demonstrate the high integrity reputation that Renold Chain has. It is our intention to increasingly invest in engineering and product development to maintain this technology leadership and reputation.

PACE

The Profit and Cash Enhancement plan, which was presented in March 2007, encapsulated a number of the cost reduction initiatives into a single coherent plan. The main thrust of the cost reduction is the migration of product manufacturing from relatively high cost manufacturing sites in the UK and Germany, to lower cost sites in Poland and China. The funds required for these transfers are to be generated by an inventory reduction programme and sales of surplus property. I am pleased to report that the PACE plan was on schedule at the year-end and continues to be so.

Renold Hangzhou

In May, we announced the agreement for the acquisition of a 90% interest in the business of HangZhou ShanShui ("HZSS"), a Chain manufacturer based in Hangzhou, China 200 kilometres west of Shanghai. This acquisition is consistent with the PACE plan by providing a well established chain manufacturing facility into which certain products currently made in the UK and Germany can be relocated. Renold reviewed over 70 separate Chain companies in China and performed limited due diligence on 10 of these. HZSS was selected because of the strength of its engineering resource and its focus on product quality. A good working relationship at several levels has been developed between existing HZSS and Renold staff over the past two years. This acquisition will reduce the execution risk of the PACE programme. Measured by the tonnage of steel used, Renold Hangzhou is currently larger than the UK facility in Bredbury but smaller than the German facility in Einbeck.

In addition, Renold Hangzhou will provide a platform for sales growth within China and other low cost countries. Renold can now offer a product range from exceptional high performance to products that are cost competitive with those originating from any part of the world.

Service

In addition to excellence in design and competitive pricing, our customers demand outstanding levels of service. A number of initiatives are in place to drive further improvements in meeting customer expectations.

In recognition of the success of these initiatives, I am proud to report that Renold were awarded 'Supplier of Year' by A.I.T., the second largest Power Transmission Distributor in the USA and our largest customer. This award was judged on the level of sales support, quality of the product, technology innovation and profitability. This award was clearly a team effort but in particular, I would like to recognise the determination of the efforts of our Sales Team in the USA, our Manufacturing teams in the UK and Germany and our Global Engineering team.

Further recognition for our customer service came from Kinecor, the largest Canadian distributor who identified Renold as a 'Top 5 Supplier'.

Robert Davies
Chief Executive

High-tech gearbox repairs return units that are better than before

Renold Gears' gearbox-repair service was put to the test just recently when it won the contract from steel maker Corus to refurbish the massive dog-bar gearboxes at its Teesside Beam Mill. The gearboxes are amongst the biggest Renold has ever repaired, standing over five feet high and weighing in at around ten tons each. They are over 40 years old and now require re-engineering to a very high standard.

Renold's ability to repair old gearboxes and improve on the original specification was one of the key factors that helped the company win the prestigious contract.

Corus' Beam Mill manufactures a range of steel sections for the construction industry at its large plant on Teesside, measuring around one kilometre. The sections are produced from ten ton steel blooms or larger slabs weighing up to 30 tons, following which they are cut to length and then stacked in cooling banks where they are allowed to cool to ambient temperature prior to despatch. It is here, in pits beneath the floor of the cooling banks that the dog-bar gearboxes are found. Cam arms attached to the output shafts of the gearboxes rise up when rotated and transfer the hot sections over to the cooling banks.

The gearboxes were originally manufactured in 1964 by Crofts Engineers, of Bradford, a company that was acquired by Renold just three years later in 1967. The original blueprints were found in the company's archives and so components for the gearboxes could be manufactured to their original specifications, but modified for enhanced performance.

The gearboxes are being refurbished one at a time and the first of four was returned to its Teesside home in May 2006. Renold's repair team improved the original specification in several ways so that the repaired unit was better than when it was new. The team redesigned and upgraded the material of the output shaft and fitted an internal pumping system to feed lubrication directly to the gears and bearings. The case was also ultrasonically tested for leaks prior to reassembly with the new gears, shafts, bearings and the new pumping system.

The second gearbox is due to be installed during the plant's July shutdown when the next gearbox will be taken away for repair.

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 certain of these key indicators is noted in this Operations Review and the Financial Review. Other non-financial performance indicators are used but vary on a business by business basis.

Chain

The Industrial Chain business continued its profit improvement driven by a 6% growth in sales and continuing cost reductions. Some small increases in steel prices were seen towards the end of the year, but these were more than compensated for by price increases and cost reductions.

Europe

Renold maintained its market leadership position in Europe. Sales, which have been flat for a number of years, increased by 7% at constant exchange rates. Good growth came from each of the selling companies in Europe except France, where sales were flat.

The factory in Poland continued to expand and will end this year with a total of 200 employees necessitating a move in June to a new, larger 6,000 sq m facility where there is the opportunity for further expansion. This new facility is less than a mile from the existing facility and minimal disruption is expected.

The final phase of the closure of the Burton manufacturing plant was made during the year. Products have been transferred to Renold factories in Poland, Malaysia and Manchester. We have a contract to sell the Burton property to a developer for £6.4 million, subject to planning permission. A second planning application by developers for the Burton site is expected to be submitted by the end of June. Renold intend to have a custom built and developed office for the UK sales team, as part of the redevelopment of the site. This will retain approximately 40 professional jobs in the Burton area.

The implementation of the European Distribution project made good progress during the year in improving customer service through the more efficient management of finished goods stock. A common software platform has been installed in all our European sales companies (except Switzerland) and direct shipments from the Distribution Centres to the end customers have started. It is expected that two of the existing warehouse properties will be available for sale by the end of this year.

Americas

Sales in local currency of roller transmission chain to distributors and OEMs increased by 10% with further significant increases to A.I.T. and Motion, the two largest USA distributors.

The award of 'Supplier of the Year' from A.I.T. affirms the improvements in our position with the major US distributors. Sales of Synergy, the world's leading transmission chain and Syno (lubrication free/dry to the touch chain) continued to grow. Technical innovations such as these helped to gain the Supplier of the Year award. A further new product development, XXL, directly led to the winning of a $4.5 million contract from a major OEM, displacing an incumbent competitor. Initial trials suggest that this new product has 3 to 6 times the life of the chain it replaced.

Sales of engineering/conveyor chain manufactured in Tennessee were below last year's level, driven by weak demand from OEMs in the middle of the year. This resulted in a redundancy of 14 people in Tennessee. Demand recovered strongly towards the end of the year.

Sales into South America grew by 26% following the addition of dedicated sales resource. The potential in the region is high but much of the demand is for lower cost products. The new facility in Hangzhou should provide an appropriate product for these markets.

Asia Pacific

Sales into China doubled again during the year and orders were up over 60%. This is a reflection of the increased sales resources within China. A member of the Group's Executive team is now based in Shanghai to support the continued growth.

Blue-Chip engine manufacturer Wärtsilä gives new couplings the thumbs up

Renold Hi-Tec's innovative new DCB-GS rubber-in-compression couplings have been given the thumbs up by the highly respected, blue-chip engine manufacturer Wärtsilä. Not only has the company specifically featured Renold Hi-Tec's products in its house magazine, Energy News, but Wärtsilä Vaasa, of Finland, has given further backing to Renold innovation by recently placing an order for no less than 52 of the new DCB-GS couplings.

Launched in 2004 the new DCB-GS couplings are low maintenance, zero backlash units designed for use in diesel and gas engine driven applications. The DCB-GS is based on the industry-proven DCB range and offers considerable advantages over the standard product, including a 30 per cent reduction in weight, and a reduction in overall length. On top of its fail-safe, long-life design, a significant feature of the DCB-GS coupling is its ability to control resonant torsional vibration, resulting in low vibratory loads in the driveline components.

The couplings were used by Wärtsilä Vaasa to connect their Wärtsilä 20V34SG gas engines to alternators, as part of a contract to supply generator sets to AzerEnergi, the national power company of Azerbaijan. Each coupling transmits 9000kW at 750rpm. The generator sets will be located at five power plants in Azerbaijan — Astara, Baku, Khachmaz, Nakhivan and Sheki. Together they will have a total power output of 450Mwe. Wärtsilä selected the DCB-GS rubber-in-compression coupling as it ensures there are no resonances at operating speed and the coupling's fail-safe nature will ensure continuous operation of the generator sets at all times.

This rate of progress is expected to continue into the new year as the greenfield Beicai facility starts to increase production and through the purchase of HZSS. Three years ago, Renold had no employees in China. By the end of June, China will be second only to the UK by number of Renold employees. The combination of Renold technology and market knowledge, combined with the low cost base and manufacturing capability of HZSS, will provide a significant number of new opportunities within China, elsewhere within the region and globally.

The new facility in Malaysia started to deliver products to customers in August. These products had previously been made in Burton and without the move, a significant part of this business would have been lost on price. During the year, two new product lines were launched opening up new markets in Malaysia and Singapore. These products could not have been made competitively in Burton.

Australia, which accounts for nearly 10% of Renold's Chain sales, grew by 18% during the year and had its most profitable year on record.

Gears

Sales of the Gears business grew by 8% with orders up by 11%. The Loose Gears product line was relocated from the adjacent Machine Tools and Rotor Division, prior to the divestment. Following this move, the award of a major contract from the USA led to the need to double capacity of this manufacturing cell. The UK Gears business provides engineered solutions for specific customer challenges. Its major markets are in the UK, USA, China and Germany.

Sales in South Africa grew by 20%, leading to an improvement in profitability. This growth came from an increase in demand from the mining and metal industries. The South African facility is predominantly a maintenance and overhaul facility, but does have a design facility.

Couplings

It was another good year for the Couplings business. Double digit sales growth and return on sales were achieved during the year. Sales are underpinned by a multi-year Mass Transit contract with Alstom, which runs until 2008. No new Mass Transit contract orders were won during the year, but a number of bids are outstanding. Orders increased by 25%, which will require an increase in capacity this year. The capital expenditure required to increase capacity is within the normal annual level of spend. This increased level of orders positions this business well for another strong year.

Renold Jeffrey named Vendor of the Year 2006 by AIT

It has been announced that Renold Jeffrey has been named Vendor of the Year by Applied Industrial Technologies (AIT), a leading North American distributor of industrial products and services. This tremendous achievement is an acknowledgement of the hard work by all members of Renold's US team as well as those providing support from European facilities.

AIT honoured Renold Jeffrey for a series of accomplishments, including building partnerships at field and corporate levels that establish the groundwork for success.

The range of performance chain products supplied through AIT's branches have helped to forge a strong partnership between the two organisations bringing significant benefits to companies across the United States.

Tom Armold, Vice President – Product Management and Marketing for AIT said, "Renold Jeffrey has provided Applied with excellent support in servicing our customers and field organization. They are a partner that listens and responds to the needs of our customers and to opportunities that bring us mutual benefits and growth."

Renold Jeffrey received the overall top ranking among 35 to 40 of Applied's core vendors through and in-depth review process performed each year. Vendors are rated by various departments throughout the organization based on a number of criteria, including value of line, product quality, sales impact, responsiveness, and reliability of quoted delivery. Vendors meet with the review board in person at Applied's corporate headquarters in Cleveland to analyze results.

"It is a great honour for our company to receive this award from one of our most valued partners," said George Graham, President of Renold Jeffrey. "We are committed to achieving continued success as our partnership continues to grow."

Financial Review

Overview

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements of the parent company, Renold plc, have been prepared under UK Generally Accepted Accounting Principles (UK GAAP) and are included on pages 63 to 67.

Continuing Operations

Revenue

The revenue of continuing operations increased by 3% to £159.3 million, at constant exchange rates the increase was 6%. Sales in the second half-year, at £80.0 million were 1% higher than the first half.

Operating Profit

Operating profit before exceptional items was £9.8 million up 44% on 2005/06. Return on sales for the year before exceptionals was 6.2% compared with 4.4% for last year. This demonstrates a continuing recovery in margins, which now extends for five consecutive half-year periods and we expect to continue.

Exceptional costs were £5.9 million, compared with £1.4 million in 2005/06. £3.2 million related to redundancy and restructuring costs incurred mainly in the European chain operations, and £2.7 million related to inventory provisions precipitated by the reorganisation of distribution facilities under the PACE project.

Further details of the exceptional costs are given in Note 2(c) to the financial statements.

Financing Costs

Total net financing costs reduced to £2.5 million (2005/06 – £3.6 million).

Net bank interest cost rose to £2.4 million (2005/06 – £2.2 million) and there was no significant fair value gain or loss on derivatives (2005/06 – gain £0.3 million). Costs associated with our re-banking were £0.2 million (2005/06 – £0.7 million). The net interest cost on pension plan balances and the expected return on pension plan assets was a credit of £0.1 million (2005/06 – charge £1.0 million).

This change is principally the result of the increased expected return on the higher value of plan assets.

Profit before Tax

Profit before tax and before exceptional items was £7.3 million compared with £3.2 million last year. Profit before tax after exceptional items was £1.4 million compared with a profit of £1.8 million in 2005/06.

Taxation

The tax charge on continuing operations of £0.6 million (2005/06 – £1.5 million) represented an effective rate of approximately 40%, nearly half the rate reported in 2005/06.

Discontinued Operations

The Automotive business was divested on 3 August 2006; a loss before tax of £1.3 million was reported for the period and losses on disposal of £6.2 million.

The Machine Tools business was divested on 6 December 2006; a loss of £0.7 million was reported for the period and losses on disposal of £4.6 million.

The results of these businesses are reported as discontinued operations on one line in the income statement.

Details of the results of the discontinued operations are given in Note 5 to the financial statements.

Group Results for the Financial Period

The loss for the year was £12.7 million compared with £13.6 million in 2005/06; the basic loss per share was 18.3p (2005/06 – 19.6p loss) and the diluted loss per share was 18.1p (2005/06 – 19.6p). The basic adjusted earnings per share (from continuing operations before exceptional items) was 8.4p (2005/06 – 1.7p).

Balance Sheet

Net assets at 31 March 2007 were £23.9 million (2005/06 – £40.6 million). The liability for retirement benefit obligations was £48.0 million (2005/06 – £53.9 million) before allowing for a net deferred tax asset of £11.1 million (2005/06 – £12.7 million). Of the £48.0 million obligation, £18.0 million arises in respect of unfunded schemes which do not require to be prefunded (see pensions below).

Cash Flow and Borrowings

Cash inflow from continuing operations was £10.3 million (2005/06 – £4.7 million).

Cash outflow from discontinued operations was £4.7 million (2005/06 – £1.7 million inflow).

Payment for purchase of property, plant and equipment was £6.0 million (2005/06 – £6.7 million), of which £1.5 million (2005/06 – £2.9 million) related to discontinued activities. Proceeds of disposals of property, plant and equipment were £0.2 million (2005/06 – £3.2 million). Proceeds from disposal of Automotive and Machine Tools businesses totalled £5.4 million.

Group net borrowings at 31 March 2007 were £19.4 million (2006 – £20.7 million) comprising cash and cash equivalents £20.3 million (2006 – £17.8 million) and borrowings, including preference shares, of £39.7 million (2006 – £38.5 million).

Treasury and Financial Instruments

During the year the Group entered into a new syndicated bank facility led by The Royal Bank of Scotland plc, with Fortis Bank S.A./N.V. as a participant. This facility is significantly larger and materially less expensive than the facilities which it replaced.

The Group treasury policy, approved by the directors, is to manage its funding requirements and treasury risks without undertaking any speculative risks. Note 26 to the financial statements provides details of financial instruments.

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

A major exposure of the Group earnings and cash flows relates to currency risk on its sales and purchases made in foreign (non-functional) currencies, and to reduce such risks these transactions are covered primarily by forward foreign exchange contracts. Such commitments generally do not extend more than 12 months beyond the balance sheet date, although exceptions can occur where longer-term projects are entered into.

To manage foreign currency exchange risk on the translation of net investments, certain dollar denominated borrowings taken out in the UK to finance US acquisitions have been designated as a hedge of the net investment in US subsidiaries, the carrying value of these borrowings at 31 March 2007 was £6.4 million (31 March 2006 – £5.4 million).

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.

At 31 March 2007 the Group had 19% (31 March 2006 – 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.

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

Pensions

Information on the Group's pension schemes is set out in Note 19 to the financial statements, including the key assumptions used by the actuary in arriving at the IAS 19 funding position.

The gross pension assets and liabilities and deficits are as follows:

	2007			2006		
	Assets £m	**Liabilities £m**	**Deficit £m**	Assets £m	Liabilities £m	Deficit £m
UK Schemes – funded	**164.4**	**(192.5)**	**(28.1)**	162.7	(195.6)	(32.9)
Overseas Schemes – funded	**15.1**	**(17.0)**	**(1.9)**	15.5	(17.9)	(2.4)
– unfunded	**–**	**(18.0)**	**(18.0)**	–	(18.6)	(18.6)
	179.5	**(227.5)**	**(48.0)**	178.2	(232.1)	(53.9)
Deferred Tax Asset			**11.1**			12.7
Net			**(36.9)**			(41.2)

During the year the assets of the funded schemes rose by £1.3 million. The funding deficit improved further, however, as liabilities decreased by £4.6 million reflecting actuarial gains due primarily from increased bond rates, with the rate used for discounting UK liabilities rising from 5.0% to 5.4%.

The overseas deficit comprises £1.9 million in respect of defined benefit schemes, and £18.0 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.

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). The status of these schemes at 31 March 2007 is summarised below:

As at 31 March 2007	RGPS £m	RSPS £m	J&S £m	Total £m
IAS 19 liabilities	125.2	30.7	36.6	192.5
Market value of assets	104.2	23.9	36.3	164.4
Deficit on IAS 19 basis	21.0	6.8	0.3	28.1
Annual deficit reduction payment (based on funding valuations)	2.2	0.7	0.2	3.1
Total members (approx)	6,038	119	1,059	7,216
of which active are	472	13	1	486

Further details on the Group's pension schemes are given in Note 19 to the financial statements.

Peter Bream
Finance Director

Directors' Biographies

Matthew Peacock (age 45)
Chairman

was appointed to the Board and became Chairman in September 2006. He is the co-founder of Hanover Investors, a specialist turnaround investment firm based in London. Prior to Hanover, Matthew ran the International M&A team in London at Barclays De Zoete Wedd in 1989, having previously worked in New York for Credit Suisse First Boston. Matthew is also a non-executive Director of Elementis plc, SMG plc and Cosalt plc.

Bob Davies (age 53)
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 (age 40)
Finance Director

joined the Group in July 2006 and was appointed Finance Director in September 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.

Rod Powell (age 59)
Non-Executive Director

was appointed to the Board in September 2006. A chartered management accountant, and partner in R J Investments, Rod was formerly Chief Executive of the Control Systems Division of Invensys.

Barbara Beckett (age 53)
Non-Executive Director

was appointed to the Board in March 2005. She is the Group Marketing Director of BAA Ltd and has extensive experience throughout the retail/service industries and has had operations management experience with several major companies including BT plc.

David Shearer (age 48)
Non-Executive Director

was appointed to the Board in May 2007 as the Senior Independent Non-Executive Director. A corporate financier and former senior partner in Deloitte & Touche, where he was latterly a UK Board member, David is Chairman of Castle Topco Limited which recently acquired house-builder Crest Nicholson plc and a Non-Executive Director of SMG plc, Superglass Holdings Limited, Aberdeen New Dawn Investment Trust plc, Scottish Financial Enterprise and an Advisory Board member of Martin Currie Limited. He is also a Governor of the Glasgow School of Art and was previously a Non-Executive Director of HBOS plc.

Directors and Officers

Chairman
M R Peacock

Executive Directors
R J Davies *Chief Executive*
P E Bream *Executive Director*

Non-Executive Directors
D J B Shearer (*Senior Independent non-executive Director)*
B A Beckett
R H E Powell

Composition of Board Committees

Audit Committee
M R Peacock *(Chairman)*
D J B Shearer
R H E Powell
B A Beckett

Nomination Committee
M R Peacock *(Chairman)*
D J B Shearer
R H E Powell
B A Beckett

Remuneration Committee
B A Beckett *(Chairman)*
M R Peacock
D J B Shearer
R H E Powell

Company Secretary
K Brown

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Website: www.renold.com

Auditors
Ernst & Young LLP
Manchester

Broker and Financial Adviser
Kaupthing Singer & Friedlander Capital Markets Limited

Financial PR Consultants
College Hill Associates Limited

Registrar
Capita Registrars
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Woodsome Park
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Website: www.capitaregistrars.com
Registrar's Share Portal: www.capitashareportal.com

Report of the Directors

for the financial year ended 31 March 2007

To be presented to the seventy-seventh Annual General Meeting of RENOLD plc to be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday, 26 July 2007 at 11.30 a.m.

The Notice of Meeting is given, together with explanatory notes, on pages 68 and 69.

Business review and future developments

A review of the business and the future developments of the Group is presented in the Chairman's Statement on page 3, the Chief Executive's Review on page 5 and in the Operations Review on pages 7 to 9.

Group results

The profit for the year before tax from continuing operations was £1.4 million compared with a profit of £1.8 million for the previous year.

The announcements in August and December 2006, relating to the conclusion of 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 being the principal continuing activity of the Group.

A review of the Group's operations, principal activities, future developments, together with a description of the principal risks and uncertainties affecting the business and key performance indicators can be found in the Chairman's Statement on page 3, the Chief Executive's Review on page 5, the Operations Review on pages 7 to 9 and the Financial Review on pages 11 and 12, which are incorporated into this report by references, as well as within this report.

Dividends

No final dividend per ordinary share is recommended.

Preference dividend payments were made on 1 July 2006 and 1 January 2007.

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 P E Bream, who was appointed 1 July 2006, Mr M R Peacock and Mr R H E Powell who were appointed on 21 September 2006, and Mr D J B Shearer who was appointed on 1 May 2007, and all of whom will be standing for election at the forthcoming Annual General Meeting.

In addition to the Directors listed above, Mr R F Leverton, Mr M A Smith and Mr D A Brown were Directors until their retirement in September 2006.

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

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 Directors' 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 20 to the financial statements on page 51.

Major shareholders

As at the close of business on 31 May 2007, the Company had been notified of the following interests in voting rights attached to shares under Disclosure and Transparency Rule 5.

	Number of voting rights	% of total number of voting rights
Hanover Investors Group	11,032,500	15.83
Prudential plc	8,910,240	12.78
SVG Investment Managers	5,571,000	8.00
Henderson Global Investors	4,950,000	7.10
Lowland Investment Company	4,650,000	6.67
Aberforth Partners LP	4,562,800	6.55
Strategic Equity Capital	2,950,415	4.23

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.

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 existing employees becoming disabled, 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 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 particular, the Company seeks to develop and manufacture products so as to minimise their environmental impact as far as practicable; to co-operate with industry, government bodies, suppliers and customers to develop and achieve improved standards of environmental care; and to conduct its operations in compliance with relevant statutory provisions concerning environmental matters.

In line with this policy, local management is responsible for ensuring that appropriate systems and organisations are implemented, maintained and monitored in the areas for which they are responsible. Each business has issued a local environmental statement which complies with Group policy and local legislation.

Employees

At 31 March 2007 the Renold Group employed 2,041 people, including 746 in the UK and 593 in the rest of Europe.

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. An independent Trustee Company has been appointed to provide a Chairman of the Board of Trustees of the principal schemes.

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.

Financial instruments

The Group's financial risk management objectives and policies and its exposure to risks, including credit risk, are discussed in the Financial Review on pages 11 and 12 and in the Notes to the Accounts.

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 2007 trade creditors of the Group's businesses in the UK and overseas represented 65 days' purchases, compared with 72 last year.

Donations

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

Auditors

In November 2006, PricewaterhouseCoopers LLP were replaced as auditors by Ernst & Young LLP. A resolution will be proposed at the Annual General Meeting to appoint Ernst & Young LLP as auditors and to authorise the Directors to fix their remuneration.

Special business at the Annual General Meeting

At the Annual General Meeting on 26 July 2007, resolutions 1 to 6 are termed ordinary business, while resolutions 7 and 8 will be special business. The special business covers Directors' authority to allot shares and the partial disapplication of pre-emption rights as explained below and set out in the Notice of Annual General Meeting on pages 68 and 69.

Resolution 7 gives authority to the Directors to allot shares up to a maximum nominal amount of £5,804,983 representing approximately one third of the current issued share capital. The authority will expire on 25 October 2008 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of the resolution, and replaces a similar authority granted on 19 September 2006, which expires on 18 December 2007. Save for any options granted under the share option schemes, the Directors have no present intention of exercising the authority conferred by this resolution.

Resolution 8 will permit the Directors to make issue of equity securities for cash either by way of rights issue or in any other way, provided that the shares issued other than by way of rights issue, open offer or other pre-emptive offer or under the various 2004 schemes of the Company, be limited to shares with a nominal value of £870,747, being equal to 5% of the aggregate nominal amount of the Company's ordinary share capital currently in issue.

In the opinion of the Directors, the passing of these resolutions is in the best interests of the shareholders.

Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Report of the Directors are listed on page 14. Having made enquiries of fellow Directors and of the Company's auditors, each of those Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their reports of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

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.

By order of the Board

K Brown
Secretary
25 June 2007

Corporate Governance

The Company remains committed to high standards of corporate governance and as such the Board acknowledges its contribution to achieving management accountability, improving risk management and ultimately to creating shareholder value. 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.

Statement by the Directors on compliance with the Combined Code

The Board considers that the Company has complied throughout the year ended 31 March 2007 with the provisions of the Combined Code, with the exception of the matters referred to below.

Board

The Board presently comprises a non-executive Chairman, three non-executive Directors and two 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.

The Board has approved a schedule of matters reserved for decision by the Board ensuring that the Board takes all major strategy, policy and investment decisions affecting the Group; in addition, it is responsible for business planning and risk management policies and the development of Group policies for areas such as safety, health and environmental policies, Directors' and senior managers' remuneration, and ethical issues.

New Directors are provided with an appropriate induction programme. A formal process for evaluating the performance of the Board and its committees is conducted annually with the aid of detailed questionnaires and the Board reviews the outcome.

Following the acquisition by Hanover Investors Group ("Hanover") in September 2006 of 14.05% of the ordinary share capital of the Company, and following consultation by the Board with leading institutional shareholders, the Company's then Chairman, Mr R F Leverton, and then senior independent Director and Chairman of the Audit Committee, Mr M A Smith, both retired from the Board on 21 September 2006. After due enquiry and consultation with other major shareholders, Mr M R Peacock was appointed as non-executive Chairman of the Company and Mr R H E Powell as a non-executive Director of the Company. Since that date, Mr Peacock has been interim senior independent Director and interim Chairman of the Audit Committee. As a result, the Company has not been in compliance with paragraph A.3.3 of the Combined Code (which states that one of the independent Directors should be appointed as the senior independent Director) nor with paragraph C.3.1 of the Combined Code (which states that all members of the Audit Committee should be independent non-executive Directors): however, as announced by the Company on 8 March 2007, Mr D J B Shearer took up appointment as the senior independent Director with effect from 1 May 2007; in addition, the Company is actively seeking to appoint a further non-executive Director to replace Mr Peacock as Chairman of the Audit Committee, and has appointed Mr Shearer, in place of Mr Peacock, to the Remuneration Committee.

The Chairman, Mr M R Peacock, is a principal of a significant shareholder, Hanover, which now holds 15.83% of the ordinary share capital of the Company: the Board considers that, whilst the Company is not in compliance with paragraph A.2.2 of the Combined Code (which states that the Chairman should on appointment meet the independence criteria set out in paragraph A.3.1 of the Combined Code) nor with paragraph C.3.1 of the Combined Code (as stated above) Mr Peacock (who receives no annual fee from the Company) acts with complete independence of character and judgement.

Mr R H E Powell is associated with Hanover: the Board considers that, whilst Mr Powell does not meet the independence criteria set out in paragraph A.3.1 of the Combined Code, Mr Powell acts with complete independence of character and judgement.

The Board considers that each of the other non-executive Directors is independent and free from any business or other relationship which could affect their judgement.

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**	**2**	**2**	**2**
Number attended					
M R Peacock	4	2	–	1	–
R J Davies	9	–	–	–	2
B A Beckett	8	3	2	2	–
P E Bream	8	–	–	–	1
D A Brown	5	–	–	–	1
R F Leverton	5	1	2	1	–
R H E Powell	4	2	–	1	–
M A Smith	5	1	2	1	–

All Directors in office at the time of the Annual General Meeting held on 19 September 2006 were in attendance for the meeting.

Mr M R Peacock, Mr R J Davies, Mr P E Bream, Mr D A Brown, Mr R F Leverton, Mr R H E Powell and Mr M A Smith 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 Chairman of the Company, Mr M R Peacock, who is interim Chairman of the Committee, and the non-executive Directors. The Committee normally meets three times a year. The Board is satisfied that, as well as the Chairman of the Committee, at least one other member of the Audit Committee has recent and relevant financial experience. The Chief Executive, Finance Director and other managers (including the internal audit function) attend meetings from time to time at the invitation of the Committee. Its terms of reference include the review of the Group's financial statements, internal financial control systems, whistleblowing policies 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 without the executive management present.

A formal process for evaluating the independence of the external auditors and the performance of the Committee and the internal audit function is conducted annually with the aid of a detailed questionnaire, and the Board reviews the outcome. Additionally, to safeguard the independence and objectivity of the auditors, the Committee has approved a policy on non-audit services provided by the auditors in line with professional practice.

The Committee has met three times during the year; in the course of these meetings, the Committee considered the following matters:

Internal controls: Reports from the internal audit function summarising work planned and undertaken, recommending improvements and describing actions taken by management. The Committee also sought the views of the external auditors in making its assessment of the internal control environment.

Internal Audit Function: The Committee evaluated the performance of the internal audit function and assessed the work planned and undertaken.

Whistleblowing: The Committee reviewed the procedures for staff to raise concerns in confidence about possible financial reporting or other misconduct.

Financial Reporting: The Committee reviewed draft annual and interim reports before recommending their publication to the Board. The Committee discussed with the Chief Executive, Finance Director and external auditors the significant accounting policies, estimates and judgements applied in preparing these reports.

Appointment of the external auditors: The Committee recommended that the Board present a resolution to shareholders at the 2007 Annual General Meeting for the appointment of the external auditors. This followed an assessment of the quality of service provided, including the qualification of the external auditors, the expertise and resources made available to the Group, auditor independence and the effectiveness of the audit process.

Nomination Committee

The Nomination Committee is a committee of the Board comprised of the Chairman of the Board, Mr M R Peacock, who is Chairman of the Committee, and the non-executive Directors. The Committee meets as required and its terms of reference are to select and recommend to the Board new appointments of executive and non-executive Directors. The Company is not in compliance with paragraphs A.4.3 and A.4.6 of the Code (which set out the procedure for the appointment of Chairman of the Company): the procedure was not applied to the Board appointments that were made in September 2006, as the circumstances giving rise to those appointments, as announced by the Company on 22 September 2006, made it impractical to do so.

Remuneration Committee

The Remuneration Committee is a committee of the Board comprised of Mr D J B Shearer, non-executive Director and replacing Mr M R Peacock, Mr R H E Powell, non-executive Director, and is chaired by Ms B A Beckett. The Chief Executive, Mr R J Davies, and the Group Human Resources Officer, Mrs M Hurt, attend meetings from time to time at the invitation of the committee. This committee determines the terms and conditions of employment including remuneration and benefits of the executive Directors and senior managers 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.

Although the Company is not in compliance with paragraph B.2.1 of the Combined Code (which states that all members of the Remuneration Committee should be independent), the Board considers that the presence of Mr M R Peacock (who receives no annual fee from the Company) on the Remuneration Committee brings valuable and independent judgement to all remuneration decisions.

The Directors 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, the Company Secretary and the Group Human Resources Officer, 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 overall responsibility for the Group's system of internal control and for reviewing internal control 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 2007 and up to the date of approval of the Annual Report and financial statements, 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

- a Risk Monitoring Committee which ensures, on behalf of the Board, that appropriate policies are implemented to identify and evaluate risks, and to design, operate and monitor a suitable system of internal control;
- an Internal Audit Function which assists management and the Audit Committee in the fulfilment of the Board's responsibility of ensuring that the Group's financial and accounting systems provide accurate and up-to-date information about its current financial position;
- 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 financial plans covering profit and cash flow, which are approved by the Board; the review of detailed regular 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.

Communications with shareholders

Communications with shareholders are given high priority. The Board is accountable to the Company's shareholders and as such it is important for the Board to appreciate the requirements of shareholders and equally that shareholders understand how the actions of the Board and short-term financial performance relate to the achievement of the Company's long-term goals.

The reporting calendar is dominated by the publication of interim and final results each year, in which the Board reports to shareholders on its stewardship of the Company. The Operations Review on pages 7 to 9 and the Financial Review on pages 11 and 12 comment on the Group's financial performance in the context of the business risks faced and objectives and plans for the future. At other times during the year, presentations to analysts and updates to the London Stock Exchange are made available to all shareholders via the Company's website. In addition the Chairman, Chief Executive and Finance Director meet with major shareholders to discuss governance and Group strategy. The Group's largest shareholder has a representative on the Board.

The Chairman ensures that the Chief Executive and Finance Director provide feedback to the Board following presentations to investors and meetings with shareholders.

The Annual General Meeting provides an opportunity for communication with private and institutional investors and the Board encourages shareholders to attend and welcomes their participation.

At the Annual General Meeting, the Chairman of the Board and of the Audit, Remuneration, Nomination and Risk Monitoring Committees, together with the executive Directors, will be 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, and interim management statements, on the day they are announced.

If you wish to advise a change of name, address, or dividend mandate, please contact the registrar, Capita Registrars whose contact details appear on page 14. Alternatively, you can view up to date information and manage your shareholding through the registrar's Share Portal where you will be able to access and maintain your holding at your own convenience. You will require your unique investor code, which can be found on your share certificate or dividend tax voucher. The URL for the portal is www.capitashareportal.com.

Directors' Remuneration Report

This report is submitted to shareholders by the Board for approval at the forthcoming Annual General Meeting on 26 July 2007 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 Ms B A Beckett, Mr R F Leverton (until his retirement from the Board in September 2006), Mr M A Smith (until his retirement from the Board in September 2006) and, since September 2006, Mr M R Peacock and Mr R H E Powell. 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. 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. Monks Partnership were appointed by the Remuneration Committee and have no other connection with the Company. 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 norm of 60% of basic salary, and a a maximum of 100% of basic salary with the approval of the Remuneration Committee. A proportion of this bonus is based on group profit targets and the balance on personal objectives. For 2006/07 a bonus was awarded to Mr R J Davies of approximately 80% and to Mr P E Bream of approximately 50%.

- 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. No award was made in 2006/07.

- 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 2006/07.

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.

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. No options were granted during the year under the SAYE Scheme.

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, who retired from the Board in September 2006, participated in the Renold Supplementary Pension Scheme 1967, which is a contributory defined benefits plan, until leaving the Company on 31 October 2006. Members' contributions are 7½% of pensionable pay up to the shadow earnings cap (£112,800 in 2006/07). This provides for a pension at age 62 of two-thirds of final pensionable salary up to the shadow 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 the Company pension scheme and has made his own independent pension arrangements into which the Company made payments of £26,400 in 2006/07 (£26,400 in 2005/06). Similarly, Mr P E Bream is not a member of a Company pension scheme; the Company provided £16,300 in respect of his independent pension arrangements in the year. 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
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.

The letters of appointment of the non-executive Directors confirm that the appointment in each case is for a specified term and that reappointment is not automatic.

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 2007, 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 2007		31 March 2006	
	Shares	**Options**	Shares	Options
M R Peacock	**11,032,500**(a)	**nil**	9,757,500(b)	nil(b)
R J Davies	**145,000**	**810,744**	85,000	610,744
B A Beckett	**nil**	**nil**	nil	nil
P E Bream	**20,000**	**210,000**	nil(c)	nil(c)
R H E Powell	**62,012**	**nil**	nil(b)	nil(b)

(a) Mr M R Peacock is indirectly interested in 11,032,500 shares of which: 3,588,190 through Hanover I Fund LP/Vidacos Nominees, and 7,444,310 through Hanover I Master Fund LP/Vidacos Nominees.

(b) as at date of appointment on 21 September 2006.

(c) as at date of appointment on 1 July 2006.

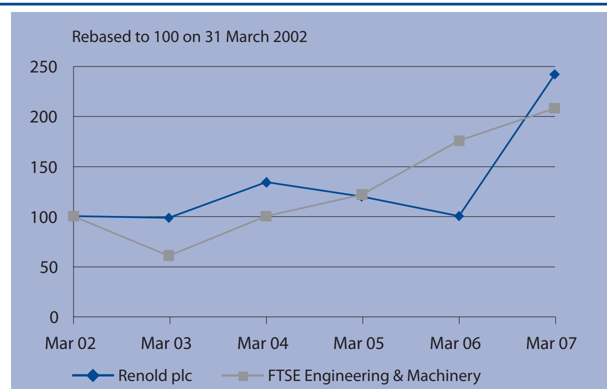
There were no non-beneficial interests held by the Directors in the ordinary shares of Renold plc at the end of the year or at the date of this report.

At 31 March 2007 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 the date of this report.

Performance graph

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



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

Directors' emoluments

	2007					2006
	Salaries & fees £000	**Annual bonus £000**	**Benefits Cash £000**	**Benefits Non-cash £000**	**Total £000**	Total £000
Executive Directors						
R J Davies	**278**	**190**	**–**	**29**	**497**	345
P E Bream (from 1.7.06)	**111**	**57**	**8**	**–**	**176**	N/A
D A Brown (retired 19.9.06)	**80**	**–**	**5**	**1**	**86**	218
	469	**247**	**13**	**30**	**759**	563
Non-executive Directors						
M R Peacock – Chairman (from 21.9.06)	**–**	**–**	**–**	**–**	**–**	N/A
B A Beckett	**30**	**–**	**–**	**–**	**30**	29
R H E Powell (from 21.9.06)	**42**	**–**	**–**	**–**	**42**	N/A
R F Leverton (retired 21.9.06)	**43**	**–**	**–**	**–**	**43**	43
M A Smith (retired 21.9.06)	**16**	**–**	**–**	**–**	**16**	32
	600	**247**	**13**	**30**	**890**	667

The Company has provided pension contributions of £26,400 (2005/06 – £26,400) and £16,300 to Mr R J Davies and Mr P E Bream, respectively.

Directors' pension entitlements

Details of pension benefits earned by Mr D A Brown under the defined benefits scheme, and the cost to the Company of amounts in respect of unfunded pension obligations provided for but not paid for the period up to his retirement as a director, are set out below:

	Years' service at year end	Increase in accrued pension in the period (a) £000	Transfer value of the increase in accrued pension £000	Accumulated total accrued pension at 19.9.06 (b) £000	Transfer value at 19.9.06 (c) £000	Transfer value at 31.3.06 (c) £000	Increased transfer value in the period (d) £000	Amounts provided in the period but not paid in respect of unfunded obligations £000
D A Brown (retired 19.9.06)	16	4	28	60	1,006	932	70	62

(a) the increase in accrued pension during the period, including inflation.

(b) the accumulated total accrued pension at 19.9.06 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 period is after deducting the Director's personal contributions to the scheme.

Share options

	Number of share options							
	At 31.3.06	Exercised	Granted	Lapsed	At 31.3.07	Option price (pence per share)	Date from which exercisable	Expiry Date
R J Davies								
Executive scheme			(a)100,000		100,000	114.20	2.1.10	1.1.17
			(a)100,000		100,000	61.60	26.7.09	25.7.16
	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 (retired 19.9.06)	30,000				(d)30,000	83.50	27.11.06	26.11.13
Executive	(c)45,000	(45,000)				58.50	27.11.05	26.11.12
scheme	(c)45,000	(45,000)				67.34	28.11.04	27.11.11
	20,000				(d)20,000	118.50	19.7.03	18.7.10
	10,000				(d)10,000	137.83	16.7.02	15.7.09
	10,000				(d)10,000	237.33	17.7.01	16.7.08
Savings related scheme	6,115			6,115		293.83	16.7.99	15.7.06
			10,744	10,744		54.30	1.3.09	31.8.09
	4,735			4,735		55.08	1.2.06	31.7.06
P E Bream			(a)60,000		60,000	114.20	2.1.10	1.1.17
(from 1.7.06)			(b)150,000		150,000	61.60	26.7.09	25.7.16

(a) Options granted under the Renold plc 2004 Non Inland Revenue Approved Company Share Option Plans.

(b) Options granted under the Renold plc 2004 Inland Revenue Approved and Non Inland Revenue Approved Company Share Option Plans.

(c) At the date of exercise (being options from the Renold (1995) Executive Share Option Scheme) on 7 December 2006, the Company's share price was 113.5p per share, giving rise to a gain against the option price.

(d) At date of cessation as a Director.

The middle market price of ordinary shares at 31 March 2007 was 138 pence and the range of prices during the year was 51.50 pence to 143 pence.

On behalf of the Board

B A Beckett
Chairman of Remuneration Committee
25 June 2007

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' Reports, shown on page 25 and page 60, 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.

The Directors are required to prepare Group and Parent Company financial statements for each financial year. The Group financial statements are required to be prepared in accordance with IFRSs as adopted by the European Union and also to present fairly the financial position and performance of the Group. The Directors have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and, under the Companies Act 1985, these statements are required to give a true and fair view of the state of affairs of the Parent Company.

In preparing the Group and Parent Company 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) for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union;

(4) for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements.

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

The Directors are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. 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 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 on the financial statements.

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 2007 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes 1 to 27. 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 2007, and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 by 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).

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 financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement, The Chief Executive's Review, Operations Review and Financial Review, that is cross referenced from the Group results section of the Report of the Directors.

In addition we 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 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 Group 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 judgments 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 by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its loss 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.

Ernst & Young LLP
Registered Auditor
Manchester

25 June 2007

Accounting Policies

Basis of preparation – The consolidated financial statements for the year ended 31 March 2007 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 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.

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 – various according to type of asset, the principal categories being:

General plant and equipment	10
Fixtures	10
Precision cutting and grinding machines	7
Motor vehicles	3

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 constant rate of charge over the period of the liability.

Leases where a significant portion of the risk and reward of ownership is 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.

Investment property – One of the Group's properties is classified as an investment property on the basis that it will be held for the long-term, earning a rental income. This is a contractual arrangement arising from the disposal of a former business segment.

The investment property was previously a manufacturing facility of the Group but owner-occupation ceased upon disposal of the Automotive business. On the date of disposal a transfer was made from property to investment property. The cost model has been applied since that date and depreciation charged at 2% straight line.

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. In the Group accounts, 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 substantively 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 substantively 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 – Revenue comprises the fair value of goods 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 which is normally the point of despatch.

Trade receivables – 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 plan arrangements matching the local conditions and practices in the countries in which they operate.

The Group operates a number of defined benefit plans 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 plan 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 plan 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 plan 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 plans, 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 on or 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.

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 where not part of an effective hedging relationship which has been designated and documented.

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, the Group retains the option to apply hedge accounting and take the necessary steps to satisfy the specific requirements of IAS 39.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above. If the related transaction is not expected to occur, the amount is taken to profit or loss.

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.

Cash and cash equivalents – 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 nor intention to settle net, with cash balances.

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

Provisions – 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 – In accordance with IFRS 5, assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business and where the sale is highly probable. 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.

Accounting pronouncements not yet adopted
The following accounting pronouncements have been issued but are not mandatory for the 31 March 2007 financial statements:

International Accounting Standards

IFRS 7	–	Financial Instruments: Disclosures
IFRS 8	–	Operating Segments
IAS 1	–	Amendment – Presentation of Financial Statements: Capital Disclosures
IAS 23	–	Amendment – Borrowing Costs

International Financial Reporting Interpretations Committee ("IFRIC")

IFRIC 8	–	Scope of IFRS 2
IFRIC 9	–	Reassessment of Embedded Derivatives
IFRIC 10	–	Interim Financial Reporting and Impairment
IFRIC 11	–	IFRS 2 "Group and Treasury Share Transactions"

Management does not expect that these standards and interpretations will have a material impact on the Group's results or financial position but IFRS 7 and IFRS 8 will affect the disclosure of information in the Group's financial statements.

Consolidated Income Statement

for the financial year ended 31 March 2007

	Note	2007 £m	2006 £m
Continuing operations:			
Revenue	1	**159.3**	155.0
Operating costs	2	**(155.4)**	(149.6)
Operating profit		**3.9**	5.4
Operating profit before exceptional items		**9.8**	6.8
Exceptional items	2	**(5.9)**	(1.4)
Operating profit		**3.9**	5.4
Financial costs		**(13.9)**	(14.1)
Financial revenue		**11.4**	10.5
Net financing costs	3	**(2.5)**	(3.6)
Profit before tax		**1.4**	1.8
Taxation	4	**(0.6)**	(1.5)
Profit for the financial year from continuing operations		**0.8**	0.3
Discontinued operations:			
(Loss) for the financial year from discontinued operations	5	**(13.5)**	(13.9)
(Loss) for the financial year		**(12.7)**	(13.6)
Earnings per share	6		
Basic (loss) per share		**(18.3)p**	(19.6)p
Diluted (loss) per share		**(18.1)p**	(19.6)p
Basic and diluted earnings per share from continuing operations		**1.2p**	0.4p
Adjusted earnings per share from continuing operations*		**8.4p**	1.7p
Diluted adjusted earnings per share from continuing operations*		**8.3p**	1.7p

*Adjusted for the after tax effects of exceptional items

Consolidated Statement of Recognised Income and Expense

for the financial year ended 31 March 2007

	2007 £m	2006 £m
(Loss) for the year	**(12.7)**	(13.6)
Net income/(expense) recognised directly in equity:		
Foreign exchange translation differences	**(4.8)**	1.1
Gains on fair value of hedging net investments in foreign operations	**0.9**	1.1
Actuarial gains/(losses) on retirement benefit obligations	**0.9**	(5.3)
Tax on items taken directly to equity	**(1.2)**	1.7
Total expense recognised directly in equity	**(4.2)**	(1.4)
Total recognised income and expense for the year	**(16.9)**	(15.0)
Change in equity following adoption of IAS 39	**–**	(0.2)
Total recognised income and expense	**(16.9)**	(15.2)

The notes on pages 33 to 57 form part of these financial statements.

Consolidated Balance Sheet

as at 31 March 2007

	Note	2007 £m	2006 £m
Assets			
Non-current assets			
Goodwill	8	**15.2**	17.1
Other intangible assets	8	**0.6**	0.2
Property, plant and equipment	9	**34.0**	38.2
Investment property	10	**1.6**	–
Other non-current assets	12	**0.4**	0.3
Deferred tax assets	18	**17.4**	18.4
		69.2	74.2
Current assets			
Inventories	11	**33.1**	36.5
Trade and other receivables	12	**30.1**	25.8
Derivative financial instruments	26	**–**	0.2
Cash and cash equivalents	13	**20.3**	17.8
		83.5	80.3
Asset held for sale	14	**3.4**	3.4
Assets of discontinued operations	5	**–**	37.1
		86.9	120.8
Total assets		**156.1**	195.0
Liabilities			
Current liabilities			
Borrowings	15	**(7.8)**	(12.4)
Trade and other payables	16	**(36.1)**	(31.3)
Derivative financial instruments	26	**(0.1)**	–
Provisions	17	**(5.2)**	(0.4)
Current tax liabilities		**(0.6)**	(0.7)
		(49.8)	(44.8)
Liabilities directly associated with discontinued operations	5	**–**	(28.1)
		(49.8)	(72.9)
Net current assets		**37.1**	47.9
Non-current liabilities			
Borrowings	15	**(31.4)**	(25.6)
Derivative financial instruments	26	**–**	(0.1)
Preference shares	15	**(0.5)**	(0.5)
Trade and other payables	16	**(1.2)**	(0.7)
Deferred tax liabilities	18	**(1.3)**	(0.7)
Retirement benefit obligations	19	**(48.0)**	(53.9)
		(82.4)	(81.5)
Total liabilities		**(132.2)**	(154.4)
Net assets		**23.9**	40.6
Equity			
Issued share capital	20	**17.4**	17.4
Share premium account	22	**6.1**	6.0
Other reserves	22	**(1.2)**	2.7
Retained earnings	22	**1.6**	14.5
Total shareholders' equity		**23.9**	40.6

The notes on pages 33 to 57 form part of these financial statements.

Approved by the Board on 25 June 2007 and signed on its behalf by:

Matthew Peacock
Director

Robert Davies
Director

Consolidated Cash Flow Statement

for the financial year ended 31 March 2007

	2007 £m	2006 £m
Cash flows from operating activities (Note 25)		
Cash generated from operations – continuing	**10.3**	4.7
Cash (absorbed)/generated by operations – discontinued	**(4.7)**	1.7
	5.6	6.4
Income taxes paid	**(1.4)**	(1.7)
Net cash from operating activities	**4.2**	4.7
Cash flows from investing activities		
Proceeds from disposal of businesses (net of cash transferred)	**5.4**	–
Purchase of property, plant and equipment	**(6.0)**	(6.7)
Purchase of intangible assets	**(0.6)**	(0.2)
Proceeds on disposal of property, plant and equipment	**0.2**	3.2
Interest received	**0.2**	–
Net cash from investing activities	**(0.8)**	(3.7)
Cash flows from financing activities		
Financing costs paid	**(3.0)**	(3.3)
Increase in borrowings	**6.1**	6.9
Issue of ordinary shares	**0.1**	0.1
Payment of finance lease liabilities	**(0.4)**	(0.1)
Net cash from financing activities	**2.8**	3.6
Net increase in cash and cash equivalents	**6.2**	4.6
Net cash and cash equivalents at beginning of year	**9.6**	4.8
Effects of exchange rate changes	**(0.4)**	0.2
Net cash and cash equivalents at end of year (Note 13)	**15.4**	9.6

The notes on pages 33 to 57 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. The consolidated income statement for continuing operations therefore relates wholly to the Industrial Power Transmission business.

Segment assets and liabilities

Shown below is a summary of the assets and liabilities of Industrial Power Transmission:

	2007 £m	2006 £m
Assets		
Industrial Power Transmission	**113.4**	116.6
Unallocated assets (see below)	**39.3**	37.9
Asset held for sale	**3.4**	3.4
Assets of discontinued operations	**–**	37.1
Total assets	**156.1**	195.0
Liabilities		
Industrial Power Transmission	**(90.5)**	(86.3)
Borrowings (Note 15)	**(39.7)**	(38.5)
Derivative financial instruments	**(0.1)**	(0.1)
Current and deferred tax	**(1.9)**	(1.4)
Liabilities of discontinued operations	**–**	(28.1)
	(132.2)	(154.4)

Secondary reporting format – geographical segments

The operations of the Group are based in five 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
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 (Continuing)		Assets		Capital expenditure	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
United Kingdom	**19.6**	20.4	**26.6**	29.5	**2.0**	1.6
Germany	**14.9**	14.6	**16.4**	19.5	**0.6**	1.7
Rest of Europe	**37.5**	35.6	**16.8**	12.6	**0.6**	0.2
North America	**56.7**	57.2	**38.3**	41.2	**0.4**	0.8
Other countries	**30.6**	27.2	**15.3**	13.8	**0.7**	0.2
	159.3	155.0	**113.4**	116.6	**4.3**	4.5
Unallocated assets	**–**	–	**39.3**	37.9	**–**	–
Asset held for sale	**–**	–	**3.4**	3.4	**–**	–
Discontinued operations	**–**	–	**–**	37.1	**1.5**	2.1
	159.3	155.0	**156.1**	195.0	**5.8**	6.6

Unallocated assets comprise:	**2007 £m**	2006 £m
Deferred tax asset	**17.4**	18.4
Cash and cash equivalents	**20.3**	17.8
Investment property	**1.6**	–
Property (reclassified in 2007 as an investment property)	**–**	1.7
	39.3	37.9

As explained in Note 10, the investment property was transferred from property, plant and equipment during the year.

2. Operating costs and exceptional items (continuing operations)

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

	2007 £m	2007 £m	2006 £m	2006 £m
Change in inventory of finished goods and work in progress		**(1.8)**		(1.1)
Own work capitalised		**–**		(0.1)
Other operating income		**(1.3)**		(0.8)
Raw materials and consumables		**60.1**		58.8
Other external charges		**22.8**		21.9
Employee costs				
Gross wages and salaries	**51.4**		52.3	
Social security costs	**7.1**		6.2	
Pension costs – Defined benefit	**2.7**		2.6	
– Defined contribution	**0.7**		0.5	
Cost of share-based incentive plans	**0.1**		0.2	
		62.0		61.8
Depreciation of property, plant and equipment				
– owned assets		**4.6**		5.1
– leased assets		**0.1**		0.1
Amortisation of intangible assets		**0.2**		0.1
Operating leases – minimum lease payments				
– plant and machinery	**0.4**		0.3	
– property	**1.4**		1.6	
		1.8		1.9
Loss/(profit) on disposal of property, plant and equipment		**0.1**		(0.1)
Research and development expenditure		**0.4**		0.2
Remuneration of auditors for audit work		**0.3**		0.4
Trade receivables impairment charge		**0.1**		–
Foreign exchange		**0.1**		–
Exceptional items (Note 2(c))		**5.9**		1.4
		155.4		149.6

(b) Auditors' remuneration

During the year Ernst & Young replaced PricewaterhouseCoopers as Group auditor. Fees payable to the auditors of the Group comprise the following:

	£000 PwC	£000 E&Y	2007 £000 Total	2006 £000 PwC
Fees payable to the Company's auditors for the audit of the Group's annual financial statements (i)	**45**	**56**	**101**	169
Fees payable to the Company's auditors and their associates for other services:				
Audit of the Company's subsidiaries pursuant to legislation	**22**	**193**	**215**	258
Taxation services	**87**	**105**	**192**	93
Recruitment and remuneration services	**3**	**–**	**3**	11
Corporate finance services	**5**	**–**	**5**	–
All other services	**–**	**23**	**23**	19
	117	**321**	**438**	381

2. Operating costs and exceptional items (continuing operations) continued

In 2005/06 the Group auditor also received fees of £19,000 and its associates also received £2,000 for audit services provided to Group pension schemes. In 2006/07 fees of £19,000 are also payable to the Group auditor for audit services to Group pension schemes. These were the only services provided to the pension schemes.

(i) The Group audit fee amount shown above for PwC in 2007 (£45,000) represents charges in respect of the audit for the year ended 31 March 2006.

(c) Exceptional items

	2007 £m	2006 £m
UK Burton conveyor chain factory restructuring	**0.3**	0.3
Other redundancy and restructuring charges	**–**	1.1
Profit and cash enhancement restructuring initiatives ("PACE"):		
Reorganisation and redundancy costs	**2.9**	–
Exceptional inventory provision	**2.7**	–
	5.9	1.4

Following the disposal of the Automotive and Machine Tool operations, the PACE strategic initiative has resulted in exceptional costs associated with the commencement of the restructuring of the continuing Group's manufacturing and distribution facilities. The reorganisation and redundancy costs have originated mainly in the UK (£1.5 million) and Germany (£1.0 million). Exceptional inventory write-offs have been charged in the UK (£1.4 million), Germany (£0.9 million), the Rest of Europe (£0.2 million) and other countries (£0.2 million).

Additional costs were incurred earlier in the year linked to the reorganisation of the Burton factory. Of the £1.1 million redundancy and restructuring costs reported in 2006, the principal amounts were incurred in Germany (£0.3 million) and Rest of Europe (£0.5 million).

(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:

	2007 £m	2006 £m
Aggregate emoluments	**890**	741

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:

	2007		2006	
	Continuing	**Discontinued**	Continuing	Discontinued
United Kingdom	**743**	**179**	778	239
Germany	**369**	**12**	361	24
Rest of Europe	**264**	**235**	201	550
North America	**395**	**9**	414	16
Other countries	**285**	**–**	254	–
	2,056	**435**	2,008	829

Notes to the Consolidated Financial Statements *continued*

3. Net financing costs

	2007		2006	
	£m	£m	£m	£m
Financial costs:				
Interest payable on bank loans and overdrafts		(2.6)		(2.3)
Interest cost on pension plan balances		(11.1)		(11.1)
Costs associated with refinancing		(0.2)		(0.7)
		(13.9)		(14.1)
Financial revenue:				
Interest receivable on bank deposits and cash equivalents	0.2		0.1	
Expected return on pension plan assets	11.2		10.1	
Fair value gains on derivative instruments	–		0.3	
		11.4		10.5
Net financing costs		(2.5)		(3.6)

4. Taxation

Analysis of tax charge in the year

	2007 £m	2006 £m
United Kingdom		
UK corporation tax at 30% (2006 – 30%)	1.0	0.5
Less: double taxation relief	(1.0)	(0.5)
	–	–
Overseas taxes		
Corporation taxes	1.3	1.3
Total current tax	1.3	1.3
Deferred tax		
United Kingdom – origination and reversal of temporary differences	–	0.3
Overseas – origination and reversal of temporary differences	–	(0.4)
Total deferred tax	–	(0.1)
Tax charge on loss on ordinary activities	1.3	1.2
Analysed as:		
Continuing	0.6	1.5
Discontinued	0.7	(0.3)
	1.3	1.2

	2007 £m	2006 £m
Tax on items taken directly to equity		
Deferred tax on pension plan balances	(1.1)	1.6
Deferred tax on other direct movements on reserves	(0.1)	0.1
	(1.2)	1.7

4. Taxation continued

Factors affecting the Group tax charge for the year

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

The tax assessed for the year is higher (2006 – higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

Profit/(loss) on ordinary activities before tax	**2007 £m**	2006 £m
Continuing operations	**1.4**	1.8
Discontinued operations	**(2.0)**	(1.4)
	(0.6)	0.4
Tax on ordinary activities at 30% (2006 – 30%)	**(0.2)**	0.1
Effects of:		
Permanent differences	**0.9**	0.1
Overseas tax rate differences	**(0.3)**	0.3
Unrelieved tax losses	**3.4**	1.6
Utilisation of brought forward tax losses	**(0.7)**	(0.4)
Depreciation and other temporary differences	**(1.8)**	(0.2)
Adjustments in respect of prior periods	**–**	(0.3)
Total tax charge	**1.3**	1.2

During March 2007 the UK government announced Budget tax changes which, if enacted in the proposed manner, will have an effect on the future tax position. These changes are not reflected in the balance sheet at 31 March 2007. However, it is proposed that the rate of UK corporation tax will reduce from 30% to 28% from 1 April 2008 and this rate change will affect the amount of deferred tax recognised in the balance sheet. Further proposals include a reduction in the rate of capital allowances applicable to plant and machinery expenditure from 25% to 20% per annum on a reducing basis, along with other changes impacting the allowances applicable to certain long life assets. The effect of these proposed changes to the UK tax system will be reflected in the financial statements for the year ending 31 March 2008.

5. Discontinued operations

On 3 August 2006 and 6 December 2006 respectively, the Group announced the completion of the sale of certain assets and liabilities of the Automotive and Machine Tools businesses. Both businesses had been treated as discontinued operations in the financial statements to 31 March 2006 and had accordingly been classified as held for sale in last year's balance sheet. It was explained last year that these transactions were in line with the Board's strategy to focus on the Group's core activity of manufacture and sale of Industrial Power Transmission products.

The major classes of assets and liabilities sold and the associated consideration are analysed below:

Assets and liabilities disposed other than cash:	Automotive £m	Machine Tools £m	Total £m
Property, plant and equipment	6.2	0.5	6.7
Inventories	7.2	7.8	15.0
Trade and other receivables	6.6	5.3	11.9
Trade and other payables	(9.2)	(6.1)	(15.3)
Provisions	(0.5)	–	(0.5)
Retirement benefit obligations	(0.6)	–	(0.6)
Total net assets disposed	9.7	7.5	17.2
Cash and cash equivalents relating to the disposals:			
Net cash consideration	3.4	3.7	7.1
Consideration outstanding	(1.0)	–	(1.0)
Cash transferred with business	–	(0.7)	(0.7)
Net cash inflow relating to disposals	2.4	3.0	5.4

Deferred consideration of £1.5 million on the Machine Tools disposal has not been recognised in these financial statements and will only be recognised when there is greater certainty of recovery.

5. Discontinued operations continued

The results attributable to the discontinued operations are set out below. The operating results for 2006 are for a 12 month period; for 2007 the results are for the periods up to the respective dates of disposal.

	2007 Automotive £m	**2007 Machine tools £m**	**2007 Total discontinued £m**	2006 Automotive £m	2006 Machine tools £m	2006 Total discontinued £m
External revenue	**16.3**	**12.8**	**29.1**	49.3	20.8	70.1
Operating (loss)/profit before exceptional items	**(2.2)**	**(1.3)**	**(3.5)**	(1.6)	0.1	(1.5)
Redundancy, restructuring and other exceptional items	**1.0**	**0.7**	**1.7**	0.7	(0.2)	0.5
Operating (loss)	**(1.2)**	**(0.6)**	**(1.8)**	(0.9)	(0.1)	(1.0)
Bank interest	**(0.1)**	**(0.1)**	**(0.2)**	(0.3)	(0.1)	(0.4)
(Loss) before tax	**(1.3)**	**(0.7)**	**(2.0)**	(1.2)	(0.2)	(1.4)
Taxation	**–**	**–**	**–**	0.5	(0.2)	0.3
(Loss) after tax	**(1.3)**	**(0.7)**	**(2.0)**	(0.7)	(0.4)	(1.1)
Adjustments to fair value less costs to sell and losses on disposal	**(6.2)**	**(4.6)**	**(10.8)**	(9.1)	(3.7)	(12.8)
Taxation (Note 4)	**(0.7)**	**–**	**(0.7)**	–	–	–
	(6.9)	**(4.6)**	**(11.5)**	(9.1)	(3.7)	(12.8)
(Loss) for the year on discontinued operations	**(8.2)**	**(5.3)**	**(13.5)**	(9.8)	(4.1)	(13.9)

Discontinued exceptional items:
Within Automotive the exceptional item of £1.0 million represents the release of provisions that were effectively extinguished as a result of the disposal transaction. In Machine Tools the £0.7 million represents curtailment gains attributed to operations in the UK (see employment costs below). In the prior year the exceptional amounts represented the release of surplus provisions and redundancy costs respectively.

Discontinued employment costs comprise:

	2007 £m	2006 £m
Gross wages and salaries	**8.8**	18.1
Social security costs	**2.2**	4.8
Gain arising on pension curtailment	**(0.7)**	(0.3)
	10.3	22.6

The cash flows attributed to discontinued operations comprise:

	2007 £m	2006 £m
From operating activities	**(4.7)**	1.7
From investing activities	**(1.7)**	(2.8)
From financing activities	**(1.6)**	(0.5)

5. Discontinued operations continued

Set out below is a summary of the net assets of the discontinued operations at 31 March 2006:

	Automotive £m	Machine Tools £m	2006 Total £m
Non-current assets			
Property, plant and equipment	4.7	0.5	5.2
Current assets			
Inventory	7.2	7.4	14.6
Trade and other receivables	10.7	6.6	17.3
	22.6	14.5	37.1

The net liabilities directly associated with assets of the discontinued operations were:

	Automotive £m	Machine Tools £m	2006 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)

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:

	Earnings £m	**2007 Weighted average number of shares Thousands**	**Per-share amount Pence**	Earnings £m	2006 Weighted average number of shares Thousands	Per-share amount Pence
Basic EPS						
Earnings attributed to ordinary shareholders	**(12.7)**	**69,501**	**(18.3)**	(13.6)	69,350	(19.6)
Effect of dilutive securities:						
Employee share options	**–**	**569**	**0.2**	–	63	–
Diluted EPS	**(12.7)**	**70,070**	**(18.1)**	(13.6)	69,413	(19.6)
Earnings per share from continuing operations:						
Basic EPS	**(12.7)**	**69,501**	**(18.3)**	(13.6)	69,350	(19.6)
Post tax loss/(profit) from discontinued operations (Note 5)	**2.0**		**2.9**	1.1		1.6
Adjustments to fair value less costs to sell and losses on disposal (Note 5)	**11.5**		**16.6**	12.8		18.4
Basic EPS from continuing operations	**0.8**	**69,501**	**1.2**	0.3	69,350	0.4

Inclusion of the dilutive securities shown above does not change the amount shown for basic EPS from continuing operations.

Notes to the Consolidated Financial Statements *continued*

6. Earnings per share continued

	2007 Earnings £m	2007 Weighted average number of shares Thousands	2007 Per-share amount Pence	2006 Earnings £m	2006 Weighted average number of shares Thousands	2006 Per-share amount Pence
Earnings per share from discontinued operations						
Basic EPS						
Post tax (loss)/profit from discontinued operations (Note 5)	**(2.0)**	**69,501**	**(2.9)**	(1.1)	69,350	(1.6)
Adjustments to fair value less costs to sell and losses on disposal (Note 5)	**(11.5)**		**(16.6)**	(12.8)		(18.4)
Basic EPS from discontinued operations	**(13.5)**	**69,501**	**(19.5)**	(13.9)	69,350	(20.0)

Inclusion of the dilutive securities, shown above, changes the amounts shown for basic EPS for discontinued operations to (19.3p) (2006 – unchanged at (20.0p)).

	2007 Earnings £m	2007 Weighted average number of shares Thousands	2007 Per-share amount Pence	2006 Earnings £m	2006 Weighted average number of shares Thousands	2006 Per-share amount Pence
Adjusted EPS for continuing activities						
Basic EPS from continuing operations	**0.8**	**69,501**	**1.2**	0.3	69,350	0.4
Effect of exceptional items, after tax:						
PACE restructuring initiatives	**4.7**		**6.8**			
Redundancy and restructuring costs	**0.3**		**0.4**	0.9		1.3
Adjusted EPS	**5.8**	**69,501**	**8.4**	1.2	69,350	1.7

Inclusion of the dilutive securities, shown above, in the calculation of adjusted EPS changes the amount shown to 8.3p (2006 – unchanged at 1.7p).

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

No ordinary dividend payments were paid or proposed in either the current or prior year.

8. Intangible assets

	Goodwill £m	Computer software £m	Total £m
Cost			
At 1 April 2006	17.1	1.8	18.9
Exchange adjustment	(1.9)	(0.1)	(2.0)
Additions	–	0.5	0.5
At 31 March 2007	**15.2**	**2.2**	**17.4**
Accumulated amortisation			
1 April 2006	–	1.6	1.6
Exchange adjustment	–	0.1	0.1
Amortisation charge	–	(0.1)	(0.1)
At 31 March 2007	**–**	**1.6**	**1.6**
Net book amount at 31 March 2007	**15.2**	**0.6**	**15.8**
Net book amount at 31 March 2006	17.1	0.2	17.3

8. Intangible assets continued

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	–	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	–	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

"Amortisation charge" in 2005/06 includes £0.2 million in respect of discontinued operations.

At 31 March 2007 and 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 2006/07 no impairment charge has been recognised in the period (2006 – nil).

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 cash flows derived from detailed financial plans for the next financial period and strategic forecasts thereafter for a total period of five years. A terminal value is recognised based on a constant cash flow into perpetuity. 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 plan at a growth rate of 3.1% (2006 – 3.1%) which is the long-term growth rate published by the OECD for the territory in which Jeffrey Chain is based. A discount rate of 11.1% (2006 – 10.2%) has been used representing the Group's estimated weighted average cost of capital.

9. Property, plant and equipment

Cost	Land and buildings £m	Plant and equipment £m	Total £m
At 1 April 2006	21.0	89.2	110.2
Exchange adjustment	(0.7)	(2.7)	(3.4)
Additions [1]	0.1	5.2	5.3
Transfer to investment property (Note 10)	(1.7)	–	(1.7)
Disposals [1]	–	(4.1)	(4.1)
Reclassification	0.1	(0.1)	–
Transfers [2]	–	1.0	1.0
At 31 March 2007	**18.8**	**88.5**	**107.3**
Aggregate depreciation			
At 1 April 2006	1.8	70.2	72.0
Exchange adjustment	–	(2.0)	(2.0)
Charge for the year	0.3	4.4	4.7
Transfer to investment property (Note 10)	(0.1)	–	(0.1)
Disposals	–	(2.3)	(2.3)
Transfers [2]	–	1.0	1.0
At 31 March 2007	**2.0**	**71.3**	**73.3**
Net book amount at 31 March 2007	**16.8**	**17.2**	**34.0**
Net book amount at 31 March 2006	19.2	19.0	38.2

[1] Additions includes £1.5 million in respect of discontinued operations. Following the sale of the discontinued businesses, this amount is also recorded as a component of disposals.

[2] Prior to sale of discontinued businesses, plant and equipment with a net book amount of £nil (cost £1 million; depreciation £1 million) was transferred from amounts previously classified within assets of discontinued operations.

9. Property, plant and equipment continued

	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 in respect of discontinued operations.

[2] "Charge for the year" includes £3.0 million in respect of discontinued operations.

Net book amount for plant and equipment includes £0.4 million (2006 – £0.5 million) in respect of assets acquired under finance leases.

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 2007 capital expenditure contracted for but not provided for in these accounts amounted to £0.1 million (2006 – £0.1 million).

10. Investment property

	£m
Cost	
Transferred from property, plant and equipment (Note 9)	1.7
As at 31 March 2007	**1.7**

	£m
Aggregate depreciation	
Transferred from property, plant and equipment (Note 9)	0.1
Charge for the year	–
As at 31 March 2007	**0.1**
Net book amount at 31 March 2007	**1.6**

Under the terms of the Sale and Purchase Agreement, related to the disposal of the Automotive business, the ownership of the former Automotive property in Calais, France, has been retained by the Group. With effect from the date of disposal of the Automotive business on 3 August 2006, the Calais property was transferred from "property" to "investment property". Under the respective Agreement the Group and the purchaser have entered into a rental arrangement that enables the purchaser to continue manufacturing operations at that facility.

There are two rental agreements, the first for one year from the date of disposal and the second for the subsequent nine years but this later agreement is terminable by the tenant at the end of each three year period. The rental income recognised in the period was £0.2 million. The total future minimum lease payments under the non-cancellable term amount to £0.8 million and of this £0.2 million is due in the next financial year and £0.6 million is due in the period after one year but not later than five years from the balance sheet date.

In view of this specific arrangement, the property has been accounted for on a cost model basis. The most recent valuation of the Calais property was conducted in June 2005 by Colliers CRE, Chartered Surveyors and International Property Consultants. At that date the fair value of the property was assessed at £1.7 million. The directors are not aware of any circumstances that have arisen to materially alter that external valuation.

11. Inventories

	2007 £m	2006 £m
Materials	**5.2**	6.6
Work in progress	**6.8**	8.1
Finished products	**21.1**	21.8
	33.1	36.5

Inventories pledged as security for liabilities amounted to £17.0 million (2006 – £21.3 million).

Write-offs taken to the income statement amount to £1.1 million (2006 – £0.5 million). In addition an exceptional charge of £2.7 million has been made in the year as described in Note 2(c).

12. Trade and other receivables

	2007 Current £m	**2007 Non-current £m**	2006 Current £m	2006 Non-current £m
Trade receivables	**26.7**	**–**	24.6	–
Less: provision for impairment of receivables	**(0.5)**	**–**	(0.6)	–
Trade receivables – net	**26.2**	**–**	24.0	–
Other receivables	**2.5**	**0.2**	0.8	0.2
Prepayments and accrued income	**1.4**	**0.2**	1.0	0.1
	30.1	**0.4**	25.8	0.3

The Group has recognised a loss of £0.1 million (2006 – £0.1 million) for the impairment of its trade receivables during the year. The Group has no significant concentration of credit risk.

13. Cash and cash equivalents

	2007 **£m**	2006 £m
Cash at bank and in hand	**15.2**	8.7
Short-term bank deposits	**5.1**	4.8
Cash equivalents	**–**	4.3
Cash and cash equivalents	**20.3**	17.8

Cash equivalents comprise highly liquid investments with original 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:

	2007 **£m**	2006 £m
Cash and cash equivalents (as shown above)	**20.3**	17.8
Less: Overdrafts (Note 15)	**(4.9)**	(8.2)
Net cash and cash equivalents	**15.4**	9.6

14. Asset held for sale

	2007 **£m**	2006 £m
Property	**3.4**	3.4

The asset held for sale is the former chain manufacturing facility located at Burton-upon-Trent. In the interim statement it was noted that the initial planning application for the redevelopment of the Burton site was rejected. A revised application has been submitted and a planning decision is expected early in the next financial period.

15. Borrowings

	2007 **£m**	2006 £m
Amounts falling due within one year:		
Overdrafts	**4.9**	8.2
Bank loans	**2.8**	4.1
Obligations under finance leases	**0.1**	0.1
	7.8	12.4
Amounts falling due after more than one year:		
Bank loans	**31.2**	25.2
Obligations under finance leases	**0.2**	0.4
	31.4	25.6
Preference shares	**0.5**	0.5
	31.9	26.1
Total borrowings (Note 26(e))	**39.7**	38.5

Secured borrowings:
Included in Group borrowings are secured borrowings of £38.1 million (2006 – £31.6 million). Security is provided by fixed and floating charges over UK assets and the assets of certain overseas subsidiaries.

15. Borrowings continued

Finance leases:

	2007 £m	2006 £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	**0.3**	0.5
Total gross payments	**0.4**	0.6
Less: Finance charges allocated to future periods	**(0.1)**	(0.1)
	0.3	0.5
Allocated as:		
Current obligations	**0.1**	0.1
Non-current obligations	**0.2**	0.4
	0.3	0.5

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.

There is no significant difference between the carrying value of financial liabilities and their equivalent fair values.

16. Trade and other payables

	2007 Current £m	2007 Non-current £m	2006 Current £m	2006 Non-current £m
Trade payables	**20.3**	**–**	17.8	–
Other tax and social security	**2.7**	**–**	2.9	–
Other payables	**3.6**	**–**	3.5	–
Accruals and deferred income	**9.5**	**1.2**	7.1	0.7
	36.1	**1.2**	31.3	0.7

17. Provisions

	PACE restructuring initiative £m	Business restructuring £m	Other provisions £m	Total provisions £m
At beginning of year	–	0.4	–	0.4
Amount previously reported within liabilities associated with discontinued operations	–	–	0.7	0.7
Net charge to income statement	2.9	0.3	2.4	5.6
Utilised in year	(1.2)	(0.3)	–	(1.5)
At end of year	**1.7**	**0.4**	**3.1**	**5.2**

PACE restructuring initiatives
As explained in Note 2(c) the Group is reorganising its manufacturing and distribution facilities. This initiative includes significant changes in the manufacturing footprint, through the migration to low cost countries, and associated changes in the direct labour headcount. The process is under way and the substantial part of the provision remaining at 31 March 2007 will be expended in 2007/08.

Business restructuring
This provision relates to the reorganisation and restructuring of a UK based business and will be completed within the next financial year.

Other provisions
Provisions have been retained in respect of former discontinued operations, including environmental reinstatement works and employment related liabilities. Whilst it is anticipated that the provisions will be utilised within the following year, the actual timing remains uncertain pending agreement of remedial actions with the purchaser.

18. Deferred tax

	Assets		Liabilities		Net	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Continuing operations						
Accelerated capital allowances	**2.8**	2.3	**(1.8)**	(0.9)	**1.0**	1.4
Pension plans	**11.0**	12.6	**0.1**	0.1	**11.1**	12.7
Tax losses	**3.8**	3.2	**0.2**	0.2	**4.0**	3.4
Other temporary differences	**(0.2)**	0.3	**0.2**	(0.1)	**–**	0.2
Tax asset/(liabilities)	**17.4**	18.4	**(1.3)**	(0.7)	**16.1**	17.7
Net off (liabilities)/assets	**(1.3)**	(0.7)	**1.3**	0.7	**–**	–
Net tax assets	**16.1**	17.7	**–**	–	**16.1**	17.7
Discontinued operations						
Other temporary differences	**–**	–	**–**	(0.2)	**–**	(0.2)
Net tax liabilities	**–**	–	**–**	(0.2)	**–**	(0.2)
Total net tax assets	**16.1**	17.7	**–**	(0.2)	**16.1**	17.5

The net deferred tax asset recoverable after more than one year is £16.1 million (2006 – £17.5 million).

18. Deferred tax continued

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

2007

	Opening balance £m	Exchange adjustments £m	Recognised in income statement £m	Recognised directly in equity £m	Closing balance £m
Accelerated capital allowances	2.3	–	0.5	–	**2.8**
Pension plans	12.6	(0.1)	(0.4)	(1.1)	**11.0**
Tax losses	3.2	(0.1)	0.7	–	**3.8**
Other temporary differences	0.3	–	(0.4)	(0.1)	**(0.2)**
	18.4	(0.2)	0.4	(1.2)	**17.4**

2006

	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 temporary 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:

2007

	Opening balance £m	Recognised in income statement £m	Closing balance £m
Accelerated capital allowances	(0.9)	(0.9)	**(1.8)**
Pension plans	0.1	–	**0.1**
Tax losses	0.2	–	**0.2**
Other temporary differences	(0.3)	0.5	**0.2**
	(0.9)	(0.4)	**(1.3)**

2006

	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 temporary differences	–	(0.3)	(0.3)
	(1.4)	0.5	(0.9)

During the year the Group has reported an operating profit of £9.8 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 £8.0 million (2006 – £6.1 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.

19. Pensions

The Group operates a number of pension plans 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 plans are funded plans 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 plan and membership is available to all new employees, the main defined benefit plans having been closed to new employees in 2002. As a result of the Plans' closure the age profile of the active membership is increasing, and consequently current service cost is likely to increase, as members of the Plans 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 plans 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 advisers to the Group.

For all defined benefit plans operated by the Group the disclosures in the accounts are based on the most recent actuarial valuations. Where material, these have been updated to the balance sheet date by qualified independent actuaries. The disclosures provided below are presented on a weighted average basis where appropriate.

The principal financial assumptions used to calculate plan liabilities as at 31 March 2007 are presented below. The assumptions adopted by the plans' 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	
	2007	2006	**2007**	2006
Rate of increase in pensionable salaries	**3.6%**	3.4%	**3.8%**	2.9%
Rate of increase in pensions in payment and deferred pensions	**3.0%**	2.8%	**2.4%**	1.8%
Discount rate	**5.4%**	5.0%	**5.8%**	5.2%
Inflation assumption	**3.1%**	2.9%	**2.7%**	2.2%
Expected return on plan assets	**6.5%**	6.3%	**8.0%**	8.0%

Plan assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of plan assets.

The predominant defined benefit obligation for funded plans within the Group resides in the UK (£192.5 million of the £209.5 million Group obligation for funded plans). In addition to the assumptions shown above, mortality assumptions have a significant bearing on the calculated obligation. The assumed life expectations for the Renold Group Pension Scheme on retirement at age 65 are as follows (different rates apply for the Renold Supplementary Pension Scheme 1967 and the Jones & Shipman Retirement Benefit Scheme (1971)).

	2007	2006
Retiring today		
Males	**17.0**	17.0
Females	**20.5**	20.5
Retiring in 20 years		
Males	**19.1**	19.1
Females	**22.0**	22.0

The post-retirement mortality tables used for the plan are the PA92 series tables published by the UK Actuarial Profession. The mortality rates for the Renold Group Pension Scheme (which represents approximately 2/3rds of the UK defined benefit obligation) are based on projections to calendar year 2020 for non-pensioners and 2004 for current pensioners. However, the mortality rates used are 110% of the standard rates for non-pensioners and female pensioners and 120% for male pensioners. The effect of this adjustment is to reduce life expectancy in line with the results of a mortality experience review carried out at the time of the last valuation. It can be noted that the assumed life expectancy is longer for the other two UK defined benefit plans.

19. Pensions continued

Sensitivity analysis

Assumption	Change in assumption	Impact on plan liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 7.5%
Rate of inflation*	Increase/decrease by 0.5%	Increase/decrease by 5.5%
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by 1.6%
Rate of mortality	Increase by 1 year**	Increase by 3.8%

* Assuming assumption for real salary growth unchanged.

** Calculated using a reduction to assumed mortality rates of 12.5% at all ages. This is broadly equivalent to an increase in life expectancy of 1 year at age 65.

The expected long-term rates of return and market values of assets of the principal defined benefit plans of the Group, together with the present value of plan liabilities, are shown below. It should be noted that the market values of the plans' 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 plans' liabilities are derived from cash flow projections over long periods and are thus inherently uncertain.

The fair values of plan assets were:

	UK		Overseas		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Equities	**78.6**	78.2	**7.5**	9.2	**86.1**	87.4
Bonds	**85.8**	84.5	**3.8**	3.8	**89.6**	88.3
Other	**–**	–	**3.8**	2.5	**3.8**	2.5
Total market value of assets	**164.4**	162.7	**15.1**	15.5	**179.5**	178.2
Present value of plan liabilities	**(192.5)**	(195.6)	**(35.0)**	(36.5)	**(227.5)**	(232.1)
Deficits in plans	**(28.1)**	(32.9)	**(19.9)**	(21.0)	**(48.0)**	(53.9)

Pension commitments

Pension obligations:

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

		2007			2006	
	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Opening obligation	**(195.6)**	**(36.5)**	**(232.1)**	(177.2)	(30.8)	(208.0)
Current service cost	**(2.1)**	**(0.7)**	**(2.8)**	(2.1)	(0.7)	(2.8)
Interest cost	**(9.6)**	**(1.5)**	**(11.1)**	(9.5)	(1.7)	(11.2)
Contributions by plan participants	**(0.7)**	**(0.2)**	**(0.9)**	(0.8)	(0.2)	(1.0)
Actuarial gains and losses	**4.5**	**(0.9)**	**3.6**	(15.2)	(6.3)	(21.5)
Gains on curtailments	**0.7**	**0.1**	**0.8**	0.1	0.3	0.4
Liabilities extinguished on settlements	**–**	**–**	**–**	1.0	–	1.0
Benefits paid	**10.3**	**1.7**	**12.0**	8.1	2.3	10.4
Exchange adjustment	**–**	**3.0**	**3.0**	–	(1.1)	(1.1)
Relating to disposal groups	**–**	**–**	**–**	–	1.7	1.7
Closing obligation	**(192.5)**	**(35.0)**	**(227.5)**	(195.6)	(36.5)	(232.1)

In 2006 "Interest cost" included £0.1 million in respect of discontinued operations.

The total defined benefit obligation can be analysed as follows:

	UK £m	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Obligations related to funded pension plans	**(192.5)**	**(17.0)**	**(209.5)**	(195.6)	(17.9)	(213.5)
Obligations related to unfunded pension plans	**–**	**(18.0)**	**(18.0)**	–	(18.6)	(18.6)
	(192.5)	**(35.0)**	**(227.5)**	(195.6)	(36.5)	(232.1)

19. Pensions continued

Pension assets:

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

	2007 UK £m	2007 Overseas £m	2007 Total £m	2006 UK £m	2006 Overseas £m	2006 Total £m
Opening assets	**162.7**	**15.5**	**178.2**	142.4	12.4	154.8
Expected return on plan assets	**10.1**	**1.1**	**11.2**	9.1	1.0	10.1
Actuarial gains and losses	**(3.5)**	**0.8**	**(2.7)**	14.5	1.7	16.2
Assets distributed on settlement	**–**	**–**	**–**	(0.9)	–	(0.9)
Contributions by the employer	**4.7**	**0.7**	**5.4**	4.9	0.6	5.5
Contributions by plan participants	**0.7**	**0.2**	**0.9**	0.8	0.2	1.0
Benefits paid	**(10.3)**	**(0.8)**	**(11.1)**	(8.1)	(1.3)	(9.4)
Exchange adjustment	**–**	**(2.4)**	**(2.4)**	–	0.9	0.9
Closing assets	**164.4**	**15.1**	**179.5**	162.7	15.5	178.2
Balance sheet reconciliation:						
Plan obligations	**(192.5)**	**(35.0)**	**(227.5)**	(195.6)	(36.5)	(232.1)
Plan assets	**164.4**	**15.1**	**179.5**	162.7	15.5	178.2
Retirement benefit obligation	**(28.1)**	**(19.9)**	**(48.0)**	(32.9)	(21.0)	(53.9)

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

	2007 £m	2006 £m
Actuarial gains and (losses) arising on plan obligations	**3.6**	(21.5)
Actuarial gains and (losses) arising on plan assets	**(2.7)**	16.2
Net actuarial gains and losses	**0.9**	(5.3)

In 2006 "Actuarial gains and losses arising on plan obligations" included a gain of £0.1 million relating to discontinued operations.

The actual return on plan assets was £8.5 million (2006 – £26.3 million).

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

	2007 £m	2006 £m
Operating costs – continuing		
Current service cost	**(2.8)**	(2.8)
Gains on curtailments	**0.1**	0.1
Liabilities extinguished on settlements	**–**	1.0
Assets distributed on settlements	**–**	(0.9)
	(2.7)	(2.6)
Amounts relating to discontinued operations		
Gains on curtailments	**0.7**	0.3
Total cost of retirement benefits	**(2.0)**	(2.3)

19. Pensions continued

History of experience gains and losses

	UK		
	2007	2006	2005
Experience adjustments arising on plan assets			
Amount (£m)	**(3.5)**	14.5	3.3
Percentage of plan assets	**2.1%**	8.9%	2.3%
Experience adjustments arising on plan liabilities			
Amount (£m)	**4.5**	(15.2)	(20.4)
Percentage of present value of plan liabilities	**2.3%**	7.8%	11.5%
Present value of plan liabilities (£m)	**(192.5)**	(195.6)	(177.2)
Fair value of plan assets (£m)	**164.4**	162.7	142.4
Deficit (£m)	**(28.1)**	(32.9)	(34.8)

	Overseas		
	2007	2006	2005
Experience adjustments arising on plan assets			
Amount (£m)	**0.8**	1.7	1.2
Percentage of plan assets	**5.3%**	11.0%	9.7%
Experience adjustments arising on plan liabilities			
Amount (£m)	**(0.9)**	(6.3)	–
Percentage of present value of plan liabilities	**2.6%**	17.3%	–
Present value of plan liabilities (£m)	**(35.0)**	(36.5)	(30.8)
Fair value of plan assets (£m)	**15.1**	15.5	12.4
Deficit (£m)	**(19.9)**	(21.0)	(18.4)

	Total		
	2007	2006	2005
Experience adjustments arising on plan assets			
Amount (£m)	**(2.7)**	16.2	4.5
Percentage of plan assets	**1.5%**	9.1%	2.9%
Experience adjustments arising on plan liabilities			
Amount (£m)	**3.6**	(21.5)	(20.4)
Percentage of present value of plan liabilities	**1.6%**	9.3%	9.8%
Present value of plan liabilities (£m)	**(227.5)**	(232.1)	(208.0)
Fair value of plan assets (£m)	**179.5**	178.2	154.8
Deficit (£m)	**(48.0)**	(53.9)	(53.2)

The cumulative amount of actuarial losses recognised in equity since 4 April 2004 was £20.3 million (2006 – £21.2 million). Of this amount £nil (2006 – £nil) related to discontinued operations. The Group expects to contribute approximately £5.3 million (2006 – £5.7 million) to defined benefit plans in the year to 31 March 2008.

As a result of the deficits in the main UK plans, 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 plan, £0.7 million to the RSPS plan and £0.2 million to the Jones & Shipman plan over the average remaining service lives of members, being fifteen, twelve and fifteen years respectively.

The Group operates a number of defined contribution plans. The cost for the period was £0.7 million (2006 – £0.5 million). There were outstanding contributions in creditors of £nil (2006 – £nil) at the balance sheet date.

20. Called up share capital

	Authorised		Issued	
	2007	2006	**2007**	2006
Equity interests				
Ordinary shares of 25p each	**23.1**	23.1	**17.4**	17.4

At 31 March 2007 the issued Ordinary Share Capital comprised 69,659,807 (2006 – 69,429,220) ordinary shares of 25p each. During the year the Company issued 230,587 (2006 – 93,810) ordinary shares of 25p each for a cash consideration of £138,192 (2006 – £51,671) by the exercise of options under the Executive and the Savings Related Share Option Schemes.

21. 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 2007 unexercised options for ordinary shares amounted to 3,698,762 (2006 – 3,591,299).

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

	2007			2006
	Executive Share Option Scheme			Savings Related Scheme
Grant date	**26.7.06**	**30.11.06**	**2.1.07**	24.1.2006
Share price at date of grant	**62p**	**106.5p**	**119p**	62.0p
Exercise price	**61.6p**	**100.1p**	**114.2p**	54.3p
Number of employees	**12**	**1**	**9**	198
Shares under option	**535,000**	**120,000**	**360,000**	999,779
Vesting period (years)	**3**	**3**	**3**	3
Expected volatility	**29.1%**	**29.5%**	**30.3%**	29.9%
Option life (years)	**10**	**10**	**10**	3.5
Expected life (years)	**6**	**6**	**6**	3.1
Risk free interest rate	**4.7%**	**4.9%**	**5.2%**	4.2%
Assumed dividends expressed as a dividend yield	**1.7%**	**0.9%**	**0.9%**	4.0%
Possibility of ceasing employment before vesting	**8%**	**zero**	**zero**	3%
Fair value per option	**19.4p**	**39.8p**	**44.9p**	14.6p

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 2007 is shown below:

Executive share option scheme

	2007		2006	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 April	**2,186,849**	**98.68p**	2,653,678	99.14p
Granted	**1,015,000**	**84.81p**	–	–
Lapsed	**(127,307)**	**155.19p**	(383,829)	105.48p
Forfeited	**(98,000)**	**82.14p**	(83,000)	74.00p
Exercised	**(145,000)**	**63.07p**	–	–
Outstanding at 31 March	**2,831,542**	**93.79p**	2,186,849	98.98p
Exercisable at 31 March	**223,202**	**128.71p**	90,000	62.67p

Savings related share option scheme

	2007		2006	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 April	**1,404,450**	**54.53p**	672,594	61.31p
Granted	**–**	**–**	999,779	54.30p
Lapsed	**(222,088)**	**55.06p**	(146,208)	83.76p
Forfeited	**(229,555)**	**54.35p**	(27,905)	83.76p
Exercised	**(85,587)**	**54.61p**	(93,810)	55.08p
Outstanding at 31 March	**867,220**	**54.43p**	1,404,450	54.53p
Exercisable at 31 March	**36,090**	**54.54p**	238,473	55.08p

21. Share-based payments continued

Executive share option scheme

	2007				2006			
Range of exercise prices	Weighted average exercise price	Number of shares	Weighted average remaining life Expected	Contractual	Weighted average exercise price	Number of shares	Weighted average remaining life Expected	Contractual
58.5p to 74.3p	**63.34p**	**1,055,000**	**4.5**	**7.5**	64.35p	813,000	2.7	6.7
76.5p to 94.5p	**84.89p**	**890,000**	**4.1**	**7.1**	84.87p	905,000	4.1	8.1
100.1p to 120.0p	**112.0p**	**577,500**	**5.7**	**8.7**	118.5p	97,500	0.3	4.3
137.83p to 242.67p	**189.36p**	**309,042**	**–**	**1.7**	204.03p	371,349	–	2.3

Savings related share option scheme

	2007				2006			
Range of exercise prices	Weighted average exercise price	Number of shares	Weighted average remaining life Expected	Contractual	Weighted average exercise price	Number of shares	Weighted average remaining life Expected	Contractual
54.3p to 89.36p	**54.43p**	**867,220**	**2.8**	**3.1**	54.53p	1,404,450	2.4	2.6

The weighted average share price during the period for options exercised over the year was 111.07p (2006 – 59.14p). The total charge for the year relating to employee share-based payment plans was £110,000 (2006 – £158,000), all of which related to equity-settled share-based transactions. After deferred tax, the total charge was £110,000 (2006 – £180,000).

22. Analysis of changes in shareholders' equity

	Share capital £m	Share premium account £m	Retained earnings £m	Currency translation reserve £m	Total equity £m
At 1 April 2005	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
As at 31 March 2006	17.4	6.0	14.5	2.7	40.6
Loss for the year	–	–	(12.7)	–	(12.7)
Foreign exchange translation differences	–	–	–	(4.8)	(4.8)
Actuarial gains and losses	–	–	0.9	–	0.9
Gains on fair value of hedging net investments in foreign operations	–	–	–	0.9	0.9
Tax on items recognised directly in equity	–	–	(1.2)	–	(1.2)
Share premium	–	0.1	–	–	0.1
Employee share options:					
– value of employee services	–	–	0.1	–	0.1
At 31 March 2007	**17.4**	**6.1**	**1.6**	**(1.2)**	**23.9**

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of foreign operations and 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 2007, subsequent to the capital reorganisation in January 1985, amounted to £2.0 million (2006 – £2.0 million).

Included in retained earnings is an amount of £10.3 million (net of tax) (2006 – £11.0 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.

23. Operating lease obligations

At the end of the year there were the following minimum rental commitments under non-cancellable operating leases:

	2007		2006		
	Properties Continuing	**Equipment Continuing**	Properties Continuing (restated)	Properties Discontinued	Equipment Continuing
	£m	**£m**	£m	£m	£m
Within one year	**2.1**	**0.4**	1.7	0.2	0.4
Between two and five years	**6.5**	**0.7**	5.6	0.7	0.7
Over five years	**17.2**	**–**	17.8	0.2	0.1
	25.8	**1.1**	25.1	1.1	1.2

Certain of the leased properties have been sublet and the future minimum sublease payments expected to be received under non-cancellable sublease agreements is £0.8 million (2006 – £0.9 million). The 2006 comparative amount has been restated to show an existing property lease not previously included.

24. Contingent liabilities

Performance guarantees given to third parties in respect of Group companies were £3.9 million (2006 – £2.9 million).

25. Additional cash flow information

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

	2007 £m	2006 £m
Cash generated from operations:		
Continuing operations:		
Profit before taxation	**1.4**	1.8
Depreciation and amortisation	**4.9**	5.4
Loss on plant and equipment disposals	**0.1**	–
Equity share plans	**0.1**	0.2
Net finance costs	**2.5**	3.6
Decrease/(increase) in inventories	**1.2**	(1.8)
(Increase) in receivables	**(2.3)**	(0.4)
Increase in payables	**4.1**	2.7
Increase/(decrease) in provisions	**1.7**	(2.7)
Movement on pension plans	**(3.5)**	(3.8)
Movement in derivative financial instruments	**0.1**	(0.3)
Cash generated from continuing operations	**10.3**	4.7
Discontinued operations		
(Loss) before taxation	**(2.0)**	(1.4)
Depreciation and amortisation	**–**	3.1
Plant and equipment impairment	**–**	0.8
Loss/(gain) on plant and equipment disposals	**0.2**	(0.1)
Net finance costs	**0.2**	0.4
(Increase) in inventories	**(0.3)**	(0.6)
Decrease in receivables	**2.2**	0.2
(Decrease)/increase in payables	**(2.0)**	5.3
(Decrease) in provisions	**(1.2)**	(5.7)
Movement on pension plans	**(1.8)**	(0.3)
Cash (absorbed)/generated by discontinued operations	**(4.7)**	1.7
Cash generated from operations	**5.6**	6.4

25. Additional cash flow information continued

Reconciliation of net increase in cash and cash equivalents to movement in net debt:

	2007 £m	2006 £m
Increase in cash and cash equivalents	**6.2**	4.6
Change in net debt resulting from cash flows	**(6.1)**	(6.9)
Finance lease inception	**(0.2)**	–
Foreign currency translation differences	**1.4**	(0.9)
Change in net debt during the period	**1.3**	(3.2)
Net debt at start of year	**(20.7)**	(17.5)
Net debt at end of year	**(19.4)**	(20.7)
Net debt comprises:		
Cash and cash equivalents	**20.3**	17.8
Total borrowings (Note 15)	**(39.7)**	(38.5)
	(19.4)	(20.7)

26. Financial instruments

These notes should be read in conjunction with the narrative disclosures in the Financial Review on pages 11 and 12.

(a) The balance sheet position on financial instruments is set out below:

	2007 £m	2006 £m
Current assets:		
Forward foreign currency contracts – cash flow hedge	**–**	0.2
Current liabilities:		
Forward foreign currency contracts – cash flow hedge	**(0.1)**	–
Non-current liabilities:		
Interest rate swaps	**–**	(0.1)

(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 2007 was $9.4 million and £Nil (1 April 2006 – $14.4 million and £0.5 million).

At 31 March 2007 the fixed interest rate was 7.0% (1 April 2006 – rates varied from 8.3% to 11.0%) and floating rate was 6.6% (US LIBOR plus 125 basis points).

(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 carrying value of the dollar borrowings at 31 March 2007 was £6.4 million (1 April 2006 – £5.4 million). A foreign exchange gain of £0.9 million (2006 – loss of £0.5 million) on translation of the borrowings into sterling is included as a part of the hedging reserve movement. Gains or losses on the retranslation of this borrowing are transferred to equity to offset any gains or losses on translation of the net investment in the USA subsidiaries.

26. 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
2007					
Sterling					
– Financial liabilities	**7.1**	**4.0**	**0.3**	**14.2**	**14.5**
– Preference shares	**6.0**	*****	**0.5**	**–**	**0.5**
US Dollar	**7.0**	**2.8**	**6.6**	**3.6**	**10.2**
Euro	**–**	**–**	**–**	**12.6**	**12.6**
Other	**8.1**	**0.3**	**0.2**	**1.7**	**1.9**
			7.6	**32.1**	**39.7**
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

* 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.

The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest risk.

(f) Currency and interest rate profile of financial assets at 31 March 2007

Currency	**2007**			2006		
	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	**6.5**	**–**	**6.5**	1.6	–	1.6
Euro	**3.3**	**5.1**	**8.4**	5.5	4.8	10.3
Other	**5.4**	**–**	**5.4**	5.9	–	5.9
	15.2	**5.1**	**20.3**	13.0	4.8	17.8

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.

26. 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:

	2007 Total debt £m	2006 Total debt £m
In one year or less, or on demand	**7.8**	12.3
In more than one year but not more than two years	**2.2**	21.7
In more than two years but not more than five years	**27.9**	2.1
In more than five years	**1.8**	2.4
	39.7	38.5

Debt due in more than five years includes £0.5 million at 31 March 2007 (2006 – £0.5 million) 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:

	2007 £m	2006 £m
Expiring within one year or less, or on demand	**8.4**	17.7

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 2008.

27. Post balance sheet acquisition

As further described in the Chief Executive's Review, the Group has acquired, for the agreed price of US$4 million, a 90% interest in HangZhou ShanShui, an industrial chains manufacturing business in China. Due to the recent date of this transaction and the publication date of the financial statements, it is impracticable to provide additional disclosure information associated with this transaction.

Group Five Year Financial Review (unaudited)

		2007 £m	Prepared under IFRS 2006 £m	2005 £m	Prepared under UK GAAP 2004 £m	2003 £m
Group revenue		**188.4**	225.1	197.0	192.1	187.4
Less discontinued operations		**(29.1)**	(70.1)	(53.8)	–	–
Revenue from continuing operations		**159.3**	155.0	143.2	192.1	187.4
Operating profit before exceptional items (and goodwill amortisation under UK GAAP) – continuing		**9.8**	6.8	4.6	7.6	9.2
Operating profit		**3.9**	5.4	0.4	8.6	6.8
Profit/(loss) before tax		**1.4**	1.8	(1.8)	4.7	4.2
Taxation		**(0.6)**	(1.5)	1.5	–	(1.7)
		0.8	0.3	(0.3)	4.7	2.5
Discontinued operations:						
(Loss)/profit from discontinued operations		**(13.5)**	(13.9)	0.2	–	–
(Loss)/profit for the year		**(12.7)**	(13.6)	(0.1)	4.7	2.5
Net assets employed						
Property, plant and equipment, intangible software and investment property		**36.2**	38.4	64.7	47.0	50.0
Working capital and other net assets		**26.2**	30.7	43.0	41.2	38.8
Operating assets		**62.4**	69.1	107.7	88.2	88.8
Assets of discontinued operations		**–**	37.1	–	–	–
Liabilities of discontinued operations		**–**	(28.1)	–	–	–
Properties held for sale		**3.4**	3.4	–	–	2.3
Goodwill		**15.2**	17.1	15.7	18.8	22.6
Net debt		**(19.4)**	(20.7)	(17.0)	(19.2)	(20.9)
Dividends		**–**	–	–	(2.1)	(2.1)
Deferred and current taxation		**15.5**	17.0	14.6	12.8	2.3
Provisions		**(5.2)**	(0.4)	(11.7)	(1.2)	(10.9)
Net assets excluding pension obligations		**71.9**	94.5	109.3	97.3	82.1
Pension obligations		**(48.0)**	(53.9)	(53.2)	(39.4)	–
Total net assets		**23.9**	40.6	56.1	57.9	82.1
Other data and ratios						
Operating return on average operating assets	%[1]	**14.9**	7.7	4.7	8.6	9.9
Operating profit on turnover	%[1]	**6.2**	4.4	3.2	4.0	4.9
Capital expenditure	£m	**5.8**	6.6	7.6	7.2	5.7
Basic (loss)/earnings per share	p	**(18.3)**	(19.6)	(0.1)	6.8	3.5
Dividends per ordinary share	p	**–**	–	4.5	4.5	4.5
Employees at year end (continuing)		**2,041**	2,008	2,015	2,656	2,686

[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 2003 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 non-amortisation of goodwill.

Principal Subsidiary Companies

as at 31 March 2007

UNITED KINGDOM

Renold Power Transmission Limited*	FACTORIES: BREDBURY, CARDIFF, HALIFAX, MILNROW

REST OF EUROPE

Austria	Renold GmbH
Belgium	Renold Continental Limited (incorporated in the United Kingdom)
Denmark	Renold A/S
France	Brampton Renold SA FACTORY: LILLE – Renold SAF SAS: ST SIMEON DE BRESSIEUX
Germany	Renold Holding GmbH – Renold GmbH FACTORY: EINBECK – Renold Automotive Systems LLC
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 – Jeffrey Chain LP FACTORY: MORRISTOWN, TN

OTHER COUNTRIES

Australia	Renold Australia Proprietary Limited FACTORY: MELBOURNE
China	– Renold Transmission (Shanghai) Company Limited and – Renold Technologies (Shanghai) Company Limited: FACTORY: BEICAI
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 Continental 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 2007 which comprise the balance sheet and the related notes (i) to (x). 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 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 United Kingdom law and 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).

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 also report to you whether in our opinion the information given in the Report of the Directors is consistent with the Parent Company financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement, The Chief Executive's Review, Operations Review and Financial Review, that is cross referenced from the Group results section of the Report of the Directors.

In addition we 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 Report of the Directors, 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 as at 31 March 2007;
- 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.

Ernst & Young LLP
Registered Auditor
Manchester

25 June 2007

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.

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 accounts 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, as modified to include fixed asset investments at net asset value.

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 accounting policies of the Company 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 26.

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 and fixtures – 5 to 10 years

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

Accounting Policies – Company continued

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 on or 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 2007

	Note	2007 £m	2006 £m
Fixed assets			
Tangible assets	i	**0.2**	0.2
Investments in subsidiary undertakings	ii	**44.3**	55.7
		44.5	55.9
Current assets			
Debtors	iii	**2.3**	2.0
Cash and short-term deposits		**11.8**	21.9
		14.1	23.9
Creditors – amounts falling due within one year			
Other creditors	iv	**(2.5)**	(2.1)
Bank borrowings	v	**(2.8)**	(2.5)
Net current assets		**8.8**	19.3
Total assets less current liabilities		**53.3**	75.2
Creditors – amounts falling due after more than one year			
Bank borrowings	v	**(15.8)**	(20.8)
Preference shares	v	**(0.5)**	(0.5)
Derivative financial instruments	vi	**–**	(0.1)
Net assets		**37.0**	53.8
Capital and reserves			
Called up share capital	viii	**17.4**	17.4
Share premium account	ix	**6.1**	6.0
Profit and loss account	ix	**13.5**	30.4
Shareholders' funds		**37.0**	53.8

Approved by the Board on 25 June 2007 and signed on its behalf by:

Matthew Peacock
Director

Robert Davies
Director

The balance sheet should be read in conjunction with the notes on pages 64 to 67.

Notes to the Company Financial Statements

(i) Tangible assets

	Properties £m	Equipment £m	Total £m
Cost			
At beginning of year	0.1	0.9	1.0
Additions at cost	–	–	–
At end of year	**0.1**	**0.9**	**1.0**
Depreciation			
At beginning of year	–	0.8	0.8
Depreciation for the year	–	–	–
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	23.2	32.5	55.7
Advances	–	5.0	5.0
Deficit on revaluation	(16.4)	–	(16.4)
At end of year	**6.8**	**37.5**	**44.3**

The principal subsidiary companies of Renold plc at 31 March 2007 are set out on page 58.

(iii) Debtors

	2007 £m	2006 £m
Amounts owed by Group undertakings	**1.4**	1.5
Deferred tax asset	**0.3**	0.3
Other debtors	**0.4**	0.1
Prepayments and accrued income	**0.2**	0.1
	2.3	2.0

The analysis of the deferred tax asset is as follows:

	2007 £m	2006 £m
Accelerated capital allowances	**0.1**	0.1
Other temporary differences	**0.2**	0.2
	0.3	0.3

(iv) Other creditors

	2007 £m	2006 £m
Amounts falling due within one year:		
Trade creditors	**0.7**	0.5
Amounts owed by Group undertakings	**–**	0.1
Other taxation and social security	**0.1**	0.3
Other creditors	**1.3**	0.9
Accruals	**0.4**	0.3
	2.5	2.1

(v) Borrowings

	2007 £m	2006 £m
Amounts falling due within one year:		
Bank overdrafts	**0.9**	–
Bank loans	**1.9**	2.5
	2.8	2.5
Amounts falling due after one year:		
Bank loans	**15.8**	20.8
Repayable:		
In more than one year but not more than two years	**1.9**	20.8
In more than two years but not more than five years	**13.9**	–
	15.8	20.8
Summary of total borrowings:		
Bank overdrafts	**0.9**	–
Total bank loans	**17.7**	23.3
Preference shares	**0.5**	0.5
Total borrowings	**19.1**	23.8

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

	2007 £m	2006 £m
Interest rate swap contract	**–**	0.1

(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 (nominal value)		Issued	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Ordinary shares of 25p each	**23.1**	23.1	**17.4**	17.4
6% Cumulative Preference Stock	**0.6**	0.6	**0.5**	0.5
Total	**23.7**	23.7	**17.9**	17.9

At 31 March 2007 the issued Ordinary Share Capital comprised 69,659,807 (2006 – 69,429,220) ordinary shares of 25p each. During the year the Company issued 230,587 (2006 – 93,810) ordinary shares of 25p each for a cash consideration of £138,192 (2006 – £51,671) by the exercise of options under the Executive and the Savings Related Share Option Schemes.

Details of the preference shares are set out in Note (v).

Share options have been granted under the Executive Share Option Schemes and the Savings Related Share Option Schemes. At 31 March 2007 unexercised options for ordinary shares amounted to 3,698,762 (2006 – 3,591,299) made up as follows:

Date normally exercisable	Option price (pence per share)	**Number of shares 2007**	Number of shares 2006
Executive Share Option Schemes			
Within seven years from:			
16 July 1999 (1995 Scheme)	293.83	**–**	52,307
18 July 2000 (1995 Scheme)	242.67	**19,042**	19,042
17 July 2001 (1995 Scheme)	237.33	**140,000**	145,000
16 July 2002 (1995 Scheme)	137.83	**150,000**	155,000
19 July 2003 (1995 Scheme)	118.50	**97,500**	97,500
22 December 2003 (1995 Scheme)	94.50	**10,000**	10,000
28 November 2004 (1995 Scheme)	67.34	**202,000**	297,000
27 November 2005 (1995 Scheme)	58.50	**213,000**	381,000
28 July 2006 (1995 Scheme)	80.84	**50,000**	50,000
27 November 2006 (1995 Scheme)	83.50	**230,000**	245,000
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	**105,000**	135,000
26 July 2009 (2004 Scheme)	61.60	**535,000**	–
30 November 2009 (2004 Scheme)	100.10	**120,000**	–
2 January 2010 (2004 Scheme)	114.20	**360,000**	–
		2,831,542	2,186,849
Savings Related Share Option Schemes			
Within six months from:			
1 February 2006 (1995 Scheme)	55.08	**–**	238,473
1 February 2008 (1995 Scheme)	55.08	**141,204**	167,919
1 March 2009 (2004 Scheme)	54.30	**726,016**	998,058
		867,220	1,404,450

Further details of share-based payment schemes operated by the Company are provided in the Directors' Remuneration Report and Note 21 of the consolidated financial statements.

(ix) Reserves

	Profit and loss account £m	Share premium £m	Total reserves £m
At beginning of year	30.4	6.0	36.4
Loss for the year	(17.0)	–	(17.0)
Employee share option schemes – value of employee services	0.1	–	0.1
Share premium	–	0.1	0.1
At end of year	**13.5**	**6.1**	**19.6**

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 £(17.0) million (2006 – loss £8.8 million).

Total fees payable by the Company to Ernst & Young LLP for work in respect of the audit of the Company were £27,000 (2006 – Payable to PwC £30,000). Fees paid to the Company Auditors for non audit services to the Company are not disclosed in these accounts because the Company's consolidated financial statements are required to disclose such fees on a consolidated basis.

(x) Contingent liabilities

The Company has guaranteed borrowings by subsidiary undertakings of £13.5 million (2006 – £6.0 million). Performance guarantees given to third parties in respect of Group Companies were £3.0 million (2006 – £0.2 million).

Notice of Annual General Meeting

Notice is hereby given that the seventy-seventh Annual General Meeting of Renold plc (the "Company") will be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday 26 July 2007 at 11.30 am for the following purposes:

As Ordinary Business

1. To receive and adopt the accounts for the year ended 31 March 2007, together with the Reports of the Directors and of the Auditors.

2. To elect Mr M R Peacock as a Director.

3. To elect Mr R H E Powell as a Director.

4. To elect Mr D J B Shearer as a Director.

5. To appoint Ernst & Young 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 2007.

As Special Business

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

7. THAT, 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 £5,804,983 (being approximately one third of the current issued share capital) provided that such authority shall expire on 25 October 2008 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this resolution, 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 £870,747 (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 25 October 2008 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board

K Brown
Secretary

25 June 2007

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 2.30 pm on 24 July 2007 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, the articles of association of the Company and copies of any qualifying third party indemnity 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.

Holders of shares who are not entitled to vote are sent a copy of this notice only by way of information.

Financial Calendar

	2007
Annual General Meeting	26 July
Interim Management Statement (first)	by mid August
Half year end 2007/08	30 September
Half year 2007/08 results published	mid November

	2008
Interim Management Statement (second)	by mid February
Year end 2007/08	31 March
Preliminary announcement of annual results 2007/08	mid June

Dividend payments

Preference dividends	1 July and 1 January

Shareholder Notes

Shareholder Notes

RENOLD

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