For Registrar of Companies.

244688.

RENOLD

Annual Report 1996

ANNUAL REPORT 1996

Principal Activities

Renold PLC is an international engineering group, producing a wide range of high quality engineering products, and owning manufacturing and merchanting operations in sixteen countries.

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

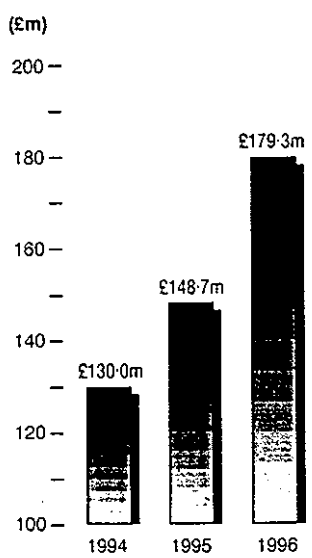
Contents

Financial Highlights

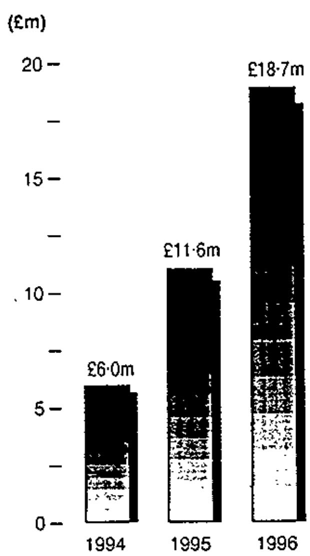
for the financial year ended 30 March 1996

		1996 £m	1995 £m	Change %
Turnover:	continuing operations	171·9	148·7	+16
	acquisition	7·4		
		179·3	148·7	+21
Trading profit:	continuing operations	18·8	12·7	+48
	acquisition	0·7		
		19·5	12·7	+54
Profit on ordinary activities before tax		18·7	11·6	+61
Earnings per share		20·8p	13·6p	+53
Dividends per ordinary share				
– final dividend		4·5p	3·3p	
– conventional interim dividend		2·0p	1·2p	
		6·5p	4·5p	+44
– enhancement to FID (interim)		0·5p		
		7·0p	4·5p	+56
Capital expenditure		9·7	7·8	+£1·9m
Cash (net of borrowings including finance leases)		10·4	4·4	+£6·0m

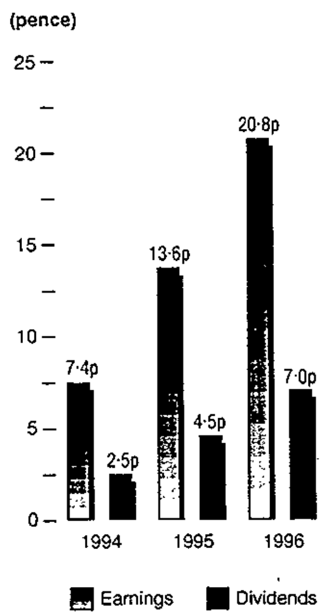
Turnover



Profit before tax



Earnings/dividends per share



Directors

Peter Frost (age 68)
Chairman
was appointed a non-executive Director in 1984 and became Chairman in 1986. He was formerly Chairman and Managing Director of Thos W Ward plc

David Cotterill (age 53)
Chief Executive
joined the Group and was appointed Chief Executive in 1992

John Allan (age 55)
Finance Director
joined the Group and was appointed a Director in 1987

Roger Burdett (age 45)
Managing Director – Gears Businesses
joined the Group in 1990 and was appointed a Director in 1991

Ian Trotter (age 52)
Managing Director – Chains Businesses
joined the Group and was appointed a Director in 1991

Mark Smith (age 57)
Non-Executive Director
was appointed to the Board in 1994. He is also a Director of The Laird Group PLC, the Bradford & Bingley Building Society and was formerly a Director and Vice Chairman of S G Warburg & Co Ltd

Rab Telfer (age 68)
Non-Executive Director
was appointed to the Board in 1984. He is also a Director of Volex Group plc and was formerly Chairman of Mather & Platt Limited and of the Petrochemicals Division of ICI plc

Directors and Officers

Chairman

J P Frost

Executive Directors

D Cotterill *Chief Executive*
J H B Allan *Finance Director*
R L Burdett
I R Trotter

Non-Executive Directors

M A Smith
R G J Telfer CBE

Composition of Board Committees

Audit Committee
R G J Telfer (Chairman)
M A Smith
J P Frost

Nomination Committee
J P Frost (Chairman)
R G J Telfer
M A Smith
D Cotterill

Remuneration Committee
J P Frost (Chairman)
R G J Telfer
M A Smith

Company Secretary
D A Lyndon

Registered Office
Renold House, Styal Road, Wythenshawe, Manchester M22 5WL
Registered No. 249688 Telephone: 0161-437 5221 Fax: 0161-437 7782

Auditors
Price Waterhouse, Manchester

Merchant Bankers
J Henry Schroder & Co Limited

Stockbrokers
SBC Warburg

Registrar
Northern Registrars Limited
Northern House
Penistone Road
Fenay Bridge
Huddersfield HD8 0LA

Chairman's Statement

I am delighted to announce record results for the Group. In the year to 30 March 1996, on turnover 21% higher at £179·3 million, profit before tax was £18·7 million, an increase of £7·1 million, or 61%, over 1994/5. Earnings per share rose 53% to 20·8 pence.

The Board is recommending the payment of a final dividend of 4·5 pence per share, up from 3·3 pence per share last year. Together with the interim dividend paid on 26 January 1996 as an enhanced Foreign Income Dividend (FID) of 2·5 pence per share, this represents an increase of 56% over the total dividends of 4·5 pence per share paid last year. Excluding the enhancement of the FID, the increase is 44%. The Group earns significant profits outside the UK and the payment of the interim dividend as a FID has reduced the Group's effective tax rate from 27% to 25% by avoiding the write-off of Advance Corporation Tax on a conventional dividend. The Board will consider declaring future dividends as FIDs when the circumstances warrant.

Sales rose 21% in the year, with an underlying increase of 11% after adjusting for Manifold Industries, acquired in April 1995, which contributed £7·4 million, and for the effect of changing exchange rates. Sales growth was widely spread across the Group's main markets, following the substantial growth in orders reported last year, and UK exports were particularly strong, up 27%.

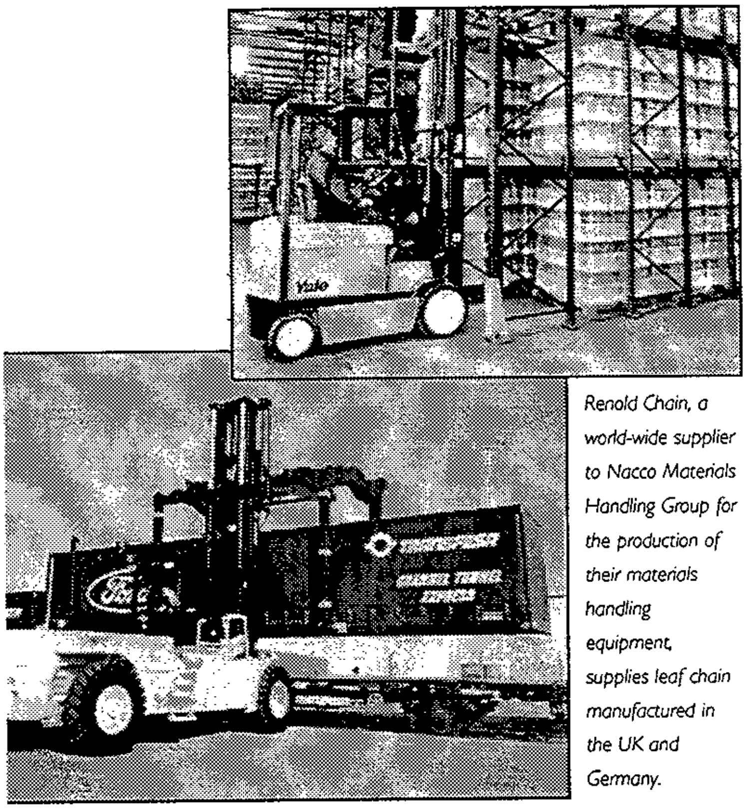
Operating profit before interest and acquisition restructuring costs rose 57% to £19·9 million, an operating profit margin of 11·1%, up from 8·5% last year. This significant improvement in margins, achieved at a time of rising raw material prices, was particularly satisfying. The strategic focus on key products and markets, building on Renold's engineering skills and reputation, and the emphasis on continuously improving production efficiency, led to further profitable growth for the Group over the year.

The chain businesses had an excellent year, achieving a substantial increase in profits. Germany and the UK performed notably well, investment in new equipment supporting higher output and enhanced productivity, and the Burton conveyor chain factory results were much improved after a poor 1994/5. The French operations beat their targets and Renold Automotive was successful in obtaining new model contracts for automotive timing systems which will go into production by the end of the current year. The merchanting activities elsewhere in Europe achieved good sales and profit growth.

The UK gears and couplings businesses produced a good return, but only slightly increased their profits year on year, mainly due to good performances by the Cardiff and Bradford factories. However, profit was lower at the Milnrow gear box factory, although it recovered in the second half from earlier problems caused by steep raw material price increases and poor availability of bought in components. Manifold Industries, since joining the Group in April 1995, has exceeded expectations, and made a good first contribution to profit. The German distributor for Manifold products, Erich Erler GmbH & Co KG, was acquired in March 1996 in order to strengthen Manifold's position in its most important overseas market. Holroyd Machine Tools & Rotors' profit was sharply higher on strong demand for both rotors and machine tools, which has continued into the current year.

Outside Europe, there was an encouraging improvement in performance by the Westfield couplings manufacturing business in the USA. Canada, which celebrated its 75th anniversary, earned record profits, and the operations in Australasia and the Far East again produced excellent returns.

Chairman's Statement



Renold Chain, a world-wide supplier to Nacco Materials Handling Group for the production of their materials handling equipment, supplies leaf chain manufactured in the UK and Germany.

The financial performance of the Group has improved dramatically over recent years, and overall the business is now earning an acceptable return on trading assets of 25%. Whilst much of this recovery has been achieved through restructuring, cost reduction and greater operating efficiency, the last two years have also demonstrated the ability of our individual businesses to grow organically. Further growth will come through strengthening positions in product markets offering good growth prospects, by working closely with key customers and by providing solutions to their engineering problems. The Group's competitive situation is steadily being enhanced by the constant attention given to quality, higher productivity and unit cost reduction in our factories, and to customer service throughout the business. Capital investment to support these objectives rose to £9·7 million in the year, and will again be at a high level in 1996/7.

Strong cash generation in the year resulted in net cash of £10·4 million at March 1996, and shareholders' funds have risen by £9·7 million to £73·7 million. This places the Group in an excellent position from which both to develop existing businesses and to make acquisitions. We are increasing our efforts to seek out businesses which are complementary to our existing activities, with similar product technology or market characteristics, but will continue to be selective in our approach.

Directors

Andrew Reid, who joined the Board as a non-executive director in 1983, retired from the Board in December 1995. I worked with Andrew for almost the whole of his period of office and respected his sound judgement and keen intellect. I thank him for his notable contribution to the business.

Employees

I should like to thank our employees around the world for their contribution to the record results for 1995/6. These have been made possible through the combination of management leadership and the commitment of employees at all levels.

Prospects

Over the last three years, the Group has developed a strong momentum, and has entered the current year with the order book higher than a year ago. Whilst there is at present a slowing of economic growth in our important markets in Europe, total order intake continues to be satisfactory, demonstrating the wide spread of the Group's business. Subject to unforeseen circumstances, the Group should make further progress this year.

Peter Frost

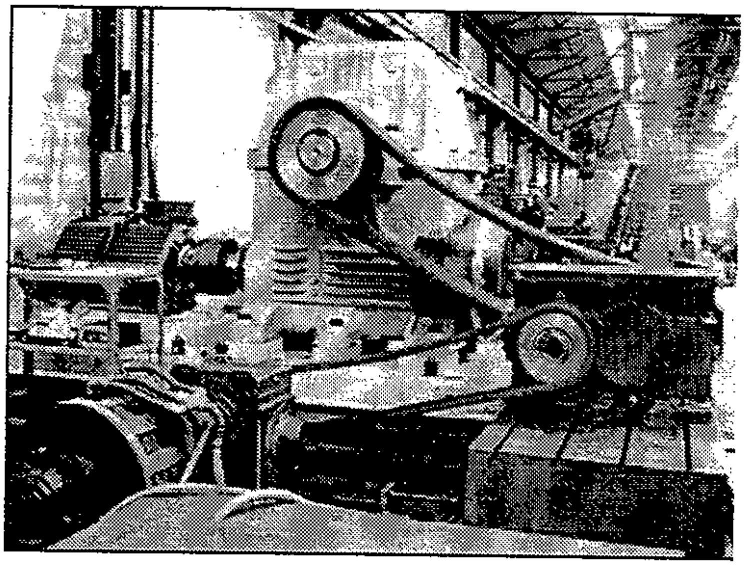
Chief Executive's Review

The Group results were particularly satisfying, since the 25% return on trading assets comfortably beat the 20% target set four years ago, and even met the revised medium term target established a year ago. This success has not arisen from setting targets, but from the thinking and planning of what should be possible, how the goals will be achieved, and communicating these thoughts and plans to key people throughout the organisation.

Although the higher sales volumes have no doubt been partly due to the increased economic activity in the markets in which we operate, they are also in part due to the continuing focus on key markets and key customers. Our main aim remains to satisfy the needs of those customers whose business is growing in markets which have prospects for long term growth.

Continual improvements to the business and cost reductions are also critical elements of planning and much of the £9·7 million capital expenditure in the year has been directed to achieving these objectives. In each of the last four years the ratio of value added to payroll costs has increased, not simply as a result of satisfying increased demand from under-utilised equipment, but from investment in machinery and people to improve quality, reduce or eliminate scrap, minimise bottlenecks, and from utilising lower cost material without compromising specification, and speeding up the process time through the factories. For example, through low cost investment in the relayout of existing machinery coupled with some new equipment, the process time in one manufacturing cell has been reduced from twelve weeks to one. The productivity benefits and cost savings from this type of initiative can be seen in the substantial improvement in margins.

Order intake was well up, but it lacked the geographical consistency of the previous year.



28" centres worm gear unit drive package on full load test at Renold Gears, Milnrow, for the escalator system at the London Bridge Underground Station of the Jubilee Line. Renold Chain also has the chain drive contract for the Jubilee Line.

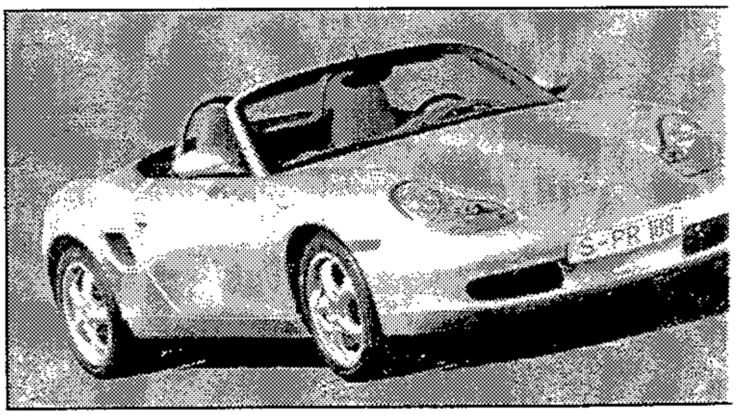
At some stage during the year most of our country operations experienced a three to six months fall off in demand, the severity of which was magnified by some customers realigning their inventory levels. At the beginning of the financial year orders in New Zealand had fallen away but picked up strongly in the second half. A similar pattern followed in the USA, then Canada, Scandinavia and Australia. In the second half of the year, UK orders levelled off, to be followed by Benelux, France and then Germany. The impact of these plateaus is being felt mainly by the chain businesses which have been consistently able to satisfy market demand. Unfortunately, this triggered a small number of redundancies in the last quarter. Supplies of gears were held back by a shortage of materials and only in recent months has the order backlog started to reduce. Demand for compressor rotors is at an all time high and Holroyd also has a twelve month order book for machine tools. In the last quarter of the financial year Group orders were 6% ahead of what was a very strong order period a year ago, and the year end order book ended 8% up.

Chief Executive's Review

Manifold Industries made a significant contribution to the Group's performance in its first year. Orders for indexing cam gear boxes were particularly strong in the first half and profitability was good, even after charging £0·4 million restructuring costs. Nearly £1 million was invested in new machine tools during the year and the new management team (and all the employees) responded well to the Renold approach to developing the business. A significant proportion of Manifold's sales is to manufacturers of packaging and printing machines and to mainland Europe. In order to protect Manifold's market position in Germany, the distributor there has been purchased from the owner, who is retiring.

The German chain business enjoyed an outstanding year. Just about breaking even two years ago, the achievement of a 20% return on trading assets seemed a daunting task. With a significant amount of the Group's assets invested in this business, it was important to achieve a step change in profitability. The local management set about the task with vigour. The factory layout was changed, new machinery was installed and the main manufacturing unit extended. Two satellite operations – a distribution warehouse and a machine shop – were closed and moved to the main plant. The offices were revamped and new computer systems installed. A restructuring plan was agreed with the Works Council and a more efficient forty hour working week was accepted within the spirit of the new thirty-five hour week in the IG Metall/employers agreement. Price increases were targeted and achieved, particularly on low margin accounts. New business was won from the international packaging, printing, timber, paper, pulp and fork lift truck markets, which was backed by investment further to reduce manufacturing costs. The climax of the year was an open day at the Einbeck factory, which attracted 3,000 visitors from the locality (and the 20% ROTA target was achieved!).

The French chain operations did not have as spectacular a year as Germany, but they did achieve their performance targets. The Seclin conveyor chain factory made progress, as did the French domestic sales company. Additional distributors have been appointed in those areas of France where we have least penetration, and we are focusing on particular industrial markets to develop the business. The Calais factory, which mainly manufactures automotive timing systems, performed well in difficult market conditions. The slow down in the European automotive market was balanced by increased sales to the USA. The future for this plant is encouraging, since Renold Automotive Systems has been specified by leading world manufacturers for new engines currently in development. Pride of place this year has been the launch of the new Porsche Boxster engine whose timing system was developed at the Calais factory. Significant investment in new machinery is planned for the manufacture of automotive timing systems. This plant also had an open day during the year and visitors seemed to be fascinated by the process automation involved, and the sophisticated computer dynamic engineering simulation techniques in use.



Renold Automotive Systems has been selected by Porsche to supply the camshaft/timing chain drive system of the new Boxster engine.

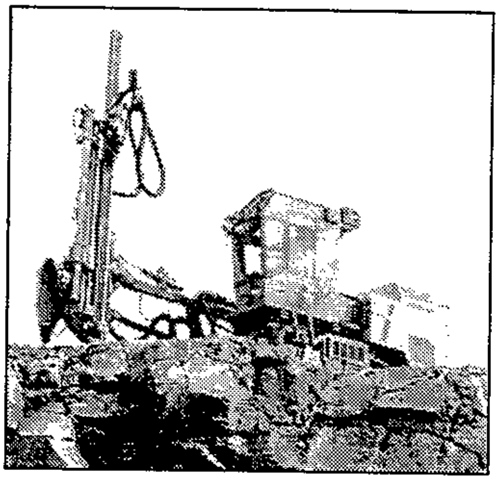
Chief Executive's Review

continued

In the other mainland European operations there were strong performances from Benelux, Denmark and Sweden, and the Swiss business overcame problems associated with its high cost base to produce a decent return. Only Austria had a tough time but, by the end of the year, demand from Eastern European customers, serviced via Austria, had improved.

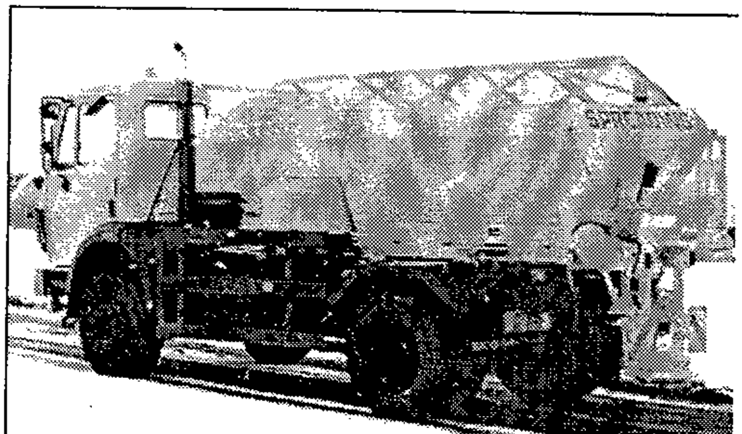
In the UK, the chain business had an excellent year. There was significant sales growth to target markets such as food processing, people movement (escalators, travelators and leisure rides), the automotive industry (assembly line chain), fork lift trucks, the tobacco industry both in Europe and the Far East, the steel industry, and further penetration into the Japanese and Korean marine diesel market. At Bredbury, factory efficiencies increased from a combination of higher volumes and the returns from investment in new equipment. Margins rose particularly on large contract work and on sales to the Far East, and service levels improved despite the increase in production volumes. The problems experienced last year at the Burton factory are being steadily overcome. New equipment was purchased to overcome bottlenecks and improve the work flows. At both factories expenditure was made to create a safer working environment, which in itself has produced operational benefits.

All our manufacturing businesses suffered from large cost increases in material and component supplies during the year. In the case of the gears business, this problem was compounded by a severe shortage of bearings which restricted output. The geographical spread of our businesses enabled us to mitigate the difficulties by sourcing materials from various parts of Europe, North America and the Far East. Throughout the year, supplies of specialist steels for the manufacture of high quality chain were difficult but, with the flexibility of processes and interchange between the main factories, output was largely unaffected. In the chain business most of the cost increases were recovered in selling prices. However, in the gears and rotor businesses, there was greater difficulty in recovering material cost increases from customers.



Heavy duty bush and roller chain is supplied to Tamrock, Finland for their rock surface drilling rig.

The gears business in Milnrow was worst affected by supply problems, not only of steel and bearings, but of castings, aluminium, and bronze where prices soared. The disturbance to the business resulted in lower profits; although Milnrow produced what would have been described a few years ago as "good profits", the result was below expectations. By the year end the supply situation had eased and profitability had improved. Orders remain strong and investments have been made in new specialist heat treatment and grinding equipment.



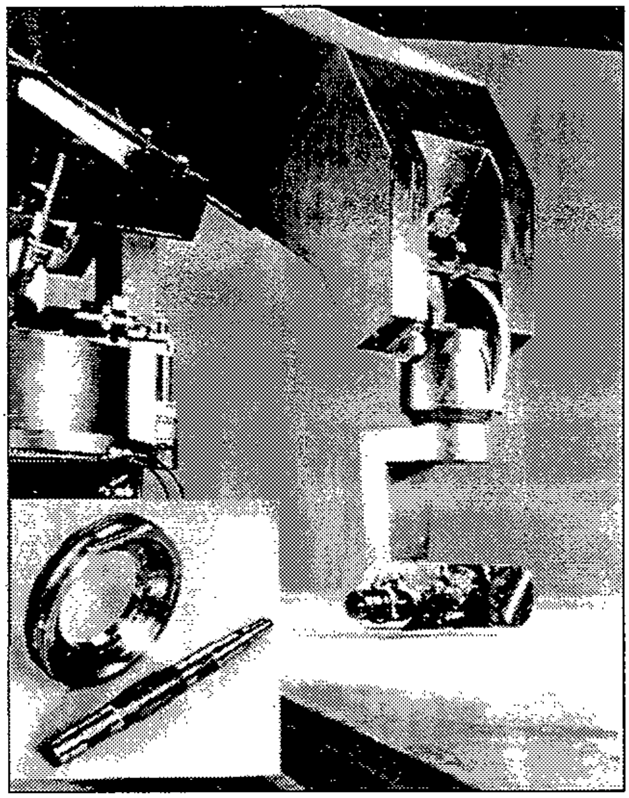
Shaft mounted helical gear unit with hydraulic motor used on the discharge conveyor of the Econ Group Ltd salt gritting machine.

Chief Executive's Review

The high demand for gear boxes had a knock-on effect on the Bradford business where variators are normally sold together with a gearbox. Demand for mechanical trench support systems fluctuated during the year, making factory load planning difficult. Despite this Bradford produced another good result. The Cardiff couplings operation continued its growth in both sales and profit. New business was won in the USA, the Far East and in Europe, and distributor sales increased in the UK. Towards the end of the year a substantial three year contract to supply components to a UK/Japanese joint venture was won, for which a new machining centre has been installed.

Holroyd enjoyed strong growth in profit despite difficulties with steel cost increases and it was not until the year end that new pricing, which fully recovered the material cost increases for all annual contracts, was in operation. There is a great demand for Holroyd rotors from many parts of the world and especially from the USA. More refrigeration and air conditioning compressor manufacturers are converting from reciprocating pumps to rotor screw pumps for compressor units, and there is considerable interest in new applications for rotors, such as superchargers and high vacuum pumps. Orders for specialist loose gears rose, particularly from machine builders in Germany, Scandinavia and Switzerland. Sales of new model machine tools have commenced and of special note was the delivery of a sophisticated CNC high speed milling machine to a Japanese manufacturer of vacuum pumps for a particularly testing application, where the customer will achieve significant productivity gains.

In North America, the USA manufacturing operation further improved its profitability and enjoyed good growth in sales of conveyor systems products. Coupling sales were maintained at about the same level as last year and some product manufacture has been rationalised with the Cardiff plant. The USA resale business was relocated during the year from Wilkes-Barre, Pennsylvania, to Cincinnati, Ohio, which is a better hub for product distribution. Profit suffered from the weakness of the dollar on long term contracts supplied from Germany, and from the levelling of orders during the mid-part of the year. Sales to US auto manufacturers strengthened, benefiting from our relationship with the Cloyes Corporation. The Canadian business had much to celebrate – record profit, the 75th anniversary of the business, and 40 years of service by the Managing Director, Keith Bank. The profit performance was particularly commendable as the business experienced a fall off in orders in the middle of the year, although this had been recovered by the year end.



Holroyd's 'touch of genius' provided ultra precision reduced backlash worm gears to drive the Mark Roberts camera that filmed the famous Guinness adverts.

In the other overseas businesses, South Africa increased profit, benefiting from a strong order book. The weakness of the Rand has caused some irritations, but the business now appears to be on a much firmer foundation. Australia and New Zealand faced a much tougher business environment than of late, but nevertheless produced excellent returns. Both factories have installed new equipment and a new computer system was successfully implemented in Australia, with the same system currently being installed in New Zealand. The two small businesses in Malaysia and Singapore have developed positively over the past three years and now make a meaningful profit contribution to the Group.

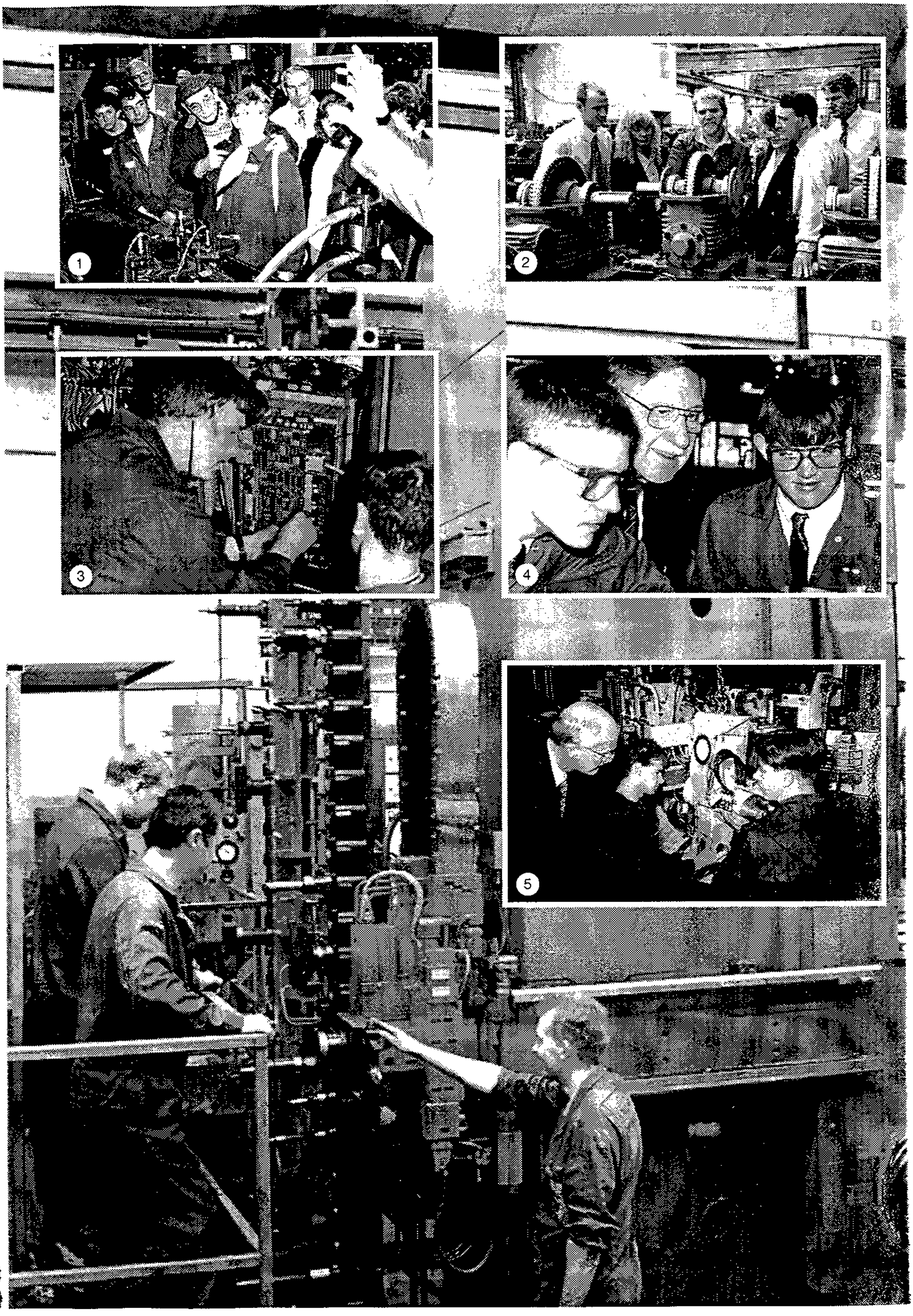
The contributions of all our employees around the world in coping with new equipment, new working practices and the constant change involved in gradual but unending improvements have been important. I thank them all. I do believe that slowly but surely we are improving the working environment not just physically but by communicating openly with all concerned. A great emphasis continues to be placed on training. The apprentice schools in the UK and Germany flourish. There are active in-house training schemes in various factories and offices, and we are participants in the Investors in People programme in the UK. We are sponsoring some particularly promising employees on full-time degree courses at University, as well as supporting employees studying part-time for further qualifications. We recognise the importance of developing all skills, in particular, engineering skills, but we are actively promoting multi-skilling throughout the organisation.

We were proud to receive the Award for Engineering Excellence from the Manchester Society of Engineers, proud that the Westfield USA business's Automated Bag Filling System won the 1995 Innovation Award in Powder/Bulk Technology in the USA Powder/Bulk Solids Magazine, proud that Holroyd won two National Awards at the UK Mach '96 Exhibition – one with a Rotor Manufacturing Cell using profile management software, and the second for Metrology Innovation of the Year Award for the Automatic Rotor Analysis Centre; proud that the Bredbury factory was awarded the British Safety Council 5 Star Award for the Development of Health and Safety; and proud that Ben Fielding, a fourth year apprentice at Holroyd, was runner-up at the Institute of British Foundrymen's National Pattern Making competition. Well done Ben, well done everyone!

Once again, the new financial year has begun on a sound note, with orders continuing to rise, albeit at a slower rate and with a different pattern from last year. We have strengthened our position in many key markets which we believe have the capability of long term growth. The small acquisitions made in the last two years are performing well and we continue to seek further opportunities to add value to the Group. We still see many worthwhile possibilities for releasing further value by improving and developing our existing businesses with continuing investment in people and equipment.

David Cotterill

Main photo	*In house training on new machinery at Gears, Milnrow with Jonathon Gudgeon (left) and Nigel Lindley (centre) being instructed by the supplier's technician.*
Inset 1	*Jean-Philippe Martel, Development Engineer, explaining an automatic chain assembly machine to visitors at the Open Day of Renold Automotive Systems, Calais, France.*
Inset 2	*Office staff receiving product training at UK Gears, Milnrow. Left to right are Julian Morris, Tracy Wright, David Hill, Hazel Wilman, Martin Walsh and Graham Roe.*
Inset 3	*Multi-skilling training taking place at the Bredbury factory with Gordon Counsel (left) and Mark Angel (right).*
Inset 4	*Peter Frost, Chairman, with two apprentices, John Doyle (left) and Lee Fleming (right) at the training school in Milnrow.*
Inset 5	*Ian Trotter, Managing Director – Chains Businesses, with two apprentices, Sven Hundertmark (middle) and Tobias Bremer (right) at a cold forming press in the Einbeck factory, Germany.*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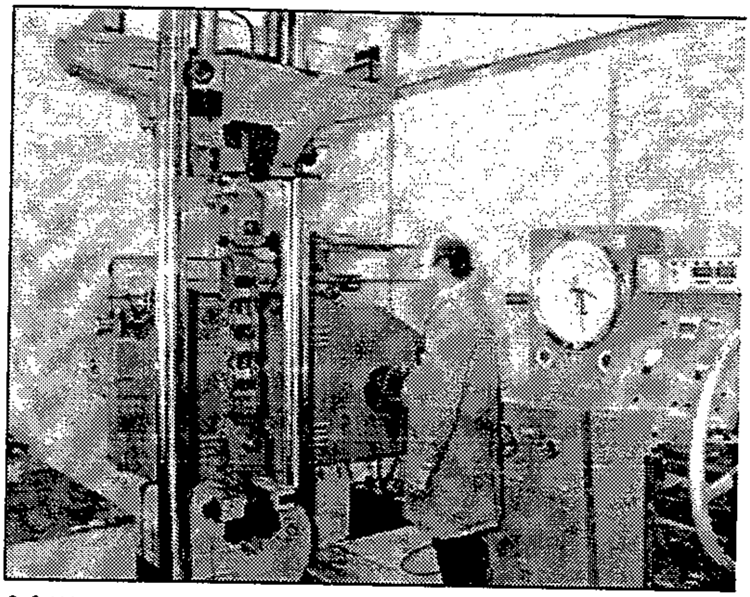
Financial Review

Profit and loss account

Sales turnover rose 21% from £148·7 million to £179·3 million, with the Group's main geographical areas all reporting increases, as shown in the analysis on page 28. Manifold Industries Limited, acquired in April 1995, contributed £7·4 million to turnover in the year, and the effect of changing exchange rates on translating the sales of overseas subsidiaries was also beneficial; after adjusting for these factors, turnover was up 11%. Average sales per employee were £63,200 per annum compared with £55,200 last year, an increase of 14%.

Operating profit, before acquisition restructuring costs, rose 57% to £19·9 million, with Manifold contributing £1·1 million. This excellent result was achieved through volume growth and continuing emphasis on costs and productivity, and despite significant increases in raw material costs. UK profits were again sharply higher and Germany made impressive progress. Other continental European businesses, as well as North America and Australasia, performed well. Exchange translation gains contributed £0·6 million. The operating margin, before acquisition restructuring costs, rose to 11·1% on sales, up from 8·5% in 1994/5. The Group earned a return of 25·6% on average trading assets, compared with 17·7% last year. After acquisition restructuring costs in respect of Manifold of £0·4 million, trading profit for 1995/6 was £19·5 million, 54% up.

Net interest payable at £0·8 million was £0·3 million lower than the previous year, as a result of increased cash balances in Germany and in the UK, and the elimination of interest on £3·0 million 6 3/4% First Debenture Stock 1990/95 which was repaid out of cash resources in March 1995. Profit before tax for the year of £18·7 million was 61% ahead of the £11·6 million earned in 1994/5.



Refurbished test area at Renold Chain, Bredbury.

The taxation charge of £4·7 million is an effective rate of 25%, compared with 22% in the previous year. The 1995/6 interim dividend was paid as an enhanced Foreign Income Dividend (FID) in order to avoid the write off of Advance Corporation Tax on a conventional dividend; this has reduced the Group's effective rate from 27%. As circumstances warrant, consideration will be given to the payment of future dividends as FIDs. The increase in the effective tax rate resulted from the higher profits in Germany and the USA, and from the elimination of tax losses in the UK and France. The present low effective tax rate is likely to continue to rise, although it will benefit from the utilisation of surplus Advance Corporation Tax for some time.

Profit after tax of £14·0 million represented earnings of 20·8 pence per share, compared with

Financial Review

£9·0 million and 13·6 pence per share for 1994/5. The dividend of 7·0 pence per share, inclusive of the FID enhancement of 0·5 pence, has been increased by 56% over the 4·5 pence paid last year (or 44% excluding the FID enhancement) and is covered 2·9 times by earnings.

Balance sheet

Group trading assets at the year end, excluding tax and dividends, were £81·7 million, up £8·2 million from the previous year. Fixed assets increased by £4·0 million, with capital expenditure of £9·7 million significantly exceeding the depreciation charge of £6·1 million. Shareholders' funds at £73·7 million increased by £9·7 million, due to retained profits of £9·2 million, new share issues of £0·8 million and £1·0 million of exchange translation gains, offset by £1·3 million of goodwill on acquisitions. Net assets per share at the year end amounted to 108 pence, up from 95 pence last year.

Cash flow

The Group generated a net cash inflow of £5·3 million in 1995/6, compared with £7·6 million in 1994/5. Cash generated by operations including trading profit, depreciation and increase in pension provisions amounted to £26·1 million, whilst working capital rose by £4·3 million, including a £4·2 million increase in stock levels. Payments for fixed assets (net of sales) amounted to £8·1 million, the purchases of Manifold Industries Limited and Erich Erler GmbH & Co KG cost £1·6 million, whilst outflows on interest, dividend and taxation totalled £6·8 million.

Funding and treasury management

Cash, net of borrowings and finance lease liabilities, was £10·4 million at the year end, compared with £4·4 million at 1 April 1995, reflecting another year of strong cash generation. Cash balances rose £2·2 million to £21·6 million, whilst gross borrowings, including finance leases, at £11·2 million were £3·8 million lower than last year. This enabled the repayment of the £3·0 million 8% First Debenture Stock 1991/96 on 25 March 1996 to be made from cash deposits. The Group policy is to maintain committed banking facilities at levels which are more than adequate to meet foreseeable requirements, and surplus cash is deposited on a short term basis. Wherever appropriate, the Group borrows in local currency in those countries where assets are held. The policy on currency management is to cover known exposures without undertaking any speculative risks, but the Group does not hedge the translation risk of its investments in overseas subsidiaries.

John Allan

Report of the Directors

for the financial year ended 30 March 1996

To be presented to the sixty-sixth Annual General Meeting of Renold PLC to be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday, 25 July 1996 at 2.30 p.m.

The Notice of Meeting is included on page 40.

Group results

The profit for the year on ordinary activities before tax was £18·7 million compared with £11·6 million for the previous year. After taxation, the profit attributable to ordinary shareholders was £14·0 million compared with £9·0 million last year.

There was a retained profit of £9·2 million after charging the cost of dividends of £4·8 million. Last year there was a retained profit of £6·0 million after dividends of £3·0 million.

The principal activities of the Group are set out on the inside front cover and a review of the development of the business is contained in the Chief Executive's Review on pages 6 to 10.

An indication of future developments is also given in those pages and in the Chairman's Statement on pages 4 and 5.

In the opinion of the directors, the activities of the Group are almost wholly within the power transmission sector of the engineering industry and therefore the results are disclosed as one class of business.

Dividends

An interim dividend of 2·5 pence per ordinary share was paid as a Foreign Income Dividend on 26 January 1996.

A final dividend of 4·5 pence per ordinary share is now recommended which would bring the total payment for the year to 7·0 pence per share (net of any related tax credit) compared with 4·5 pence per share for the year 1994/5. If approved, the final dividend will be paid on 8 August 1996 to members appearing on the register on 25 June 1996.

Preference dividend payments were made on 1 July 1995 and 1 January 1996.

Acquisitions

As was reported in last year's Report and Accounts, the Group acquired the whole of the share capital of Manifold Industries Limited on 13 April 1995 for a consideration of £1·25 million, paid in cash. On 25 March 1996, the entire share capital of Manifold's German distributor, Erich Erler GmbH & Co KG, was purchased for a sum of DM1·5 million (£0·7 million), partly deferred, by the Company's German subsidiary, Renold (Deutschland) GmbH.

Exports

The value of goods exported by the Group from the UK, including goods sold to subsidiary companies, amounted to £52·0 million (1994/5 - £41·0 million).

Directors

Mr A M Reid retired as a non-executive director on 31 December 1995.

The present constitution of the Board and members of the Audit, Nomination and Remuneration Committees at the date of this Report is set out on page 3.

Details of the directors due to retire by rotation are included in the Report of the Remuneration Committee on page 19.

Directors' interests

The interests of the directors and their families in the ordinary shares of Renold PLC and in options held under share option schemes are given in the Report of the Remuneration Committee on pages 18 to 20. No director had any interests in contracts of significance in relation to the Company's business during the year.

Special business – Annual General Meeting

Power to allot shares and disapplication of pre-emption rights

At the forthcoming Annual General Meeting your directors will seek to renew the following authorities granted at the last Annual General Meeting, which authorities will lapse on the date of the next Annual

General Meeting or 24 October 1997, whichever is the earlier. First, the general authority, pursuant to Section 80 of the Companies Act 1985, enabling the directors to allot unissued ordinary shares up to a nominal amount of £5,667,403 representing 33·33% of the current issued share capital of the Company. Secondly, the authority to disapply Section 89(1) of the said Act, which gives pre-emption rights to shareholders, to the allotment of shares for cash in connection with a rights issue (under the limits of the above general authority) and otherwise up to a nominal amount of £850,110 representing 5% of the current issued share capital of the Company. Except for the issue of shares pursuant to the Company's employee share schemes the directors have no present intention of issuing any part of the unissued share capital. Special Resolution 6 will be proposed at the forthcoming Annual General Meeting to give effect to these measures.

Share capital

Changes in share capital during the year are set out in note 14 to the Accounts on page 35.

As at 7 June 1996, the Company had been notified, pursuant to the Companies Act 1985, as amended, of the following interests in its issued ordinary share capital:

(i)	Interests equal to or more than 10% (which may include "material interests" notified to the Company under (ii) below)	%
	M&G Investment Management Limited	13·80
(ii)	"Material interests" equal to or more than 3%	
	Prudential Corporation PLC	8·96
	Scottish Amicable Investment Managers Limited	7·18
	Britannic Assurance PLC	4·81
	Clerical Medical Investment Group	4·05
	Lloyds TSB Group plc	3·87
	Electricity Supply Pension Scheme	3·09

Employee share schemes

The new Renold (1995) Executive Share Option Scheme and Renold (1995) Savings Related Share Option Scheme were approved by the shareholders at last year's Annual General Meeting. No options or shares have yet been issued under either of these schemes.

The profit sharing allocation of £200,000 set aside out of the profit on ordinary activities attributable to the UK Companies for 1994/5 was utilised to issue 82,008 ordinary shares under the Renold Employee Share Scheme. Each of 1,139 eligible participants was allocated 72 ordinary shares in August 1995 at an initial market value of 243·3 pence per share. A further profit sharing allocation of £295,000 is being set aside out of the 1995/6 profit on ordinary activities attributable to the UK companies. This sum will be used to provide ordinary shares under the Employee Share Scheme by the issue of new shares by the Company in August 1996. The number of shares involved will depend upon the market price immediately following the Annual General Meeting on 25 July 1996.

The number of shares reserved for issue under the three employee share schemes is currently 6,800,884 being such number of ordinary shares of 25 pence each as represents 10% of the ordinary share capital in issue from time to time.

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.

The policy of the Company and its UK subsidiaries is to ensure that disabled applicants for employment are given full and fair consideration, and that existing disabled employees are given equal access to training, career development and promotion opportunities. In the event of employees becoming disabled whilst in the employment of the Company, all reasonable means are explored to achieve retention in employment in the same or an alternative capacity.

Report of the Directors
continued

Employees
At 30 March 1996 the Renold Group employed 2,848 people, including 1,432 in the UK and 904 in the rest of Europe.

Research and development
The research and development activities of the Group continue to be principally directed towards the development of new products and manufacturing methods, and the improvement of performance and cost effectiveness of existing products.

Expenditure on research and development in the year 1995/6 amounted to £0·9 million.

Policy on payment of suppliers
It is the Company's payment policy for the year ending 29 March 1997 to follow the Confederation of British Industry's Prompt Payment Code for all suppliers. Information about the code, and copies thereof, may be obtained from the CBI, Centre Point, New Oxford Street, London WC1A 1DU.

Donations
During the year contributions to UK organisations for charitable purposes amounted to £3,075 (1994/5 – £2,950). There were no contributions made to political parties.

Auditors
A resolution to re-appoint the auditors, Price Waterhouse, will be put to the shareholders at the Annual General Meeting.

Tax status
The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Registrars
On 1 May 1996, Northern Registrars were appointed to act as Registrars of the Company. The address of Northern Registrars is shown on page 3.

CREST – Uncertificated Securities Regulations 1995
On 6 June 1996 the Company resolved, by a resolution of its directors, that title to the ordinary shares of 25 pence each in the capital of the Company, in issue or to be issued, may be transferred by means of a relevant system. The resolution of the directors will become effective immediately prior to CRESTCo Limited granting permission for the ordinary shares concerned to be transferred by the CREST system.

The Company is obliged to give notice to its members, under the Uncertificated Securities Regulations 1995 ("the Regulations"), of the passing of a "directors' resolution" (as defined in the Regulations) in relation to its ordinary shares. The passing of this resolution will enable the Company's ordinary shares to join the CREST system. The permission of the operator of the system, CRESTCo Limited, must also be given before the shares can become so transferable. It is currently expected that this permission will be given in November 1996.

The effect of the directors' resolution is to disapply, in relation to the ordinary shares, those provisions of the Company's articles of association that are inconsistent with the holding and transfer of those shares in CREST and any provision of the Regulations, as and when the shares concerned enter the CREST system.

Included with this Annual Report is a booklet, published by CRESTCo Limited, providing further details of what CREST means for the private shareholder.

By order of the Board
D A Lyndon
Secretary
10 June 1996

Corporate Governance

The Company has complied with the Cadbury Committee's Code of Best Practice throughout the financial year and has adopted the recommendations of the Greenbury Committee insofar as required by the Stock Exchange Listing Rules.

Audit Committee

The Audit Committee is a committee of the Board comprised of three non-executive directors. Following the retirement of Mr A M Reid, the Chairman of the Board Mr J P Frost was appointed as a member of the Committee with effect from 1 January 1996. The Committee is chaired by Dr R G J Telfer and meets three times a year. Its terms of reference include the review of the Group's financial statements, the review of internal control systems and the conduct of the external audit.

The functions of the Remuneration and Nomination Committees were separated with effect from 10 May 1996.

Nomination Committee

The Nomination Committee is a committee of the Board, comprised of the non-executive directors and the Chief Executive, chaired by the Chairman of the Board, Mr J P Frost. The Committee meets periodically and its terms of reference are to select and recommend any new appointments of either executive or non-executive directors to the Board.

Remuneration Committee

The Remuneration Committee is a committee of the Board comprised of the non-executive directors and is chaired by the Chairman of the Board, Mr J P Frost. The Chief Executive, who resigned as a member of the Committee on 15 December 1995, attends meetings at the request of the Committee. This Committee determines the terms and conditions of employment including remuneration of the executive directors.

The Report of the Remuneration Committee is set out on pages 18 to 20.

UK pension schemes

The UK pension schemes are 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 include employee representatives. Neither the Chairman nor the Chief Executive is a Trustee.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Internal financial controls

The Group's system of internal financial control, for which the directors have overall responsibility, are designed to safeguard the Group's assets against unauthorised use or disposition, to ensure the maintenance of proper accounting records and the reliability of financial information used within the business and for publication. These systems, by their nature, can provide only reasonable, not absolute, assurance against material misstatement or loss.

The key features and procedures of the system of internal financial control are as follows:

- 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 budgets covering profit and cash flow, which are approved by the Board; the review of monthly detailed reports comparing actual performance with budget, and of updated financial forecasts;
- procedures for the appraisal, approval and control of capital investment proposals including acquisitions;
- monitoring procedures which include a system of key controls questionnaires supported by internal audit reviews. The results of this work are reported to the Audit Committee.

The directors confirm that they have reviewed the effectiveness of the Group's system of internal financial control.

Report of the Remuneration Committee

Remuneration Committee

The Remuneration Committee is comprised of the non-executive directors and is chaired by the Chairman of the Board. The Chief Executive resigned from the Committee on 15 December 1995, and since his resignation has attended meetings at the request of the Chairman. The Chief Executive does not take part in the Committee's deliberations or 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 Committee determines the terms and conditions of employment including remuneration for the executive directors. The Committee is also responsible for the allocation of options under the Company's Executive Share Option Scheme.

Remuneration policy

Remuneration

The aim of the Committee is to ensure that the remuneration of directors is competitive and will attract and retain directors of the right calibre and qualifications to meet the requirements of the Company. Details of emoluments of the executive directors, and fees payable to non-executive directors are set out below. These include pension contributions paid by the Company at rates advised by the actuary to the Renold Supplementary Pension Scheme 1967. No element of remuneration other than basic salary is pensionable.

Directors' emoluments

	1996				1995
	Salaries & Fees £000	Annual Bonus £000	Benefits £000	Total £000	Total £000
Executive directors					
D Cotterill	137	49	9	195	181
J H B Allan	93	33	9	135	125
I R Trotter	93	33	6	132	123
R L Burdett	89	32	4	125	115
	412	147	28	587	544
Pension scheme contributions				34	5
				621	549
Chairman					
J P Frost	59			59	58
Non-executive directors					
A M Reid (retired 31.12.95)	11			11	15
M A Smith	15			15	15
R G J Telfer	17			17	16
	514			723	653
Payment to former director, A M Reid				16	
	514	147	28	739	653

Notes:

1. Executive directors participate in a performance related bonus scheme which is based on the profit achieved by the Group in excess of agreed targets.
2. The benefits shown incorporate all assessable tax benefits arising from each director's employment. The main benefits are the provision of a company car, fuel for private use and private medical insurance.

Report of the Remuneration Committee

Share option schemes

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

The new ten year Executive Share Option Scheme was introduced in 1995 to replace the previous scheme which expired in February 1995. This scheme has two parts: an Inland Revenue approved part, to grant options to UK based senior executives; and an unapproved part which can be used to grant options to both UK based and overseas senior executives. The Inland Revenue has now limited the total value of options that may be granted to each executive to £30,000 for the scheme still to retain Inland Revenue approved status. Consequently, the Committee expects to recommend that the unapproved part of the scheme is used to grant future options to executives whose options exceed the above value.

The executive directors also have share options granted to them under the Savings Related Share Option Scheme which scheme is open to all UK employees who are eligible to participate in accordance with the scheme rules. Again, the new ten year scheme was introduced in 1995. No share options have yet been granted under either the Savings Related Share Option Scheme or the Executive Share Option Scheme introduced in 1995. Details of directors' interests in shares, including options granted to executive directors under the 1985 Renold Executive Share Option Scheme and the 1985 Renold Savings Related Share Option Scheme are set out below and on page 20.

Directors' interests

The beneficial interests of the directors in the ordinary shares of the Company, as appearing in the Register of Directors' Interests maintained under the Companies Act 1985, were as follows:

	30 March 1996		1 April 1995	
	Shares	Options	Shares	Options
J P Frost (a)	134,000		134,000	
D Cotterill	170,144	167,717	20,072	417,717
J H B Allan	127,047	97,087	107,772	121,290
R L Burdett	77,544	57,087	22,472	147,087
M A Smith	5,000		5,000	
R G J Telfer	10,000		10,000	
I R Trotter	102,644	58,504	2,572	238,504

a) includes 50,000 shares held by J P Frost as a trustee of a family trust.

No options were granted to directors during the year but options in respect of 544,203 ordinary shares of 25 pence each granted under the share option schemes were exercised by directors as shown on page 20.

The only non-beneficial interest in the ordinary shares of Renold PLC at the end of the year was 160,460 shares (1 April 1995 – 197,240 shares) held by Mr D Cotterill and Mr J H B Allan as trustees of the Renold Employee Share Scheme. At 7 June 1996 the number of shares held by the trustees of the scheme was 159,740. At 30 March 1996 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 7 June 1996.

Service contracts

With the exception of the Chief Executive, Mr D Cotterill, the directors' existing service contracts can be terminated by two years' or less notice given by the Company. The respective Company notice periods required under the service contracts are one year for Mr R L Burdett, two years for Mr J H B Allan and Mr I R Trotter, and three years for Mr D Cotterill, which was one of the terms of employment offered to Mr D Cotterill when he joined the Company in 1992. The Committee considers that these notice periods are appropriate to the ongoing needs of the business.

Re-election of directors

Mr J P Frost and Mr J H B Allan retire by rotation and, being eligible, offer themselves for re-election. Whilst Mr J P Frost does not have a service contract with the Company, Mr J H B Allan has a service contract which can be terminated by the Company giving two years' notice as stated above.

Report of the Remuneration Committee

continued

Share options	At 1.4.95	Exercised	At 30.3.96	Market price on date of exercise (pence per share)	Option price (pence per share)	Date from which exercisable	Expiry date
	Number of share options						
D Cotterill							
Executive scheme	250,000	(250,000)		243	52·5		
	100,000		100,000		52·5	24.11.95	24.11.02
	50,000		50,000		120·3	30.11.96	29.11.03
Savings related scheme	17,717		17,717		97·36	1.2.99	31.7.99
J H B Allan							
Executive scheme	40,000		40,000		52·5	24.11.95	24.11.02
	50,000		50,000		120·3	30.11.96	29.11.03
Savings related scheme	24,203	(24,203)		231	46·48		
	7,087		7,087		97·36	1.2.99	31.7.99
R L Burdett							
Executive scheme	90,000	(90,000)		253	52·5		
	50,000		50,000		120·3	30.11.96	29.11.03
Savings related scheme	7,087		7,087		97·36	1.2.99	31.7.99
I R Trotter							
Executive scheme	90,000	(90,000)		257	60·1		
	90,000	(90,000)		257	52·5		
	50,000		50,000		120·3	30.11.96	29.11.03
Savings related scheme	8,504		8,504		97·36	1.2.99	31.7.99

The middle market price of ordinary shares at 30 March 1996 was 271 pence and the range of prices during the year was 192 pence to 291 pence. No options lapsed during the year.

Report by the Auditors to the Directors of Renold PLC on corporate governance matters

In addition to our audit of the accounts, we have reviewed your statements on page 17 concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code, if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to the Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial control and on going concern on page 17 have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and are consistent with the information which came to our attention as a result of our audit work on the accounts.

In our opinion, based on enquiry of certain directors and officers of the Company and examination of relevant documents, your statements on page 17 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review.

Price Waterhouse

Price Waterhouse
Chartered Accountants

York House
York Street
Manchester M2 4WS

10 June 1996

Statement of Directors' Responsibilities

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

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

The directors consider that in preparing the accounts on pages 22 to 37, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable Accounting Standards have been followed.

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

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

Report of the Auditors

To the members of Renold PLC

We have audited the accounts on pages 22 to 37 (including the additional disclosures on pages 18 to 20 relating to the remuneration of the directors specified for our review by the London Stock Exchange) which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 22 and 23.

Respective responsibilities of directors and auditors

As described above, the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company and 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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 30 March 1996 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors

York House
York Street
Manchester M2 4WS

10 June 1996

Accounting Policies

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

Basis of consolidation – The Group accounts set out on pages 22 to 37, which comprise a consolidation of the Parent Company and all its subsidiaries, have been prepared in compliance with the Companies Act 1985 and in accordance with applicable accounting standards. They have been prepared under the historical cost convention, but include some past revaluations of properties and equipment.

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

Acquisitions and goodwill – The results of companies acquired and disposed of during the year are included in Group profits from/to the effective date of acquisition or disposal. The net assets of companies acquired are incorporated in the Group accounts at their fair value to the Group, after making adjustments to reflect the alignment of the accounting policies of the acquired companies to those of the Group. Acquisitions are accounted for using the acquisition method of accounting.

Goodwill on acquisition is eliminated against reserves on consolidation.

Overseas currencies – Assets and liabilities of overseas subsidiaries are translated into sterling at the exchange rates ruling at the end of the financial year. Trading results are translated at the appropriate average rates of exchange for the year. Differences on exchange arising on the retranslation of net assets at the beginning of the year and from the translation of the results at average rates are taken direct to reserves.

Tangible assets represented by properties and equipment are stated at cost or valuation, less depreciation. Where revaluations are included the valuation of properties is based on the advice of professional valuers having regard to estimated realisable values and the valuation of equipment is based on replacement costs and the remaining estimated useful lives of the relevant assets.

Depreciation is calculated by reference to original cost or valuation at fixed percentages assuming effective useful lives as follows:

Freehold properties – 80 years; land is not depreciated

Leasehold properties – 80 years or the period of the lease if less

Equipment (including plant and machinery) – 5 to 25 years according to type of asset

Motor vehicles – 25% per annum for 3 years leaving 25% residual value

Tangible assets financed by leasing agreements that give rights approximating to ownership (finance leases) are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases in creditors. Finance lease costs are charged as interest based on a constant periodic rate as applied to the outstanding liabilities. Depreciation on leased assets is charged to the profit and loss account on the same basis as shown above.

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

Accounting Policies

Government grants in respect of capital expenditure are treated as deferred credits in the balance sheet. An annual transfer is made to profit and loss account reflecting the benefit over the expected useful lives of the assets concerned.

Stocks are stated at the lower of cost, including full manufacturing overheads, and estimated net realisable value. Long term contract work in progress is valued at cost, less amounts transferred to cost of sales and provisions for foreseeable losses. In the Group accounts, unrealised profit on sales within the Group is deducted from stocks.

Deferred taxation – Provision is not made for deferred taxation unless there is a reasonable probability that a liability will arise within the foreseeable future.

Advance corporation tax on dividends paid and proposed is charged in the Group profit and loss account except to the extent that it can be recovered against current taxation.

Turnover comprises the invoiced value of goods and services on ordinary activities after deducting value added tax or other sales related taxes, trade discounts and transactions between Group companies. Also included in turnover is the value of work done on long term contracts which are substantially completed by the balance sheet date and for which the outcome can be assessed with reasonable certainty. An appropriate portion of the anticipated contract profit is recognised in the profit and loss account. The amount by which recorded turnover exceeds payments received on account is classified separately as contract debtors.

Pensions – The costs of providing pensions for employees are charged in the profit and loss account over the average working life of employees in accordance with the recommendations of qualified actuaries. Funding surpluses or deficits that may arise from time to time are amortised over the average working life of employees.

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

Group Profit and Loss Account

for the financial year ended 30 March 1996

	Note	1996 £m	1996 £m	1995 £m	1995 £m
Turnover	1				
Continuing operations		**171·9**		148·7	
Acquisition		**7·4**			
			179·3		148·7
Trading costs	2				
Operating costs		**159·4**		136·0	
Acquisition restructuring costs		**0·4**			
			159·8		136·0
Trading profit					
Continuing operations		**18·8**		12·7	
Acquisition		**0·7**			
			19·5		12·7
Interest payable	3		**0·8**		1·1
Profit on ordinary activities before tax			**18·7**		11·6
Taxation	4		**4·7**		2·6
Profit for the financial year			**14·0**		9·0
Dividends	5		**4·8**		3·0
Retained profit for the year	15		**9·2**		6·0
Earnings per share	6		**20·8p**		13·6p

The profit and loss account should be read in conjunction with the notes on pages 28 to 37.

Balance Sheets

as at 30 March 1996

	Note	Group 1996 £m	Group 1995 £m	Renold PLC 1996 £m	Renold PLC 1995 £m
Fixed assets					
Tangible assets	8	**45·7**	41·7	**0·1**	0·1
Investments	9			**71·5**	71·6
		45·7	41·7	**71·6**	71·7
Current assets	10				
Stocks		**44·6**	38·6		
Debtors		**38·3**	35·3	**9·7**	5·5
Cash		**21·6**	19·4	**7·3**	3·6
		104·5	93·3	**17·0**	9·1
Creditors – amounts falling due within one year					
Loans and overdrafts	11	**(2·1)**	(5·1)		(3·0)
Other creditors	12	**(49·8)**	(40·9)	**(5·8)**	(4·8)
Net current assets		**52·6**	47·3	**11·2**	1·3
Total assets less current liabilities		**98·3**	89·0	**82·8**	73·0
Creditors – amounts falling due after more than one year					
Loans	11	**(7·3)**	(7·8)	**(6·7)**	(6·7)
Other creditors	12	**(2·5)**	(2·8)		
Provisions for pensions	13	**(14·8)**	(14·4)	**(2·4)**	(2·3)
Net assets		**73·7**	64·0	**73·7**	64·0
Capital and reserves (including non-equity interests)					
Called up share capital	14	**17·6**	17·3	**17·6**	17·3
Share premium	15	**4·5**	4·0	**4·5**	4·0
Revaluation reserve	15	**9·8**	12·0	**18·1**	17·2
Other reserves	15	**2·1**	2·1		
Profit and loss account	15	**39·7**	28·6	**33·5**	25·5
Shareholders' funds		**73·7**	64·0	**73·7**	64·0

Approved by the Board on 10 ~~June~~ 1996 and signed on its behalf by:

Peter Frost
David Cotterill } Directors

The balance sheets should be read in conjunction with the notes on pages 28 to 37.

Group Cash Flow Statement

for the financial year ended 30 March 1996

	Note	1996 £m	1996 £m	1995 £m	1995 £m
Operating activities	20				
Cash generated by operations		**26·1**		18·6	
(Increase) decrease in working capital		**(4·3)**		0·5	
			21·8		19·1
Returns on investments and servicing of finance					
Interest received		**0·8**		0·6	
Interest paid		**(1·4)**		(1·5)	
Finance charges paid under finance leases		**(0·2)**		(0·2)	
Dividends paid		**(3·9)**		(2·0)	
			(4·7)		(3·1)
Taxation – corporate taxes paid					
UK (including advance corporation tax)		**(0·8)**		(0·4)	
Overseas		**(1·3)**		(0·7)	
			(2·1)		(1·1)
Investing activities					
Payments to acquire tangible fixed assets		**(8·8)**		(7·2)	
Receipts from sales of tangible fixed assets		**0·7**		0·2	
Acquisition of businesses	21	**(1·6)**		(0·3)	
			(9·7)		(7·3)
Net cash inflow before financing			**5·3**		7·6
Financing	22				
Issue of ordinary shares		**0·8**		0·6	
Payment of capital element of finance leases		**(0·4)**		(0·2)	
Repayment of loans		**(3·7)**		(3·7)	
			(3·3)		(3·3)
Increase in net cash			**2·0**		4·3
Statement of net cash					
Net cash at beginning of year			**18·0**		13·4
Change in year					
Increase in net cash		**2·0**		4·3	
Exchange differences				0·3	
			2·0		4·6
Net cash at end of year			**20·0**		18·0

Analysis of net cash and changes during the year

	1996 £m	1996 £m	1995 £m	1995 £m	Change in 1996 £m	Change in 1995 £m
Cash		**21·6**		19·4	**2·2**	4·4
Loans and overdrafts	**(2·1)**		(5·1)			
Less: loans included under financing	**0·5**		3·7			
		(1·6)		(1·4)	**(0·2)**	0·2
		20·0		18·0	**2·0**	4·6

Other Group Statements

for the financial year ended 30 March 1996

Statement of total recognised gains and losses

	1996 £m	1995 £m
Profit for the financial year	**14·0**	9·0
Exchange translation differences on net assets of overseas subsidiaries	**1·0**	1·2
Total recognised gains relating to the financial year	**15·0**	10·2

Reconciliation of movements in shareholders' funds

	1996 £m	1995 £m
Profit for the financial year	**14·0**	9·0
Dividends	**4·8**	3·0
Retained profit for the year	**9·2**	6·0
Issue of ordinary shares	**0·8**	0·6
Exchange translation differences on net assets of overseas subsidiaries	**1·0**	1·2
Goodwill arising on acquisition	**(1·3)**	(0·2)
Net addition to shareholders' funds	**9·7**	7·6
Opening shareholders' funds	**64·0**	56·4
Closing shareholders' funds	**73·7**	64·0

Historical cost profits and losses

There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis.

1 Analysis of activities

Activities classified by geographical region of operation:

	1996 Turnover £m	1996 Trading profit £m	1996 Trading assets £m	1995 Turnover £m	1995 Trading profit £m	1995 Trading assets £m
United Kingdom	**84·4**	**10·5**	**38·6**	68·7	6·4	33·3
Germany	**43·0**	**3·2**	**16·1**	35·1	1·4	15·5
Rest of Europe	**45·3**	**3·1**	**12·0**	38·2	2·6	11·3
North America	**26·7**	**1·3**	**8·0**	24·0	1·0	6·6
Other countries	**24·3**	**1·4**	**7·0**	21·4	1·3	6·8
	223·7	**19·5**	**81·7**	187·4	12·7	73·5
Less: intra Group sales	**44·4**			38·7		
	179·3	**19·5**	**81·7**	148·7	12·7	73·5

Turnover by geographical region includes intra group sales as follows: United Kingdom £25·9 million (1994/5 – £22·9 million) Germany £12·1 million (1994/5 – £10·3 million) and the rest of Europe £5·2 million (1994/5 – £4·6 million).

Trading assets comprise fixed assets, current assets less creditors but exclude cash, properties held for sale, borrowings, dividends, corporate tax, finance lease obligations and provisions for pensions.

The figures by geographical region of operation shown above include the results of Manifold Industries Limited and its wholly owned subsidiary company, as follows:

	Region of operation UK £m	Region of operation Rest of Europe £m	Total £m
Turnover	**6·6**	**0·8**	**7·4**
Operating costs	**5·6**	**0·7**	**6·3**
Profit before restructuring costs	**1·0**	**0·1**	**1·1**
– restructuring costs	**0·4**		**0·4**
Trading profit	**0·6**	**0·1**	**0·7**
Trading assets	**2·0**		**2·0**

Geographical analysis of external turnover by market area:

	1996 £m Continuing operations	1996 £m Acquisition	1996 £m Total	1995 £m
United Kingdom	**35·7**	**1·5**	**37·2**	31·2
Germany	**25·3**	**1·8**	**27·1**	21·7
Rest of Europe	**44·6**	**3·0**	**47·6**	36·8
North and South America	**35·1**	**0·8**	**35·9**	29·6
Other countries	**31·2**	**0·3**	**31·5**	29·4
	171·9	**7·4**	**179·3**	148·7

In the opinion of the directors, the activities of the Group are almost wholly within the power transmission sector of the engineering industry and therefore the results are disclosed as one class of business.

Notes on the Accounts

2 Trading costs	1996		1995	
	£m	**£m**	£m	£m
Change in stocks of finished goods and work in progress		**(3·2)**		(1·1)
Raw materials and consumables		**62·1**		51·1
Own work capitalised		**(0·6)**		(0·7)
Staff costs				
Gross wages and salaries	**58·2**		50·8	
Social security costs	**8·1**		6·9	
Other pension costs (note 13)	**2·9**		2·4	
		69·2		60·1
Acquisition restructuring costs		**0·4**		
Depreciation				
Owned assets	**5·7**		4·6	
Assets acquired under finance leases	**0·4**		0·4	
		6·1		5·0
Operating lease rentals				
Equipment	**0·6**		0·5	
Other	**1·3**		1·1	
		1·9		1·6
Remuneration of auditors for audit work		**0·4**		0·3
Other external charges		**26·7**		21·5
Other operating income		**(3·2)**		(1·8)
Trading costs		**159·8**		136·0

Trading costs for 1995/6 include £6·7 million for Manifold Industries Limited and its subsidiary company comprising mainly raw materials and consumables costs £2·9 million, staff costs £2·3 million, restructuring costs £0·4 million, and other external charges £0·9 million.

Remuneration of the auditors for non-audit work amounted to £83,000 (1994/5 – £84,950) of which £40,000 (1994/5 – £42,000) related to the UK.

Expenditure on research and development charged against trading profit amounted to £0·9 million (1994/5 – £0·8 million).

	1996	1995
The average number of persons employed by the Group during the year was:		
United Kingdom	**1,431**	1,277
Germany	**485**	474
Rest of Europe	**416**	445
North America	**162**	157
Other countries	**345**	340
	2,839	2,693

3 Interest payable	**1996**	1995
	£m	£m
On loans and overdrafts repayable within 5 years	**1·4**	1·5
On finance leases	**0·2**	0·2
	1·6	1·7
Less: interest receivable	**(0·8)**	(0·6)
	0·8	1·1

Notes on the Accounts

continued

4 Taxation

	1996 £m	1996 £m	1995 £m	1995 £m
UK corporation tax based on profit of the year at the rate of 33%	**2·8**		0·5	
Less: double taxation relief	**(2·1)**		(0·4)	
	0·7		0·1	
Unrelieved advance corporation tax	**0·3**		0·7	
		1·0		0·8
Overseas taxes		**3·7**		1·8
		4·7		2·6

5 Dividends

	1996 £m	1995 £m
Ordinary shares		
Interim dividend paid of 2·5p – 1·2p	**1·7**	0·8
Final dividend proposed 4·5p – 3·3p	**3·1**	2·2
	4·8	3·0

The interim dividend of 2·5 pence was paid as a Foreign Income Dividend.

Dividends paid on the cumulative preference stock amounted to £24,000 (1994/5 – £24,000).

6 Earnings per share

The calculation of earnings per share shown on page 24 is based on the profit of £14·0 million and the weighted average of 67,140,120 shares in issue during the year. The calculations for the previous year were based on the profit of £9·0 million and the weighted average of 66,170,143 shares in issue during that year.

Under the Nil distribution basis, eliminating the charge for unrelieved advance corporation tax on the ordinary dividends, earnings per share were 21·3p (1994/5 – 14·5p per share).

The potential dilution arising from options granted under share option schemes is not material.

7 Remuneration of directors

The remuneration of directors of Renold PLC included as a charge in the year's accounts was:

	1996 £'000	1995 £'000
Fees as directors	**102**	104
Executive emoluments including benefits in kind	**440**	421
Performance related bonuses	**147**	123
Pension scheme contributions	**34**	5
	723	653
Payment to former director	**16**	
	739	653
Included in above figures:		
Emoluments of the Chairman – fees	**59**	58
Emoluments of the highest paid director		
Executive emoluments including benefits in kind	**146**	140
Performance related bonus	**49**	41
Pension scheme contributions	**8**	1
	203	182

Notes on the Accounts

7 Remuneration of directors (continued)

The number of directors who received fees, executive emoluments (excluding pension contributions), and performance related bonuses during the year within the following bands was:

	1996	1995
£ 10,001 – £ 15,000	**1**	2
£ 15,001 – £ 20,000	**2**	1
£ 55,001 – £ 60,000	**1**	1
£115,001 – £120,000	**–**	1
£120,001 – £125,000	**1**	1
£125,001 – £130,000	**–**	1
£130,001 – £135,000	**1**	–
£135,001 – £140,000	**1**	–
£180,001 – £185,000	**–**	1
£190,001 – £195,000	**1**	–

Further details of directors' emoluments and interests of directors in the shares of the Company are given in the Report of the Remuneration Committee on pages 18 to 20.

8 Tangible assets

	Group Properties £m	Group Equipment £m	Group Total £m	Renold PLC Equipment £m
Cost or valuation				
At beginning of year	17·5	76·2	93·7	0·4
Exchange adjustment	0·3	0·6	0·9	
Additions at cost	0·4	9·3	9·7	0·1
Acquisition of business		0·2	0·2	
Disposals		(1·2)	(1·2)	(0·1)
At end of year	**18·2**	**85·1**	**103·3**	**0·4**
Analysis of cost or valuation				
Valuation made in:				
1965 to 1970		0·1	0·1	
1971	4·7		4·7	
1974		5·8	5·8	
Assets at cost	13·5	79·2	92·7	0·4
	18·2	85·1	103·3	0·4
Depreciation				
At beginning of year	6·2	45·8	52·0	0·3
Exchange adjustment	0·2	0·4	0·6	
Depreciation for the year	0·5	5·6	6·1	0·1
Disposals		(1·1)	(1·1)	(0·1)
At end of year	**6·9**	**50·7**	**57·6**	**0·3**
Net book value at end of year	**11·3**	**34·4**	**45·7**	**0·1**
Net book value at beginning of year	11·3	30·4	41·7	0·1

Net book value at the end of the year includes £6·1 million (1994/5 – £6·6 million) in respect of leased assets (land and buildings £4·1 million (1994/5 – £4·4 million), equipment £2·0 million (1994/5 – £2·2 million)).

The total cost or valuation of properties at 30 March 1996 comprises £12·7 million (1994/5 – £12·0 million) for freehold land and buildings and £5·5 million (1994/5 – £5·5 million) for leasehold land and buildings which relates to short term leases where the period unexpired is less than 50 years.

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

Future capital expenditure

At 30 March 1996 authorised capital expenditure not provided for in these accounts amounted to approximately £1·9 million (1994/5 – £1·4 million). Of these amounts contracts have been placed for £1·3 million (1994/5 – £0·8 million).

9 Investments

Renold PLC

Subsidiary companies	Shares	Advances	Total
Cost or valuation	£m	£m	£m
At beginning of year	42·1	29·5	71·6
Repayments		(5·9)	(5·9)
Surplus on revaluation	5·8		5·8
At end of year	**47·9**	**23·6**	**71·5**

Shares in subsidiary companies are stated at their net asset value at the end of the year. The directors have adopted this basis because they consider that it more fairly represents the investment of Renold PLC in subsidiary companies. The principal subsidiary companies of Renold PLC at 30 March 1996 are set out on page 38.

10 Current assets

	Group		Renold PLC	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Stocks				
Materials	**6·6**	5·5		
Work in progress	**11·3**	10·3		
Finished products	**26·7**	22·8		
	44·6	38·6		
Debtors				
Trade debtors	**30·0**	26·5		
Contract debtors		0·3		
Amounts owed by group subsidiaries			**9·6**	5·3
Other debtors	**2·0**	1·8		0·1
Properties held for sale	**5·0**	5·6		
Prepayments and accrued income	**1·3**	1·1	**0·1**	0·1
	38·3	35·3	**9·7**	5·5
Cash at bank and in hand	**21·6**	19·4	**7·3**	3·6
	104·5	93·3	**17·0**	9·1

The Group figures for other debtors include £0·8 million (1994/5 – £0·8 million) of amounts falling due after more than one year.

11 Loans and overdrafts

	Group		Renold PLC	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Total borrowings	**9·4**	12·9	**6·7**	9·7
Less: repayable within one year or on demand	**2·1**	5·1		3·0
Amounts falling due after more than one year	**7·3**	7·8	**6·7**	6·7
Repayable:				
Between one and two years	**6·8**	0·5	**6·7**	
Between two and five years	**0·5**	7·3		6·7
	7·3	7·8	**6·7**	6·7
Loans comprise:				
8% First Debenture Stock 1991/96		3·0		3·0
7⅝% Second Debenture Stock 1992/97	**6·7**	6·7	**6·7**	6·7
Sterling loan 1998 – UK	**0·3**	0·3		
Bank loans – overseas	**0·8**	1·5		
	7·8	11·5	**6·7**	9·7
Less: repayable within one year	**0·5**	3·7		3·0
	7·3	7·8	**6·7**	6·7

Included in Group borrowings are secured borrowings of £8·5 million (1994/5 – £11·4 million). Renold PLC borrowings are all secured. Interest on the UK sterling loan and overseas subsidiaries' loans is payable at variable rates determined in relation to local bank base rates.

12 Creditors

	Group		Renold PLC	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Amounts falling due within one year				
Trade creditors	**22·5**	20·4	**0·3**	0·3
Dividends payable	**3·1**	2·2	**3·1**	2·2
Corporate taxes	**5·5**	2·9	**0·7**	0·8
Other taxation and social security	**3·8**	3·6	**0·2**	0·1
Advance payments from customers	**1·5**	0·2		
Other creditors	**4·4**	4·1	**0·2**	0·3
Accruals	**8·5**	7·1	**1·3**	1·1
Finance lease obligations	**0·5**	0·4		
	49·8	40·9	**5·8**	4·8
Amounts falling due after more than one year				
Finance lease obligations				
Between two and five years	**1·2**	1·5		
Over five years	**0·1**	0·2		
Other creditors	**1·2**	1·1		
	2·5	2·8		

13 Provisions for pensions

The Group operates a number of pension schemes throughout the world. In the UK, the schemes are defined benefit type schemes with assets held in trustee administered funds. Overseas, employees participate in a variety of different pension arrangements of the defined contribution or defined benefit type funded in accordance with local practice. There is no material surplus or deficit in any of the overseas schemes and actuarial valuations of these schemes are carried out at least every three years. The total pension costs for the Group were as follows:

	1996 £m	1995 £m
UK	0·8	0·5
Overseas	2·1	1·9
	2·9	2·4

The UK cost for 1995/6 reflects the regular contribution rate less £0·8 million (1994/5 – £0·8 million) in respect of the actuarial surplus referred to below which is being recognised over the average expected remaining service life of active scheme members.

The pension cost relating to UK schemes is assessed in accordance with the advice of William M Mercer Limited, the Group's consulting actuaries, using the projected unit method. The last actuarial valuations of these schemes were carried out as at 6 April 1995 and the next valuations will be carried out as at 6 April 1998. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It has been assumed that the investment return will be 9% per annum, that salary increases will average 7% per annum and that present and future pensions will increase at rates of 4% or 5% per annum.

At the date of the 1995 valuations the actuarial value of the assets of the UK schemes totalled £70·7 million which represented 107% of the liabilities in respect of benefits accrued to members, allowing for expected future increases in earnings. The actuarial surplus of £5·0 million is being credited to the profit and loss account over the average expected remaining service life of active scheme members which is approximately 14 years from 6 April 1995.

Overseas pension costs include £1·2 million (1994/5 – £1·1 million) in respect of Germany and Australia where the charge is determined in accordance with SSAP 24. For other overseas countries, no adjustment has been made to the local pension costs, since any differences from a charge calculated in accordance with SSAP 24 are not considered to be material.

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

	1996 £m	1995 £m
UK schemes	2·4	2·3
Overseas schemes	12·4	12·1
	14·8	14·4

The movement in the year was as follows:

	1996 £m
At beginning of year	14·4
Exchange translation differences	(0·1)
Profit and loss account	1·4
Utilised	(0·9)
At end of year	14·8

14 Called up share capital	Authorised 1996 £m	1995 £m	Issued 1996 £m	1995 £m
Equity interests				
Ordinary shares of 25p each	**23·1**	23·1	**17·0**	16·7
Non-equity interests				
6% Cumulative Preference Stock (£1 units)	**0·6**	0·6	**0·6**	0·6
	23·7	23·7	**17·6**	17·3

The Company issued 1,322,739 ordinary shares of 25p each for a cash consideration of £851,664 during the year by the exercise of options under the 1985 Renold Executive Share Option Scheme, the 1985 Renold Savings Related Share Option Scheme and in respect of the Renold Employee Share Scheme.

At 30 March 1996 the issued Ordinary Share Capital comprised 68,008,840 ordinary shares of 25p each.

The preference shares, which comprise the only non-equity interest in shareholders' funds, have the following rights:

(i) a fixed cumulative preferential dividend at the rate of 4·2% (plus tax credit) per annum payable half yearly on 1 January and 1 July in each year.

(ii) they rank both with regard to dividend (including any arrears to the commencement of a winding up) and return of capital in priority to all other stock or shares of the Company but with no further right to participate in profits or assets.

(iii) there is no right to attend or vote, either in person or by proxy, at any General Meeting of the Company or to have notice of any such meeting, unless the dividend on the preference stock is in arrear for six calendar months.

(iv) there is no redemption entitlement.

15 Reserves	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit & loss account £m	Total reserves £m
Group					
At beginning of year	4·0	12·0	2·1	28·6	46·7
Exchange translation differences on net assets of overseas subsidiaries				1·0	1·0
Share premium	0·5				0·5
Goodwill arising on acquisitions				(1·3)	(1·3)
Retained profit for the year				9·2	9·2
Reclassification of reserves		(2·2)		2·2	
At end of year	**4·5**	**9·8**	**2·1**	**39·7**	**56·1**
Renold PLC					
At beginning of year	4·0	17·2		25·5	46·7
Share premium	0·5				0·5
Retained profit for the year				3·1	3·1
Surplus on revaluation of shares in subsidiaries		0·9		4·9	5·8
At end of year	**4·5**	**18·1**		**33·5**	**56·1**

The consolidated profit for the financial year includes a profit of £7·9 million (1994/5 – £3·4 million) which is dealt with in the accounts of the parent company.

Cumulative goodwill written off to Group reserves at 30 March 1996, subsequent to the capital reorganisation in January 1985, amounted to £1·5 million (1994/5 – £0·2 million).

16 Deferred taxation

No provision has been made for deferred taxation. At 30 March 1996, there were UK fixed asset and other timing differences, at the corporate tax rate, as follows:

	1996 £m	1995 £m
Fixed assets	**3·1**	3·0
Other	**(1·8)**	(1·5)
	1·3	1·5
Unrelieved losses		(3·1)
	1·3	(1·6)

Surplus advance corporation tax written off amounts to £10·1 million (1994/5 – £9·9 million) which is available for future relief.

Overseas timing differences amounted to £4·0 million (1994/5 – £4·1 million) which relate principally to fixed asset revaluations.

Distributions by overseas companies would in most cases be subject to additional taxation.

17 Operating lease obligations

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

	1996		1995	
	Properties £m	**Equipment £m**	Properties £m	Equipment £m
Leases expiring:				
Within one year		**0·2**		0·1
Between two and five years	**0·2**	**0·5**	0·3	0·6
Over five years	**1·0**		0·8	
Total annual commitments	**1·2**	**0·7**	1·1	0·7

18 Contingent liabilities

Contingent liabilities at 30 March 1996 in respect of guarantees amounted to £1·7 million (1994/5 – £3·3 million) for the Group. In addition Renold PLC had guaranteed bank and other borrowings by subsidiaries which amounted to £3·0 million (1994/5 – £1·9 million).

19 Share options

Share options have been granted under the 1985 Renold Executive Share Option Scheme and the 1985 Renold Savings Related Share Option Scheme. At 30 March 1996 unexercised options for ordinary shares amounted to 1,258,219 (1994/5 – 2,534,293) made up as follows:

Date normally exercisable	Option price (pence per share)	Number of shares 1996	Number of shares 1995
Executive Share Option Scheme			
Within seven years from:			
3 July 1993	95·9		40,000
18 November 1994	60·1		130,000
29 June 1995	52·5		250,000
24 November 1995	52·5	**260,000**	620,000
30 November 1996	120·3	**420,000**	420,000
1 December 1997	184·3	**120,000**	120,000
		800,000	1,580,000
Savings Related Share Option Scheme			
Within six months from:			
1 February 1996	46·48	**44,732**	519,904
1 February 1999	97·36	**413,487**	434,389
		458,219	954,293

20 Reconciliation of trading profit to net cash inflow from operating activities

	1996 £m	1995 £m
Trading profit	**19·5**	12·7
Depreciation	**6·1**	5·0
Pension costs provision	**0·5**	0·9
Cash generated by operations	**26·1**	18·6
(Increase) in stocks	**(4·2)**	(2·3)
(Increase) in debtors	**(1·7)**	(3·0)
Increase in creditors	**1·6**	5·8
(Increase) decrease in working capital	**(4·3)**	0·5
Net cash inflow from operating activities	**21·8**	19·1

21 Acquisitions of businesses

The effect of the acquisitions of Manifold Industries Limited in April 1995 and Erich Erler GmbH & Co KG in March 1996 was as follows:

	Book value £m	Revaluation £m	Fair value to the Group £m
Net assets:			
Fixed assets	0·2		0·2
Current assets	2·4	(0·1)	2·3
Current liabilities	(1·9)		(1·9)
	0·7	(0·1)	0·6
Goodwill			1·3
			1·9
Represented by:			
Cash paid			1·7
Cash acquired			(0·1)
Deferred consideration			0·3
			1·9

22 Analysis of changes in financing during the year

	Share capital & share premium		Loans & finance lease obligations	
	1996 £m	1995 £m	1996 £m	1995 £m
At beginning of year	**21·3**	20·7	**13·6**	17·4
Cash inflow (outflow) from financing	**0·8**	0·6	**(4·1)**	(3·9)
New finance lease			**0·1**	
Exchange differences				0·1
At end of year	**22·1**	21·3	**9·6**	13·6

Principal Subsidiary Companies

as at 30 March 1996

UNITED KINGDOM

Renold Power Transmission Limited*
FACTORIES: BRADFORD, BREDBURY, BURTON, CARDIFF, MILNROW

Renold International Holdings Limited*

Manifold Industries Limited FACTORY: LONDON

REST OF EUROPE

Austria	Renold GmbH
Belgium	Renold Continental Limited (incorporated in the United Kingdom)
Denmark	Renold A/S
France	Brampton Renold SA FACTORIES: CALAIS, LILLE Manifold Indexing SARL
Germany	Renold (Deutschland) GmbH – Arnold & Stolzenberg GmbH FACTORY: EINBECK – Erler GmbH
Holland	Renold Continental Limited (incorporated in the United Kingdom)
Sweden	Renold Transmission AB
Switzerland	Renold (Switzerland) GmbH

NORTH AMERICA

Canada	Renold Canada Limited
USA	Renold Holdings Inc – Renold Inc FACTORY: WESTFIELD – Renold Power Transmission Corporation

OTHER COUNTRIES

Australia	Renold Australia Proprietary Limited FACTORY: MELBOURNE
Malaysia	Renold (Malaysia) Sdn Bhd
New Zealand	Renold Christian Limited FACTORY: AUCKLAND
Singapore	Renold Overseas 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. Dormant and property 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 wholly owned subsidiaries of Renold PLC. Renold Power Transmission Limited, Renold International Holdings Limited and Manifold Industries Limited are registered in England and Wales. Overseas companies are incorporated in the countries in which they operate except where otherwise stated.

Group Five Year Financial Review

Profit and loss account

£m	1996	1995	1994	1993	1992
Turnover	**179·3**	148·7	130·0	125·1	121·5
Trading profit(loss)	**19·5**	12·7	7·3	3·2	(1·2)
Exceptional credits	**–**	–	0·1	–	–
Profit(loss) on ordinary activities before tax	**18·7**	11·6	6·0	1·2	(3·0)
Profit(loss) after tax for ordinary shareholders	**14·0**	9·0	4·9	0·6	(3·7)

Balance sheet

£m	1996	1995	1994	1993	1992
Fixed assets	**45·7**	41·7	38·6	40·6	40·2
Stocks	**44·6**	38·6	35·2	38·4	33·9
Debtors	**33·3**	29·7	25·5	25·3	24·6
Creditors	**(41·9)**	(36·5)	(29·0)	(28·0)	(28·1)
Trading assets	**81·7**	73·5	70·3	76·3	70·6
Properties held for sale	**5·0**	5·6	5·0	5·0	6·1
Cash (net of borrowings including finance leases)	**10·4**	4·4	(4·0)	(15·0)	(15·4)
Dividends and tax	**(8·6)**	(5·1)	(2·5)	(1·3)	(1·6)
Provisions for pensions	**(14·8)**	(14·4)	(12·4)	(11·7)	(9·3)
Net assets	**73·7**	64·0	56·4	53·3	50·4

Key data

		1996	1995	1994	1993	1992
Trading return on average trading assets	%	**25·6***	17·7	10·0	4·4	(1·7)
Trading profit(loss) on turnover	%	**11·1***	8·5	5·6	2·6	(1·0)
Capital expenditure	£m	**9·7**	7·8	3·5	3·3	5·0
Gearing	%	**(14)**	(7)	7	28	31
Earnings(loss) per share	p	**20·8**	13·6	7·4	0·9	(5·6)
Dividends per ordinary share	p	**7·0**	4·5	2·5	1·0	1·0
Employees at year end		**2,848**	2,751	2,587	2,697	2,900

* Based on trading profit before acquisition restructuring costs.

Notice of Meeting

Notice is hereby given that the sixty-sixth Annual General Meeting of Renold PLC will be held at Renold House, Styal Road, Wythenshawe, Manchester M22 5WL on Thursday 25 July 1996 at 2.30 p.m. for the following purposes:

1 To receive and to consider the Accounts and the Reports of the Directors and of the Auditors in respect of the financial year ended 30 March 1996.

2 To declare a final dividend on the issued ordinary shares.

3 To re-elect Mr J P Frost as a director.

4 To re-elect Mr J H B Allan as a director.

5 To re-appoint the auditors and to authorise the directors to fix their remuneration.

To consider, and if thought fit, pass the following resolution which will be proposed as a Special Resolution:

6 (A) THAT the directors be generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 to exercise for the period ending on the date of the next Annual General Meeting or 24 October 1997, whichever is the earlier, all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £5,667,403;

(B) THAT pursuant to and during the period of the said authority the directors be empowered to allot equity securities wholly for cash:

(i) in connection with a rights issue; and

(ii) otherwise than in connection with a rights issue, up to an aggregate nominal amount of £850,110;

as if Section 89(1) of the said Act did not apply to any such allotment;

(C) THAT by such authority and power the directors may during such period make offers or agreements which would or might require the making of allotments after the expiry of such period; and

(D) THAT for the purposes of this Resolution:

(i) "rights issue" means an offer of equity securities open for acceptance for a period fixed by the directors to holders of equity securities on the register on a fixed record date in proportion to their respective holdings of such securities or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised body or any stock exchange in, any territory);

(ii) the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the Company, the nominal amount of such shares which may be allotted pursuant to such rights; and

(iii) words and expressions defined in or for the purposes of Part IV of the said Act shall bear the same meanings herein.

By Order of the Board

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

DA Lyndon

D A Lyndon
Secretary
28 June 1996

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

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

The dividend recommended, if approved, will be paid on 8 August 1996 to members appearing on the register on 25 June 1996.

Copies of contracts of service of directors of the Company, other than contracts expiring, or determinable by the Company without payment of compensation, within one year, will be available for inspection at the Company's registered office during the 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 will be available for inspection at the place of the Annual General Meeting from 2.15 p.m. until close of meeting.

Financial Calendar

	1996
Annual General Meeting	25 July
Final ordinary dividend for 1995/6 – payment date	8 August
Half year end 1996/7	28 September
Half year 1996/7 results published	mid November

	1997
Interim ordinary dividend for 1996/7 payable	end January
Year end 1996/7	29 March
Preliminary announcement of annual results 1996/7	mid June

Other dividend and interest payments

Preference dividends:	1 July and 1 January
7⅝% Second Debenture Stock:	8 September and 8 March

RENOLD

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