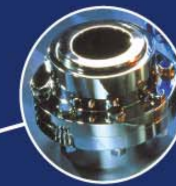
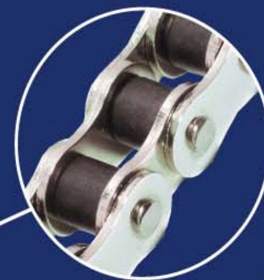
Preliminary Announcement
2005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Agenda

- Financial Review
- Overview of 2004/05 results
- Summary

FINANCIAL REVIEW

Financial Summary

	2005	2004 restated
	£M	£M
Turnover	**197.0**	192.1
Operating profit (before exceptionals)	**3.7**	7.6
Profit before tax (before exceptionals)	**1.1**	3.7
Profit before tax	**(6.8)**	4.7
Earnings per share – adjusted	**1.4p**	4.5p
Dividend per share	**1.5p**	4.5p

Note: Exceptionals comprise goodwill amortisation, redundancy & restructuring costs and write off of impaired goodwill

Profit and Loss Account

	2005 £M	2004 restated £M
Turnover	**197.0**	192.1
Operating profit (before exceptionals)	**3.7**	7.6
Goodwill amortisation	**(1.2)**	(1.3)
Redundancy and restructuring costs	**(4.3)**	(0.5)
Goodwill impairment	**(2.4)**	
Exceptional gain on property sale		2.8
Operating profit	**(4.2)**	8.6
Interest payable	**(2.2)**	(2.3)
Other net financing costs (FRS 17)	**(0.4)**	(1.6)
Profit before tax	**(6.8)**	4.7
Tax	**1.6**	
Profit after tax	**(5.2)**	4.7
Operating profit margin	**1.9%**	4.0%
Return on average operating assets	**4.0%**	8.6%

	£M
Steel (net)	4.0
FX	1.6
	5.6

Management estimates

Balance Sheet

	2005 £M	2004 restated £M
Net goodwill	**10.2**	18.8
Tangible fixed assets	**49.5**	47.0
Stocks	**47.3**	47.0
Debtors	**51.6**	41.5
Creditors	**(47.1)**	(45.3)
Net borrowings	**(17.0)**	(19.2)
Provisions for liabilities and charges	**(12.9)**	(1.2)
Net assets	**81.6**	88.6
Share capital	**17.9**	17.9
Reserves	**63.7**	70.7
Shareholders' funds (pre pension deficit)	**81.6**	88.6
Gearing (pre pension deficit)	**21%**	22%

Goodwill movement	£M
NBV April 2004	18.8
SAF acquisition	(4.5)
J&S impairment	(2.4)
Annual amortisation	(1.2)
Exchange	(0.5)
NBV March 2005	10.2

Debtor movement	£M
Balance April 2004	41.5
SAF acquisition	2.8
Trade debtors	3.3
Deferred tax	3.8
Other	0.2
Balance March 2005	51.6

Cash Flow

	2005 £M	2004 restated £M
Cash flow from operating activities	6.6	9.2
Capital expenditure	(8.0)	(6.0)
	(1.4)	3.2
Acquisition (net cash acquired)	9.6	-
Servicing of finance	(2.1)	(3.3)
Taxation	(1.0)	(1.6)
Equity dividends paid	(3.2)	(3.2)
Proceeds from disposal of property held for sale	-	5.1
Cash flow in the period	1.9	0.2
Net debt (opening)	(19.2)	(20.9)
Movement resulting from cash flow	1.9	0.2
New finance leases	-	(0.5)
Other non-cash changes	(0.1)	(0.1)
Exchange translation difference	0.4	2.1
Net debt (closing)	(17.0)	(19.2)

	2005 £M	2004 restated £M
Op. profit	(4.2)	5.8
Dep/amort	9.9	10.1
Negative goodwill	(6.8)	-
Impaired goodwill	2.4	-
Stocks	-	(2.7)
Debtors	(5.9)	0.1
Creditors	3.5	(0.8)
Provisions	11.7	-
Other inc pensions	(4.0)	(3.3)
	6.6	9.2

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Segmental Analysis

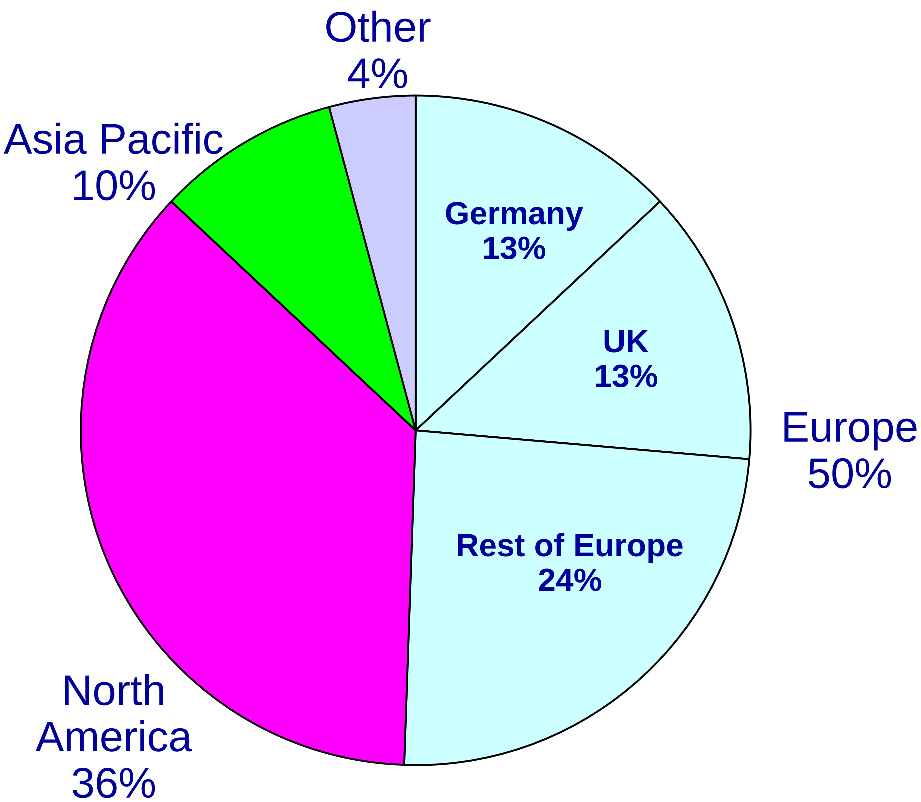
	2005	2004 restated	2005 H1	2005 H2	2004 restated H1	2004 restated H2
	£M	£M	**£M**	**£M**	£M	£M
Turnover						
Power transmission	**177.3**	174.2	**85.8**	**91.5**	86.1	88.1
Machine tool and rotor	**21.7**	20.7	**10.5**	**11.2**	9.9	10.8
	199.0	194.9	**96.3**	**102.7**	96.0	98.9
Less: Interactivity sales	**(2.0)**	(2.8)	**(1.0)**	**(1.0)**	(1.1)	(1.7)
Total	**197.0**	192.1	**95.3**	**101.7**	94.9	97.2
Operating Profit						
Power transmission	**3.1**	7.3	**3.1**	**-**	3.6	3.7
Machine tool and rotor	**0.6**	0.3	**0.4**	**0.2**	-	0.3
Total	**3.7**	7.6	**3.5**	**0.2**	3.6	4.0

Power transmission analysis

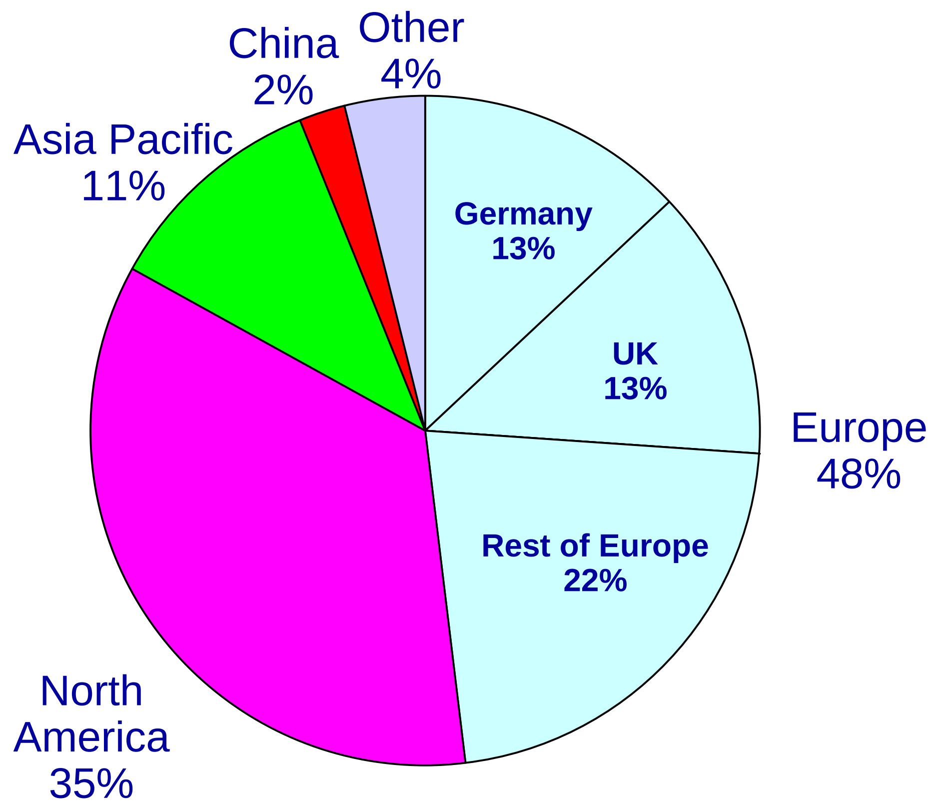
	2005 £M	2004 restated £M	
Sales	**177.3**	174.2	Adverse translation effect (£5.8M) Growth is 5.1% at constant rates
Operating profit	**3.1**	7.3	Adverse net steel price rise effect £(4.0)M Adverse translation effect £(0.2)M Adverse transaction effect (£1.4M) (Management estimates)
Operating profit margin	**1.7%**	4.1%	Excluding currency effects this would have been 2.7%

OVERVIEW OF 2004/5 RESULTS

Turnover by Destination

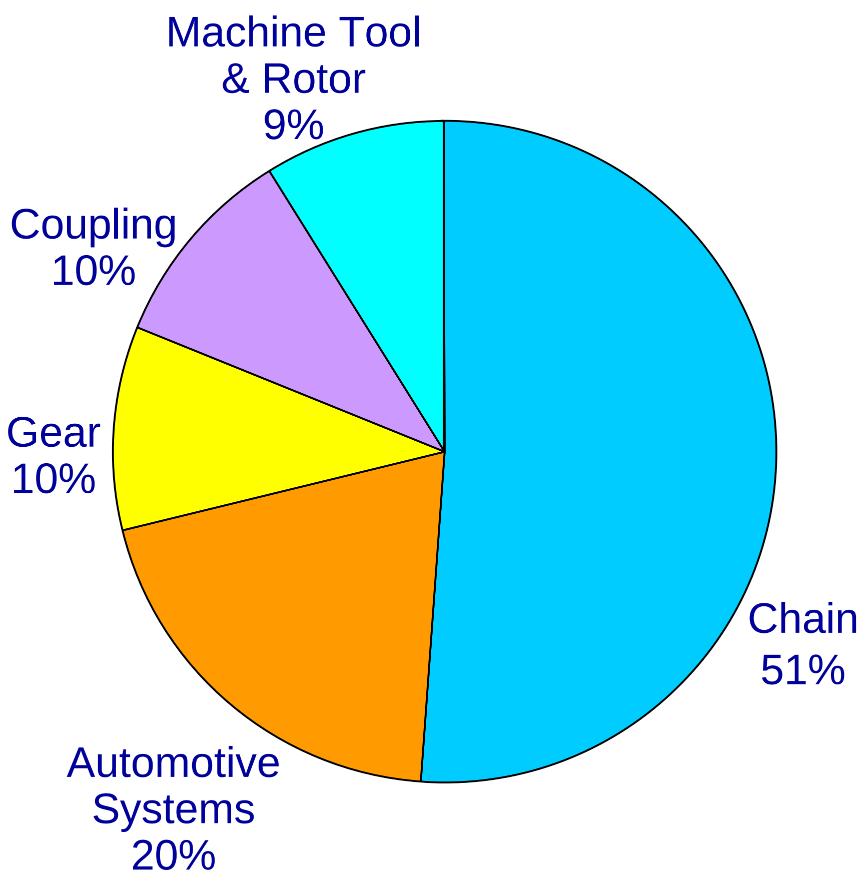


2003/04
£192M

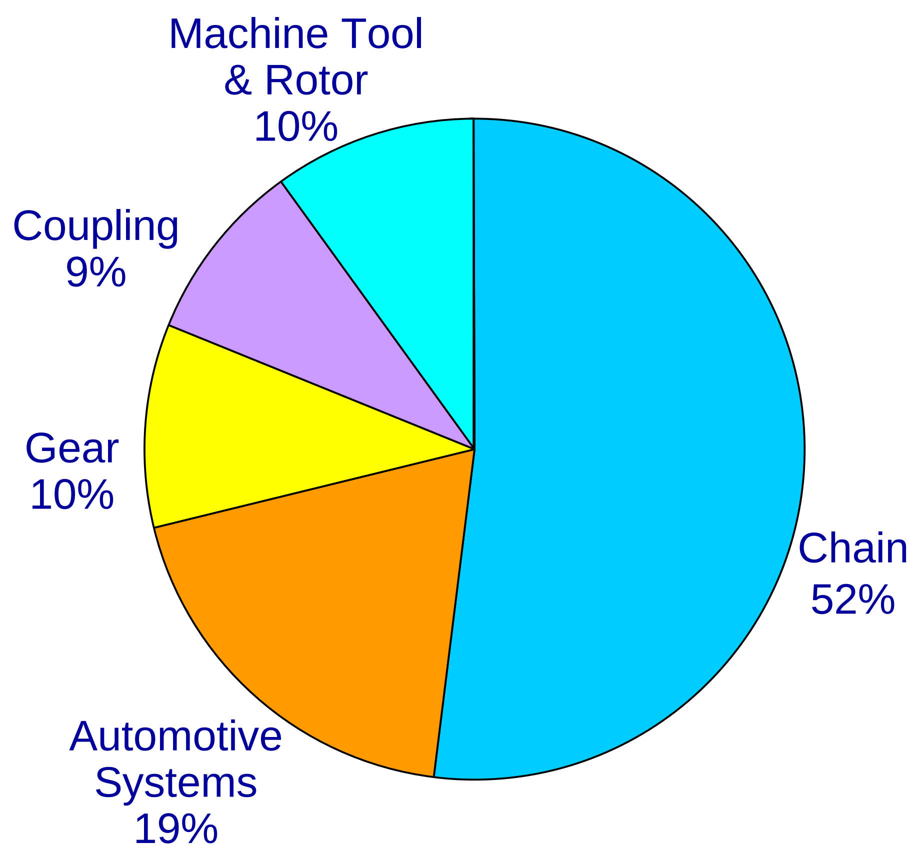


2004/05
£197M
(£203M at Constant Ex Rates)

Turnover by Product



2003/04
£192M



2004/05
£197M

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Strategy

- Tighter focus on core business
- Return business to cash generative profitable growth by reducing cost base and pursuing sales opportunities in new markets
- Restore shareholder value

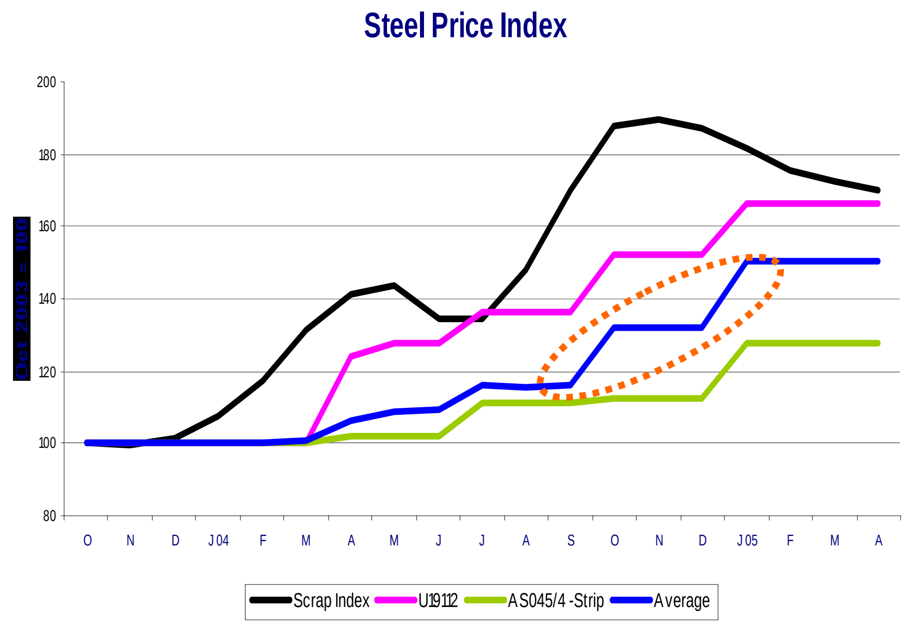
Manage down borrowing level

Overview

- Continue to drive pricing to recoup impact of steel increases
- Aggressive cost reduction
- Increase mfg in US and establish in China and Eastern Europe
- Grow sales resource in US and China
- Drive Lean manufacturing to continue efficiencies
- Maintain technology leadership

Steel Price Increases

- Results severely impacted by steel price increases
- Steel price >40% higher by year end; step increase in 2nd half
- Steel is typically 30%-50% of product cost
- Cost increases passed on to Distributors
- Time lag and lack of full recovery from OEM's



Source: Metal Bulletin/Renold

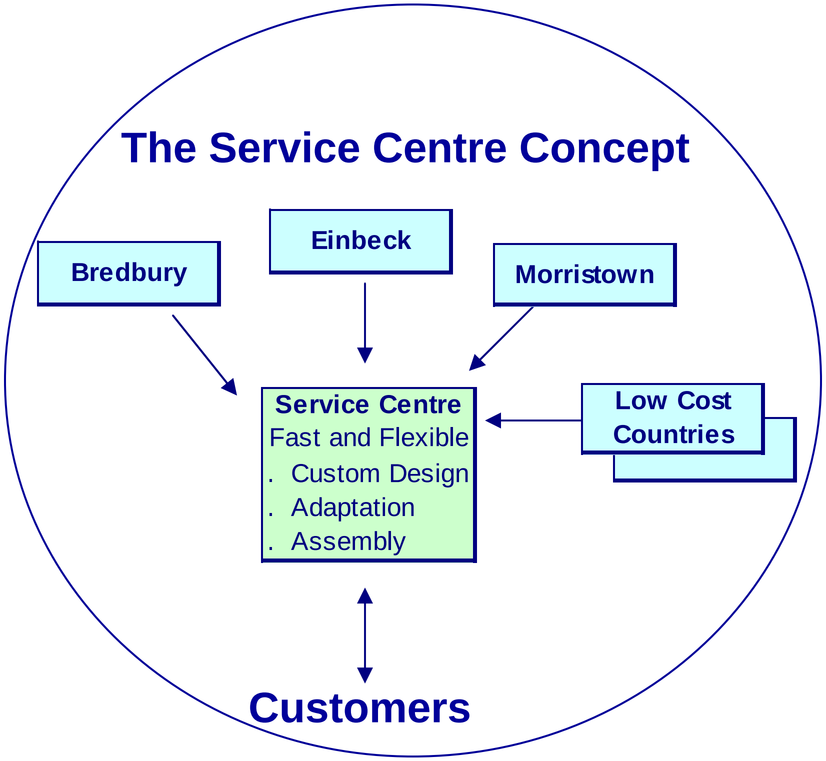
Going Forward

- Steel prices have been level since January
  - Some softening but significant decreases not forecast
- Completion of negotiations with OEM's will yield further sales price increases
  - Unlikely to achieve full recovery
- Imperative to reduce cost base to match external conditions

Chain

<u>Cost Base Reductions</u>

- Closure of Burton facility and creation of a Service Centre
  - Net reduction of 100 jobs
  - Exceptional cost of £3.2M
  - Future potential from sale of surplus land



- Service Centre planned for Poland
  - Transfer 50 jobs from Germany
- Increased outsourcing India/China
- Relocation of certain products from Europe to US

Cost reduction target £4.0M for full year

China

<u>China</u>

- In discussion with a Chinese chain manufacturer
  - Initially a period of co-operation
  - Objective is a controlling interest longer term

- Combination of Renold technical excellence with low cost manufacturing

- Will give access to markets not currently served
  - Target both Chinese and other markets

- Sales office has grown from 1 to 12 during the year

Chain

Improved Efficiency

- Focus on two distribution centres in Europe
  - Improved service with better overall stock turns
  - Reduction of distribution costs
- Common IT platform to support distribution initiatives
- Lean manufacturing taking hold at all sites
  - Created ‘free’ space at all sites for new/relocated products
  - Reduction in labour cost as a percentage of sales

Couplings/Gears

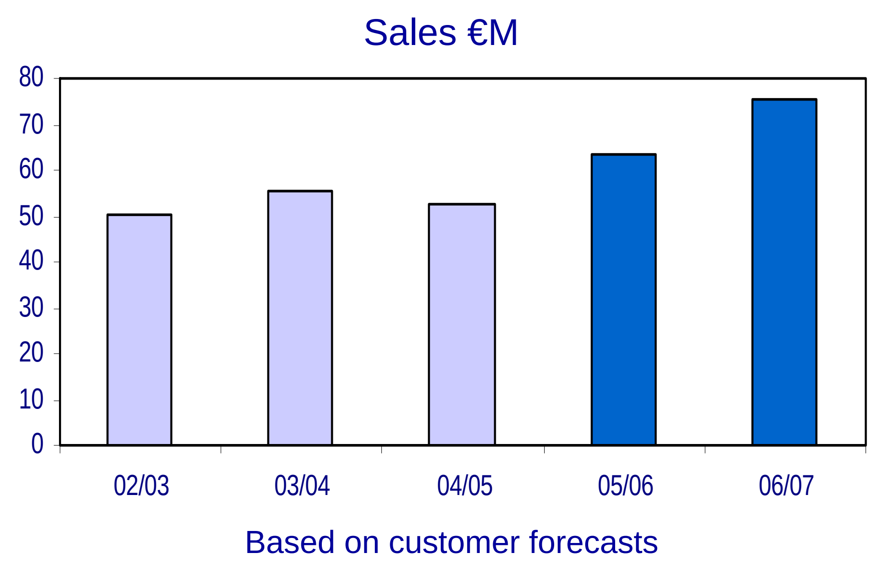
- Improvement in orders, sales and profits achieved
- Commodity cost increases offset by outsourcing and labour efficiency gains
- Coupling businesses integrated under a single mgt team
  - Good order growth in US and excellent European prospects
  - Steel Industry demand helped to improve sales
  - Alstom/NYC Transit contract going well - $13M over 4 years
- Gears order growth coming from China, OEMs and Germany

Automotive

- Sales were below expectation and last year
  - Driven by lower demand on existing programmes

- New programmes awarded secure growth going forward
  - Nissan
  - PSA
  - Hyundai
  - GM

•1st award from GM Shanghai



Automotive

- Operating margin below expectation and last year
  - Exchange movement adverse cost £0.7M
  - Steel price increases not passed on to customers
  - Steel surcharge from some European customers post 3/05
- Efficiency improvements achieved
  - Not sufficient to offset sales shortfall and cost increases

Automotive

- Manufacturing facility established in Tennessee on schedule
  - Product delivered to customer for Qualification in March
  - Use of existing building and equipment has kept costs low
  - Eventual source of supply for all US systems
- Qualification expected in July
  - Reduce costs
  - Exchange rate immunity
- German facility built and opened
  - No customer disruption
  - Costs less than planned

Automotive

<u>Sachs Automotive France</u>

- Acquired SAF for a nominal sum in March
  - Profitable aftermarket business
  - Surplus assembly equipment that avoids Capex at Calais
  - Good skilled resources that can be applied in Calais

- Restructuring in progress – completion expected Sept 2005
  - Fully funded by provision transferred on acquisition
  - Will be fully integrated post restructuring

To-date acquisition has met expectations

Machine Tool & Rotor

- Further year of profit improvement
- Driven by increased sales and orders
- Steel/utility price increases offset by outsourcing/efficiency
- Orders for Holroyd weaker than expected towards year end
  - Some what offset by demand for Rotors and Loose Gears

Machine Tool & Rotor

- New Suprema launched at Jones & Shipman
  - Potential £1M/year additional sales

- Apprentice Training School re-opened at Holroyd
  - Pipeline of skilled machinists for the Group

Summary

- Aggressive cost reduction programme to offset impact of steel costs and exchange rates
  - Some benefit from pricing
- Continue focus on growth in China and US
- Future Automotive growth secured by new programme awards
- Gears and Couplings have strong order book going forward

Establish cost base for future growth

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