Preliminary Announcement 2006

RENOLD

Agenda

- Restructuring
- Financial Review
- Business Going Forward
  - Chain
  - Gears
  - Couplings
- Summary

Proposed Divestitures

- Focus on core business and need to conserve cash has led to
  - Proposed sale of Automotive Systems and Machine Tools
- Contracts being finally negotiated expected to be signed shortly
- Automotive buyer is INA-Schaeffler KG based in Germany
  - Privately owned with sales of €8.0B (€5.0B in automotive)
- Machine Tools buyer is Venture Private Equity
- Proceeds will be used to reduce debt by circa £10M
  - Excludes Earn Out, Calais building and Loose Gears

FINANCIAL REVIEW

Disposal Accounting

- Automotive and Machine Tools treated as Disposal Groups (DG's)
- Net assets of DG's re-assessed on a fair value basis
  - Net of costs associated with the disposal process
- Resultant impairment charge booked within the results of DG's
- Income statement presented for the continuing Group
  - Prior year amounts restated on a "like for like" basis
- Assets/liabilities of DG's removed from 2006 balance sheet
  - Shown separately for the current year only

Financial Summary

	2006 £M	2005 £M	
Revenue - continuing operations	**155.0**	**143.2**	Industrial power transmission
Revenue - discontinued operations	70.1	53.8	Automotive and machine tools
Group revenues	225.1	197.0	
Operating profit - continuing operations before exceptionals	**6.8**	4.6	
Exceptional items - continuing operations	**(1.4)**	(4.2)	
Operating (loss)/profit - discontinued operations	(13.8)	0.6	Including 2006 impairment charge £(12.8)m
Group operating (loss)/profit	(8.4)	1.0	
Loss for the financial year after tax	(13.6)	(0.1)	

Income Statement

Continuing operations

	2006 £M	2005 £M	% change
Revenue	**155.0**	143.2	8
Operating profit (before exceptional items)	**6.8**	4.6	48
	4.4%	*3.2%*	
Exceptional items	**(1.4)**	(4.2)	
Operating profit	**5.4**	0.4	
	3.5%	*0.3%*	
Net financing costs	**(3.6)**	(2.2)	
Profit/(loss) before tax	**1.8**	(1.8)	
Taxation	**(1.5)**	1.5	
Profit/(loss) from continuing operations	**0.3**	(0.3)	
Earnings/(loss) per share from continuing operations	**0.4p**	(0.4)p	

Income Statement

Discontinued operations

	2006 £M Automotive	2006 £M Machine Tools	2006 £M Total	2005 £M Automotive	2005 £M Machine Tools	2005 £M Total
Revenue	49.3	20.8	70.1	35.3	18.5	53.8
Operating (loss)/profit (before exceptional items)	(1.6)	0.1	(1.5)	(1.2)		(1.2)
Exceptional items:						
Goodwill impairment					(2.6)	(2.6)
Negative goodwill on acquisition				11.3		11.3
Redundancy, restructuring and plant impairment	0.7	(0.2)	0.5	(6.9)		(6.9)
	0.7	(0.2)	0.5	4.4	(2.6)	1.8
Operating (loss)/profit	(0.9)	(0.1)	(1.0)	3.2	(2.6)	0.6
(Loss)/profit before tax	(1.2)	(0.2)	(1.4)	2.9	(2.7)	0.2
Impairment of discontinued net assets	(9.1)	(3.7)	(12.8)			
Earnings per share for discontinued operations			(20.0)p			0.3p

Net Financing Costs

Continuing operations

	2006		2005	
	£M	**£M**	£M	£M
Interest payable - bank		**(2.3)**		(2.0)
Interest receivable		**0.1**		0.1
Net interest		**(2.2)**		(1.9)
Costs associated with refinancing		**(0.7)**		
Fair value gains on derivative instruments		**0.3**		
		(2.6)		(1.9)
Interest cost - pension obligations	**(11.1)**		(9.8)	
Expected return on pension plan assets	**10.1**		9.5	
		(1.0)		(0.3)
Net financing costs		**(3.6)**		(2.2)

Balance Sheet

	31 March 2006 Statutory balance sheet information £M	31 March 2006 Reallocation of net assets of discontinued operations £M	Comparable Balance Sheets 31 March 2006 £M	Comparable Balance Sheets 31 March 2005 £M
Goodwill	17.1		17.1	15.7
Property, plant and equipment	38.2	17.8	56.0	64.2
Current working capital;				
Inventories	36.5	14.6	51.1	47.3
Trade and other receivables	25.8	17.3	43.1	41.7
Trade and other creditors	(31.3)	(22.9)	(54.2)	(45.5)
	31.0		40.0	43.5
Asset held for sale	3.4		3.4	
Net debt	(20.7)		(20.7)	(17.0) *
Net taxes	17.0	(0.2)	16.8	14.6
Provisions	(0.4)	(2.9)	(3.3)	(11.7)
Net other balance sheet items	(0.1)	(0.2)	(0.3)	
Assets of discontinued operations	37.1	(37.1)		
Liabilities of discontinued operations	(28.1)	28.1		
Impairment - discontinued operations		(12.8)		
Net assets before Retirement benefit obligations	94.5		109.0	109.3
Retirement benefit obligations	(53.9)	(1.7)	(55.6)	(53.2)
Net Assets	40.6	0.0	53.4	56.1
Impairment of discontinued operations			(12.8)	
Statutory net assets			40.6	
Gearing (pre retirement benefit obligation)	**21%**			**16%**

* Includes £10M cash acquired with SAF for restructuring

Cash Flow

	2006 £M	2005 £M
Cash flows from operating activities		
Continuing operations	4.7	8.6
Discontinued operations	1.7	(2.0)
	6.4	**6.6**
Taxes paid	(1.7)	(1.0)
Net cash from operating activities	4.7	5.6
Investing activities	**(3.7)**	**1.7**
Financing activities	**3.6**	**(3.1)**
Increase in cash and cash equivalents	4.6	4.2

Movement in net debt		
Increase in cash and cash equivalents	4.6	4.2
(Increase) in debt and lease financing	(6.9)	(2.3)
Other non-cash movement		(0.1)
Foreign currency translation differences	(0.9)	0.4
Net debt at start of year	(17.0)	(19.2)
Reclassification of preference shares	(0.5)	
Net debt at end of year	(20.7)	(17.0)

Operating	**2006 £M**	2005 £M
Result before tax	0.4	(1.6)
Depreciation/amortisation	8.5	8.8
Plant impairment	0.8	
Movement on retirement obligations	(4.1)	(4.1)
Movement on provisions	(8.4)	11.7
Negative goodwill / impairment		(8.7)
Other items - including finance costs	3.8	2.7
Movement in inventories	(2.4)	
Movement in receivables	(0.2)	(5.9)
Movement in payables	8.0	3.7
	6.4	6.6

Investing	**2006 £M**	2005 £M
Tangible/intangible asset purchases	(6.9)	(8.0)
Sale proceeds - Property & plant	3.2	
Cash acquired with subsidiary		9.7
	(3.7)	**1.7**

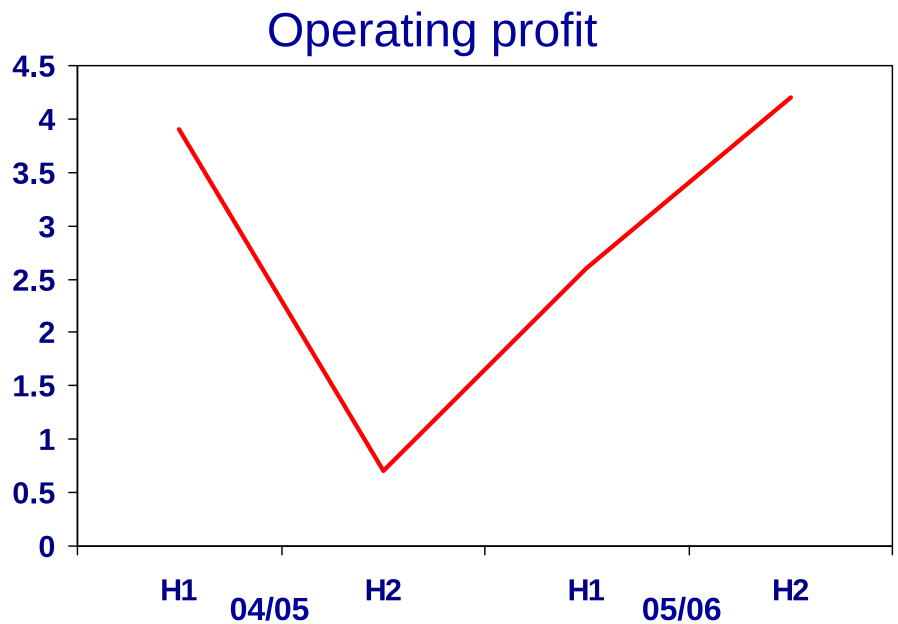
Financing	**2006 £M**	2005 £M
Net interest and associated costs	(3.3)	(2.2)
Increase in borrowings	6.9	2.4
Equity dividends paid		(3.2)
Other		(0.1)
	3.6	(3.1)

H2 -v- H1 Performance

Continuing operations

	Full year 2006 £M	Full year 2005 £M	H2 2006 £M	H1 2006 £M	H2 2005 £M	H1 2005 £M
External revenue	**155.0**	143.2	**79.4**	**75.6**	74.5	68.7
Operating profit pre exceptional items	**6.8**	4.6	**4.2**	**2.6**	0.7	3.9
Operating profit margin	**4.4%**	3.2%	**5.3%**	**3.4%**	0.9%	5.7%

£M



UK Pension Schemes

- UK deficit net of deferred tax credit is £23.0M
- Total deficit funding payments 2005/06 £3.1M

Deficit reduction actions

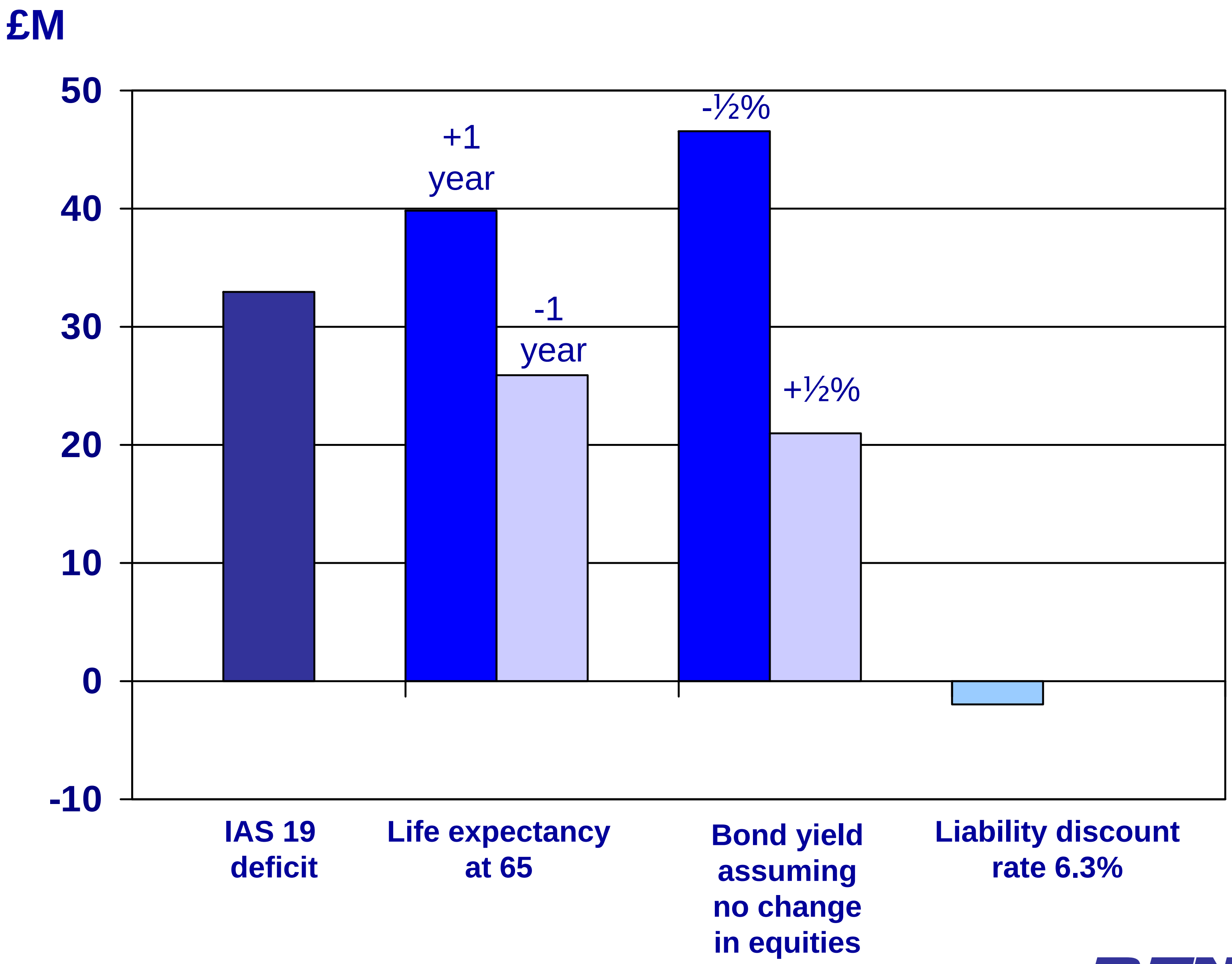
- Schemes closed to new members in 2002
- “Trivial” pension commutations in 2005/06
- Deferred pension data reviewed

    - Significant reductions in projected benefits

    - This will impact next valuations

- Scheme specific mortality rates used for largest UK scheme
- Pension increases for post 2006 service capped at 2.5% p.a.

UK Pension Deficit Sensitivities



RENOLD

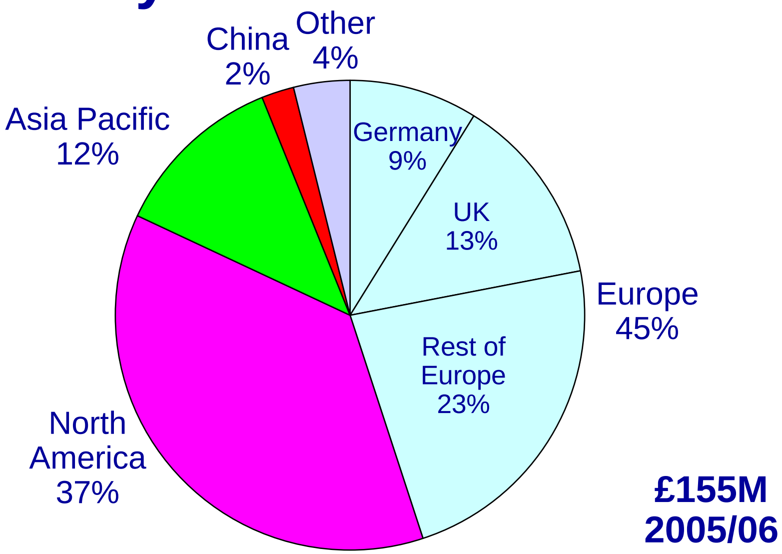
BUSINESS GOING FORWARD

Strategy For Ongoing Business

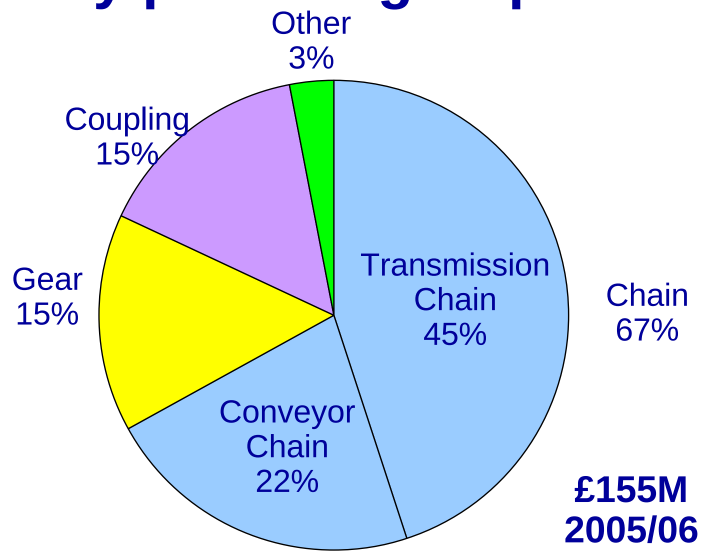
- Focus on Industrial Power Transmission
  - Chain, Gears and Couplings
- Number 2 player in Industrial Chain Market
- Develop sales in emerging Asia, South America and Eastern European markets
- Expand manufacturing in low cost but growing countries
  - Provide cost base for sales growth
  - Capital investment requirement is modest
- Reduce cost of European Operations by improved efficiency
  - Continued introduction of Lean manufacturing
  - Expansion of European Distribution concept

Turnover

By destination

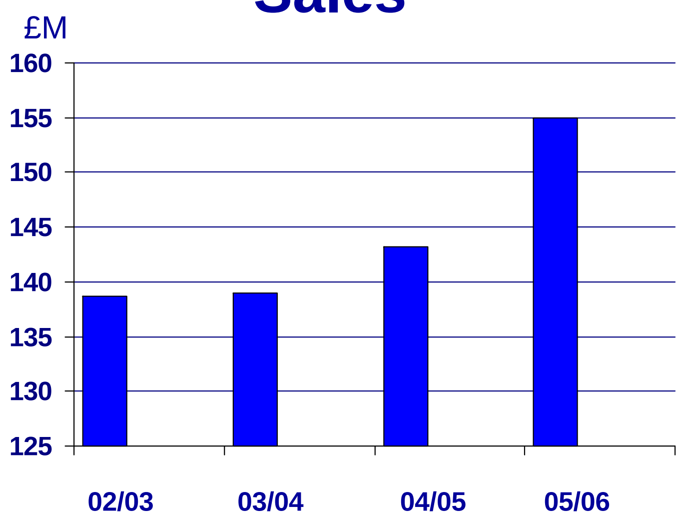


By product group



Orders

Sales

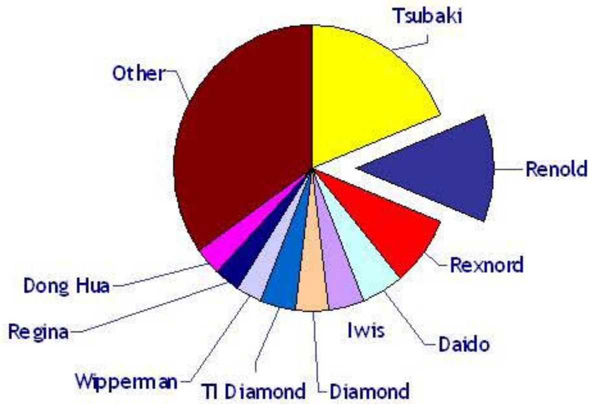


RENOLD

Chain Overview

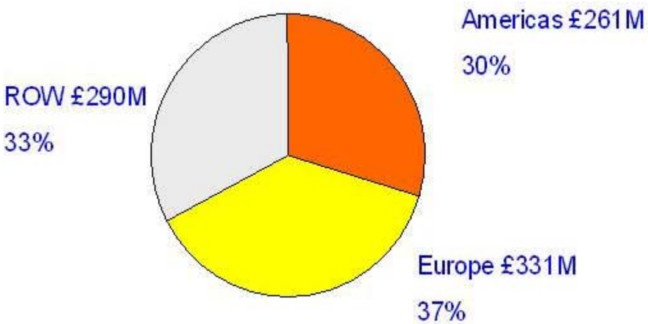
- Renold invented transmission chain
- Number 2 player globally
- Number 1 in Europe
- In top 3 in the US
- Weak position in China/India/SA/EE

Market Share (ex. Auto/bicycle)

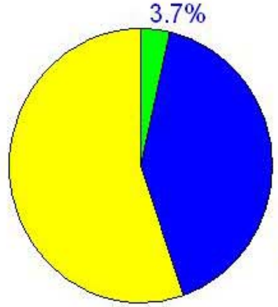


£0.9B

Market Size by Geography



Market Size by Product



Chain Overview

Synergy

- Premier price position in all markets
- Superior value over working life of application
- Clear differentiation in features and benefits

  - Specification
  - Performance
  - Design
  - Image

Lasts Longer Than All Competitive Chains

Syno

- Low maintenance solutions
- Maximum performance with no lubrication required

  - Food
  - Bottling
  - Packaging
  - Paper
  - Textile
  - Car assembly

Benchmark For Low Maintenance Chain

Manufacturing Facilities

- Einbeck, Germany
- Manchester, UK
- Morristown, US
- Goleniow, Poland
- Seclin, France
- Melbourne, Australia
- Shanghai, China (2006/7)
- Malaysia (2006/7)

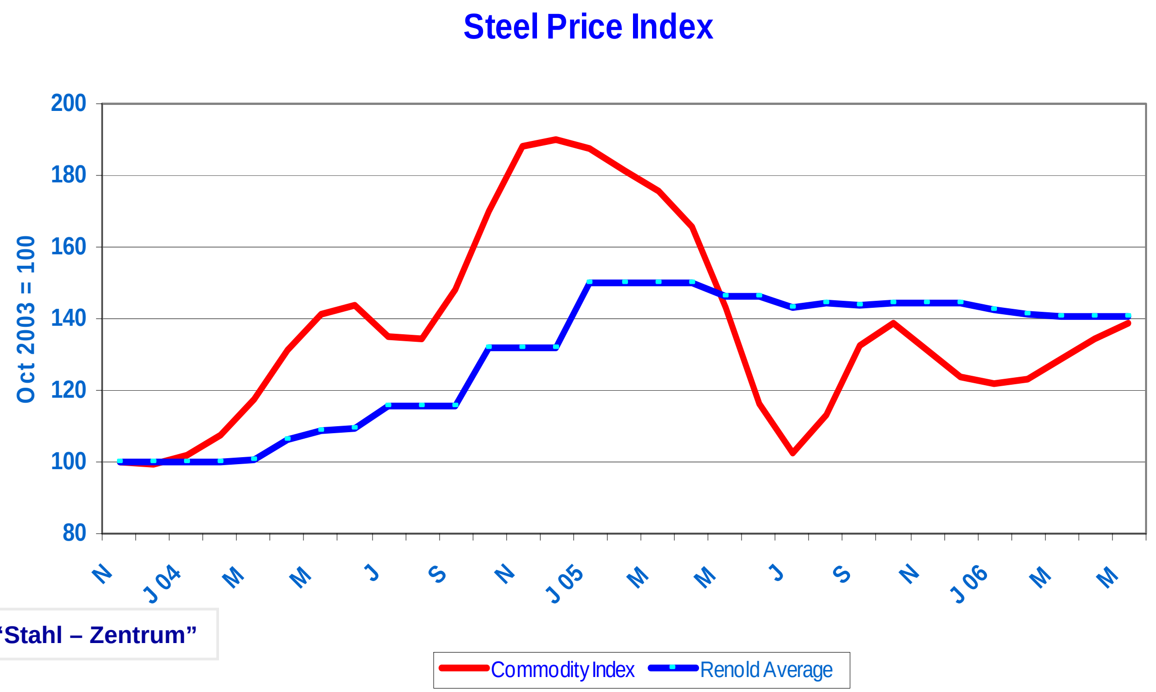
Production >25 km/day

Selling Companies

USA	New Zealand
Germany	China
UK	Malaysia
Australia	Sweden
France	Netherlands
Switzerland	Singapore
Canada	Denmark
S. Africa	Austria
Belgium	Poland

Steel Prices

- Prices have reduced from peak levels
  - Steel prices are 40% higher than 2003/04
- Uncertain picture going forward – some increases likely
- Price increases have been passed to customers
  - Not fully recovered steel cost increases
- Cost reductions have been essential



Source: "Stahl – Zentrum"

Poland

- Manufacturing established in Goleniow near Szczecin
  - Expanded initial facility to 2,600 sq m

- Phase one progressing ahead of schedule – 60 jobs created

- Phase two
  - Increase infrastructure
  - Ship direct to customers
  - Serve local market needs

New Facilities

China

- Facility of 3000 sq m leased in Pudong
- Currently being fitted out
- Production will start in H2 2006/07
- First products will be for local market

Malaysia

- First product will be Palm Oil Chain transferred from Burton
- Initially assembly of components from other Renold facilities
- Going forward meet local customer demands

Cost Reduction

- Poland/China/Malaysia facilities
- Burton Restructuring
- Distribution Centres
- Downsized Seclin facility by 18
- Outsourcing

On track for £4.0M through 2007/08

Gears Reorganisation

- Renold Gear activities consolidated under a single management team
- Loose Gears will relocate in H1
- South Africa focused on remanufacture and overhaul

Rochdale

- 18,000 sq m area
- 193 Employees
- £15m Sales

Loose Gears

- Sales £1.9m
- Contribution £0.2M
- Applications

  - Elevators
  - Steel Mills
  - Crushers
  - Printing Machines

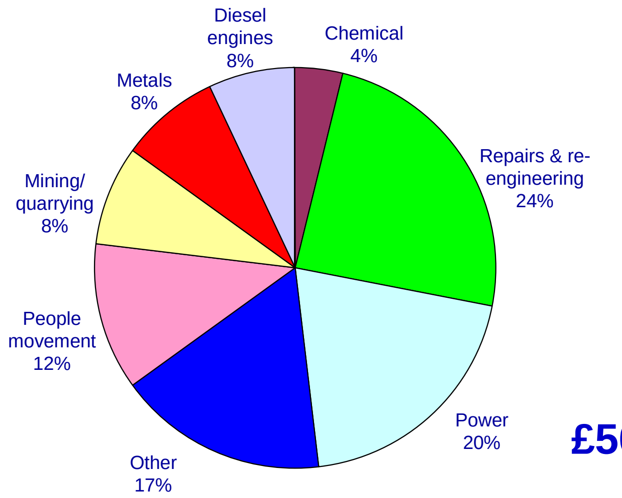
South Africa

- 14,000 sq m area
- 73 Employees
- £4.5m Sales

Gears Overview

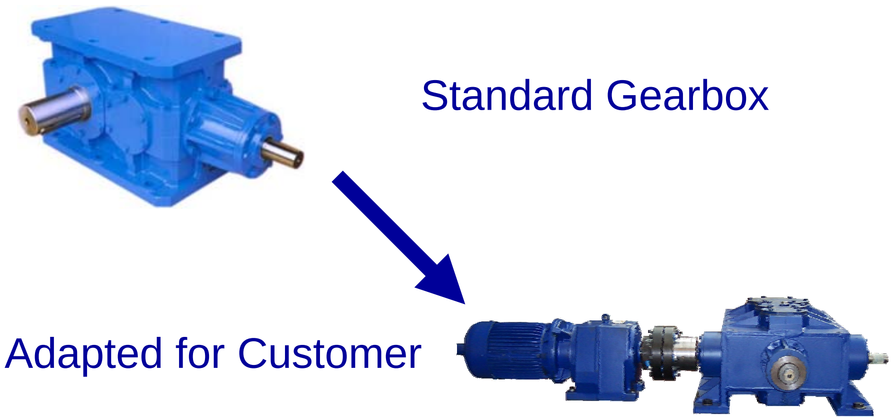
- Niche player
- Engineer customer solutions from Standard product range
- Sales growth comes from
  - China
  - US
  - Germany

Markets Served



£500M

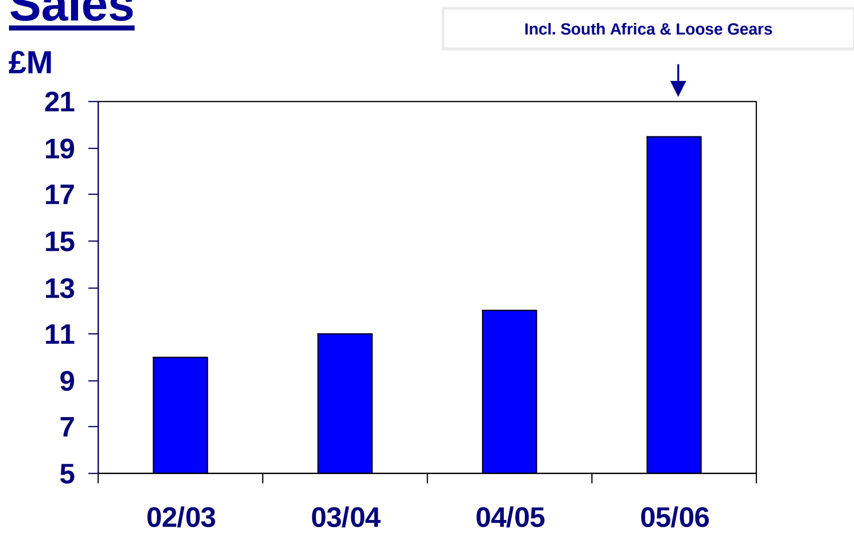
Engineering Solutions



Standard Gearbox

Adapted for Customer

Sales



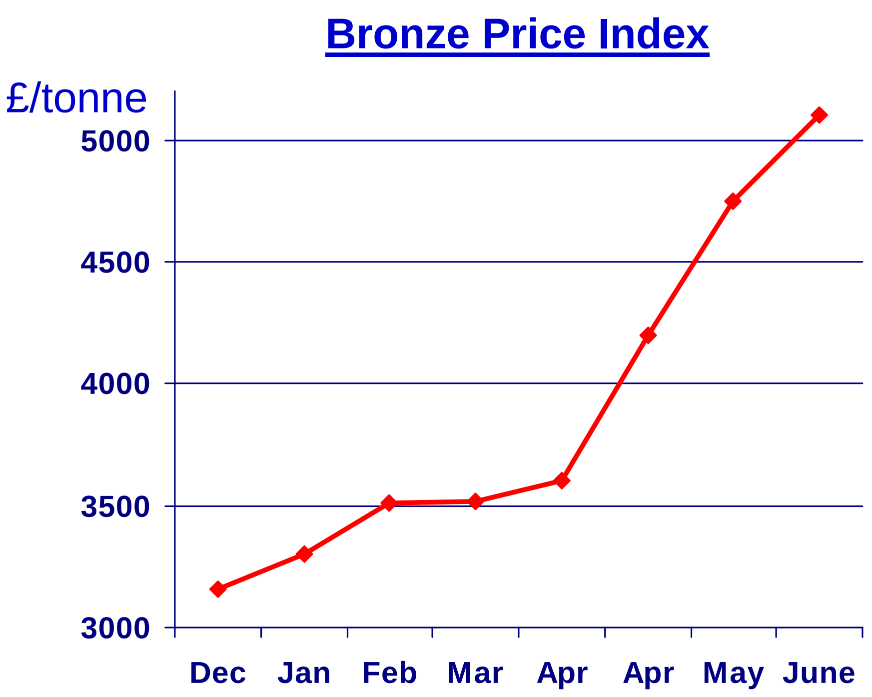
RENOLD

Gears Summary

- Product cost reduction
  - Offset commodity (bronze) and utility price increases

- This will come from
  - Value Engineering
  - Outsourcing

- Sales growth focus on
  - China
  - US
  - Germany



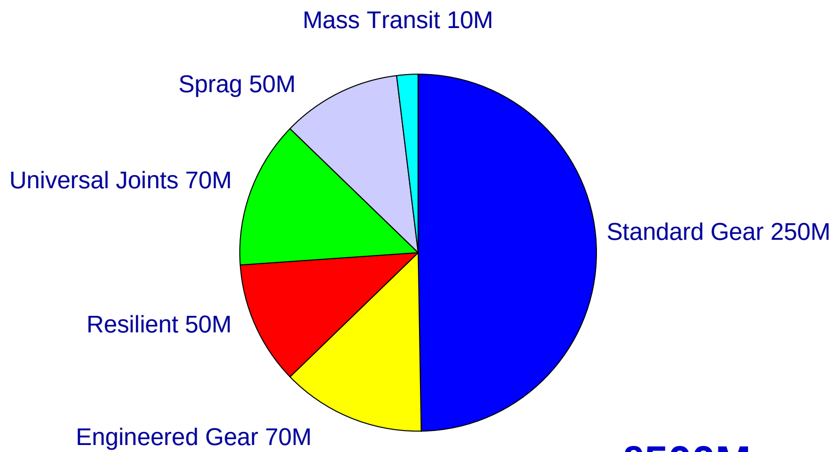
Source: Metals Bulletin

RENOLD

Couplings Overview

- Engineering solutions
- Good order growth
- Underpinned by Alstom/NYC Mass Transit contract
- Sales, profit and cash flow continue to be good

Served Coupling Market

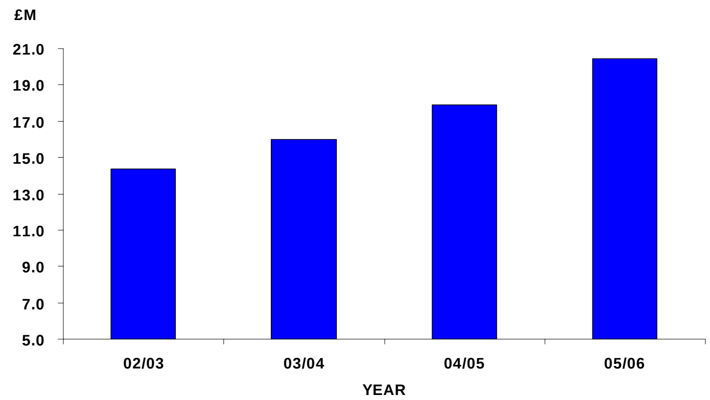


£500M

Steel Mill

Marine Application

Orders



Couplings Mass Transit

- Alstom/NYC contract is on schedule ($13M/4 years)
  - £2M expected to ship in 2006/07

- Licensing agreement reached with David Brown to provide Gearbox and Coupling
  - Increases served available market from £10M to £50M

- Active projects being bid on in Europe, US and South America
  - Multiyear value is over £30M

Underpins future growth

Summary

- Focus on core Industrial Power Transmission
  - Enabled by Automotive & Machine Tools divestitures
- Good progress in improving core business profitability
  - Concerns remain over raw material and energy costs
- New plants in Poland, Malaysia and China will reduce costs
- Sales growth above historic levels
  - Initiatives launched to drive into new markets

Still more to do but good progress being made

www.renold.com

Appendix Pensions

	2006				
	Assets	Liabilities	Gross Deficit	Deferred Tax Credit	Net Deficit
	£M	£M	£M	£M	£M
UK Schemes - funded	162.7	195.6	32.9	(9.9)	23.0
Overseas Schemes					
- funded	15.5	17.9	2.4	(0.9)	1.5
- unfunded: continuing		18.6	18.6	(1.9)	16.7
: disposal group		1.7	1.7		1.7
	178.2	233.9	55.6	(12.7)	42.9

No obligation for deficit funding in overseas unfunded schemes, mainly Germany which is a "pay as you go" scheme.
Deficits are gross before any deferred tax credit.