

# Interim Announcement 2006/2007

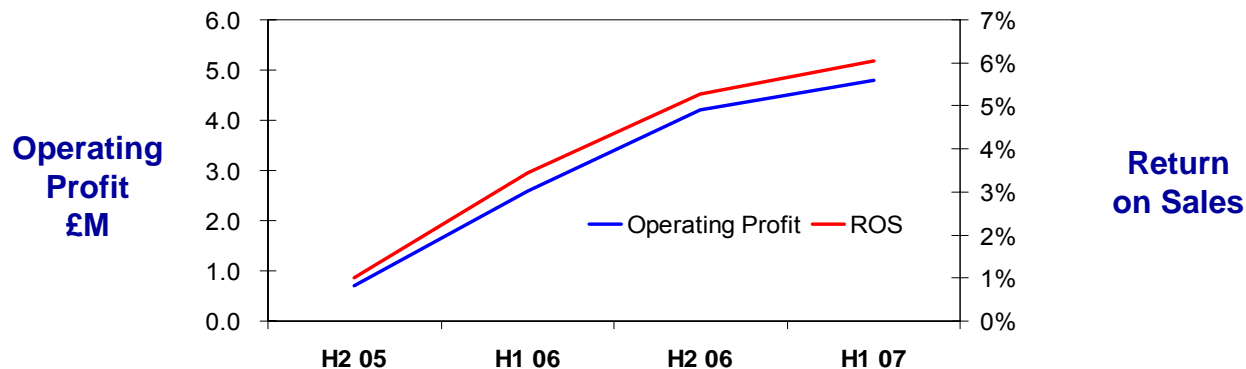


***RENOLD***

- **Executive Summary**
- **Financial Summary**
- **Profit and cash enhancement plan**
- **Summary**

# Executive Summary

- New, strengthened leadership team in place around Bob Davies
  - Matthew Peacock, Chairman
  - Peter Bream, FD
  - Rod Powell, NED
  - Maggie Hurt, HR
- Three halves of improving profits set to continue



- Profit and cash enhancement plan (“PACE”) to y/e March 2008 to be presented to shareholders early Feb 2007, showing accelerated delivery of:
  - Operational cash generation
  - Manufacturing footprint (*as the main driver of profits*)
  - Non-operational cash generation
  - Risk managementwith the focus being on the core chain business

# Financial Summary

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Continuing operations (£m)	First Half 2006/07	First Half 2005/06	Variance
Revenue	79.3	75.6	3.7
Operating profit before exceptional items	4.8	2.6	2.2
Profit before tax before exceptional items	3.6	0.7	2.9
Exceptional items - rationalisation and redundancy	(0.2)	(0.1)	(0.1)
Profit before tax	3.4	0.6	2.8
Adjusted earnings per share	2.7p	1.2p	1.5p

# Financial Summary

## Key features of first half 2007

- P&L demonstrating improvements:
  - Sales growth of 6% in continuing businesses at constant exchange rates
  - Adjusted EPS more than doubled to 2.7p (1.2p)
  - Operating profit margin before exceptional items increased to 6.1% (3.4%)
- Balance sheet and cash flow management
  - Automotive disposal:

	H1* 2007	FY 2006
Operating loss	(2.4)	(0.9)
Cash flow	(4.2)	(4.5)
* 4 months		
  - Requiring further attention:
    - ROCE improved to 14% but still not acceptable
    - Operating cash flow, after group capital expenditure, improved by £1.2m but remains negative (£2.4m) caused by disappointing inventory management
    - Net Pension deficit increased £2.5M principally due to lower than expected asset returns

# Financial Summary

## Income Statement

Continuing operations (£m)	First Half 2006/07	First Half 2005/06	Second Half 2005/06
Revenue	79.3	75.6	79.4
Operating profit before exceptional items	4.8	2.6	4.2
Exceptional items	<u>(0.2)</u>	<u>(0.1)</u>	<u>(1.3)</u>
<b>Operating profit</b>	<b>4.6</b>	<b>2.5</b>	<b>2.9</b>
Finance charges	<u>(1.2)</u>	<u>(1.9)</u>	<u>(1.7)</u>
Profit before tax	3.4	0.6	1.2
Tax	(1.7)	0.1	(1.6)
<b>Profit after tax</b>	<b><u>1.7</u></b>	<b><u>0.7</u></b>	<b><u>(0.4)</u></b>
Operating profit margin (before exceptionals)	6.1%	3.4%	5.3%

# Financial Summary

## Group Cash Flow

<b>Cash flows from operating activities (£m)</b>	<b>First Half 2006/07</b>	<b>First Half 2005/06</b>
Continuing operations	1.1	(0.6)
Discontinued operations	(6.3)	0.4
	<u>(5.2)</u>	<u>(0.2)</u>
Taxes paid	(0.6)	(0.8)
<b>Net cash from operating activities</b>	<b><u>(5.8)</u></b>	<b><u>(1.0)</u></b>
Investing activities	0.3	(1.5)
Financing activities	(1.9)	0.2
	<u>(7.4)</u>	<u>(2.3)</u>
<b>Decrease in cash and cash equivalents</b>	<b><u>(7.4)</u></b>	<b><u>(2.3)</u></b>
<b>Movement in net debt (£m)</b>		
Movement in cash and cash equivalents	(7.4)	(2.3)
Movement in debt and lease financing	0.5	(1.8)
Foreign currency translation differences	0.6	(0.6)
	<u>(20.7)</u>	<u>(17.5)</u>
<b>Net debt at start of period</b>	<b><u>(20.7)</u></b>	<b><u>(17.5)</u></b>
<b>Net debt at end of period</b>	<b><u>(27.0)</u></b>	<b><u>(22.2)</u></b>

For further details please see appendix 1.

# Financial Summary

## Balance Sheet

	30 Sep 06 £M	30 Sep 05 £M	31 Mar 06 £M
Goodwill	15.9	16.3	17.1
Property, plant and equipment	36.9	61.7	38.2
Inventories	37.4	50.0	36.5
Receivables	26.3	40.5	26.1
Deferred tax	18.1	18.6	17.7
Payables	(29.9)	(46.6)	(32.7)
Net borrowings	(27.0)	(22.2)	(20.7)
Provisions	(0.2)	(8.5)	(0.4)
Retirement benefit obligations	(56.4)	(59.7)	(53.9)
Other assets	3.4	0.3	3.7
Net assets of discontinued operations	6.5	-	9.0
<b>Net assets</b>	<b>31.0</b>	<b>50.4</b>	<b>40.6</b>
Gearing	87%	44%	51%



# Financial Summary

## Results of discontinued operations

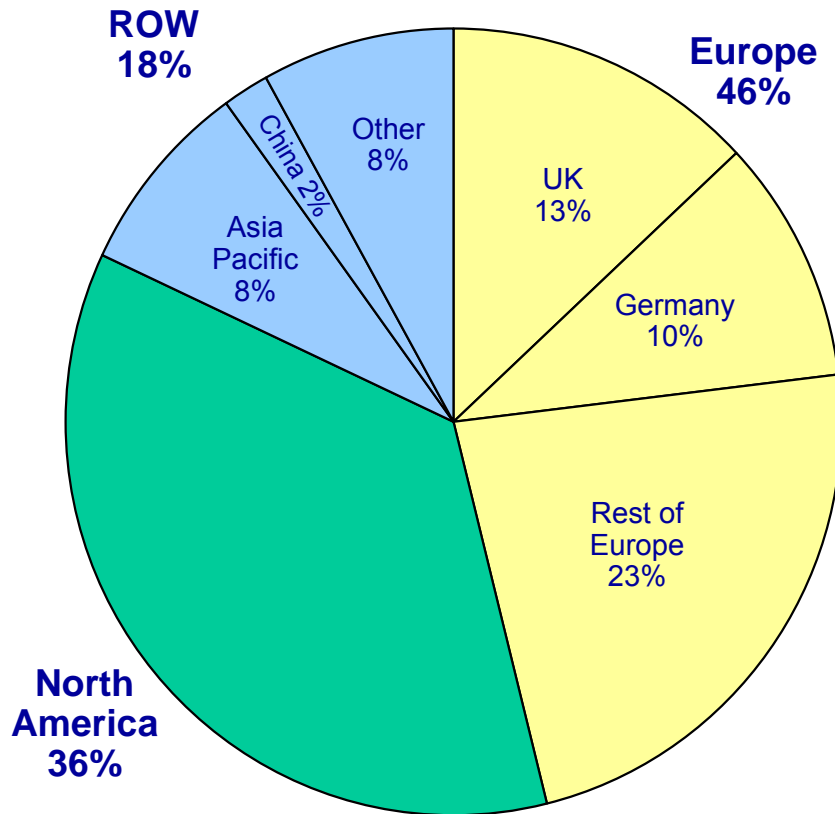
	First Half 2006/07 (£m)			First Half 2005/06 (£m)		
	Automotive*	Machine Tools	Total	Automotive	Machine Tools	Total
Revenue	15.8	9.1	24.9	23.9	7.4	31.3
Operating loss (before exceptional items)	(2.4)	(0.3)	(2.7)	(1.7)	(0.7)	(2.4)
Exceptional items	-	-	-	-	(0.1)	(0.1)
Operating loss	(2.4)	(0.3)	(2.7)	(1.7)	(0.8)	(2.5)
Net financing costs	(0.1)	(0.1)	(0.2)	(0.1)	-	(0.1)
<b>Loss before tax</b>	<b>(2.5)</b>	<b>(0.4)</b>	<b>(2.9)</b>	<b>(1.8)</b>	<b>(0.8)</b>	<b>(2.6)</b>
Impairment charges/losses	(0.8)	(3.2)	(4.0)	-	-	-

\* 4 months operating results to date of sale

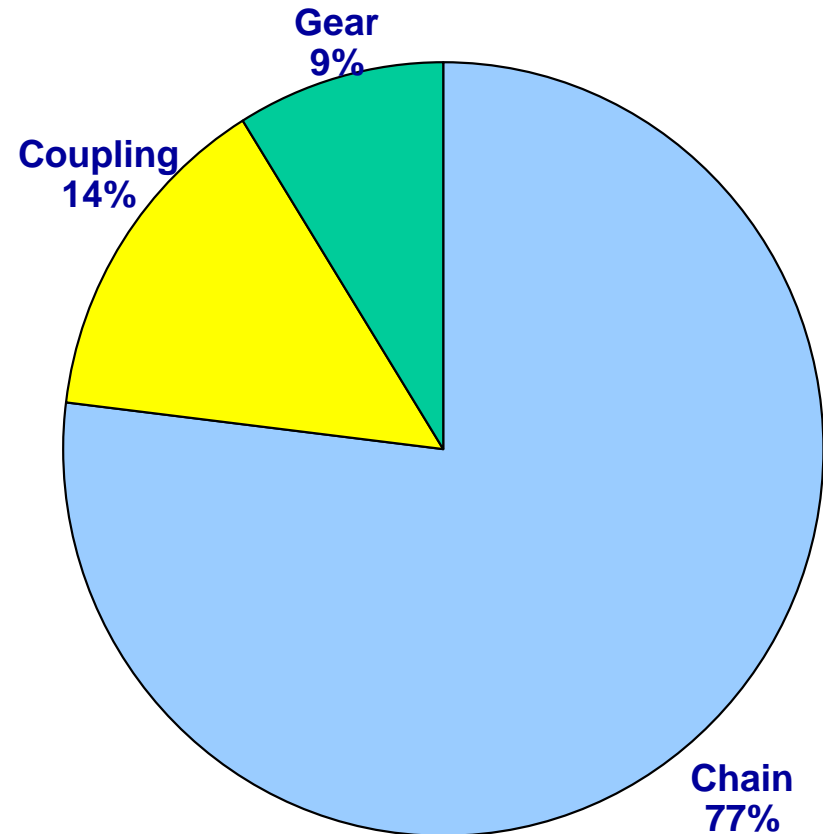
# Financial Summary

H1 07 Revenue: £79.3M

By destination



By product group

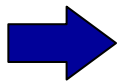


# Profit and cash enhancement plan

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## Immediate focus

- Further build leadership team and investor confidence
  - Senior Independent non-executive, TBA
- Review of senior management to:
  - Align skills needs with resources
  - Align bonuses and targets with new corporate goals
- New auditors: Ernst & Young, appointed
- Automotive quality issue: no material impact
- Disposals: Machine tools and Burton, continue
- Implementation of cash initiatives in H2 2007
- Developing 'PACE' plan through to Y/E March 2008



**Deliver profitable and cash flow positive business with a credible strategy and financial management ready for growth**

# Profit and cash enhancement plan

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## Operational cash generation

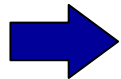
- Inventory reduction plan through March 2008 with March 2007 targets
  - Centralising European distribution
  - Tighter business unit management and targeting
  - Better logistics – ‘pull systems not push’
  - Recognition of slow and obsolete stock
- Tax planning: lowering effective tax rate
- Improve operating profit: principal driver is reduced manufacturing cost

# Profit and cash enhancement plan

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## Manufacturing footprint – main driver of operating profit

- Accelerate commitment to low cost manufacturing sites
  - Poland
  - China
- Reduce complexity and continuing site rationalisation
- Progressive targeted annual manufacturing savings



**Clear plan with deliverables to track progress in bringing operating margins in line with industry peers**

# Profit and cash enhancement plan

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## Non- Operational cash generating initiatives

- All non-performing assets being reviewed
- Property assets
  - Burton property – revised plan submitted based on mixed use
    - expect planning decision by fiscal year end
  - Australian property (£2M)
  - Brussels office (relocation) (£1M)
- Machine Tool sale
  - Talks no longer taking place with VPE/Ferranti: weak process
  - Discussions ongoing with other potential buyers; and/or
    - manage for cash, (property value £2M)

# Profit and cash enhancement plan

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## Risk Management

- Steel exposure
  - Phase A: Operational procedures developed to manage price volatility
  - Phase B: Developing contractual and financial tools to hedge volatility
- Reviewing Forex hedging and energy cost hedging
- Pension: active management of assets and liabilities commencing with new advisors and enhanced board priority

- Operating profit more than doubled to yield a 6% ROS
- Completed Automotive divestiture removing a cash flow negative and loss making business
  - Process for machine tools strengthened
- ROCE employed and cash flow showing improvements; and
- A much strengthened team driving:
  - An accelerated profit and cash enhancement plan 'PACE'
  - Available February 2007



## Cash Flow

<b>Operating (£m)</b>	<b>2006</b>	<b>2005</b>
Result before tax	0.5	(2.0)
Depreciation/amortisation	2.5	4.2
Movement on retirement obligations	(0.4)	-
Movement on provisions	(0.8)	(3.2)
Other items - including finance costs	1.7	2.0
Movement in inventories	(3.2)	(1.9)
Movement in receivables	(0.1)	1.7
Movement in payables	(5.4)	(1.0)
	<b>(5.2)</b>	<b>(0.2)</b>
<b>Investing (£m)</b>	<b>2006</b>	<b>2005</b>
Tangible/intangible asset purchases	(3.5)	(3.0)
Disposal proceeds - Automotive	3.8	-
Sale proceeds - Property and plant	-	1.5
	<b>0.3</b>	<b>(1.5)</b>
<b>Financing (£m)</b>	<b>2006</b>	<b>2005</b>
Net interest and associated costs	(1.3)	(1.6)
Movement in borrowings	(0.5)	1.8
Net movement on finance leases	(0.1)	-
	<b>(1.9)</b>	<b>0.2</b>

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