PACE: Profit and Cash Enhancement Programme

March 2007

RENOLD

Agenda

- Overview
- Impact
- Initiatives:
    - Manufacturing Restructure
    - Rationalise Logistics and Supply Chain
    - Risk Management
- Summary

Overview: Strategic Objectives and Initiatives

PACE: Profit and Cash Enhancement.

1. Restructure Manufacturing Base.

Locate Geographically for low-cost and access to markets (existing and emerging)

Outsource products and component assembly where appropriate

2. Rationalise Logistics and Supply Chain.

Reduce Inventory by centralising warehousing and rationalising distribution

3. Disposals and Cash Realisation.

Disposal of non-operational and non-core assets – Property

Release cash for internal funding for PACE programme

4. Manage Risks to Earnings and Value.

Pension Deficit

Corporate Tax Rate

Energy

Forex

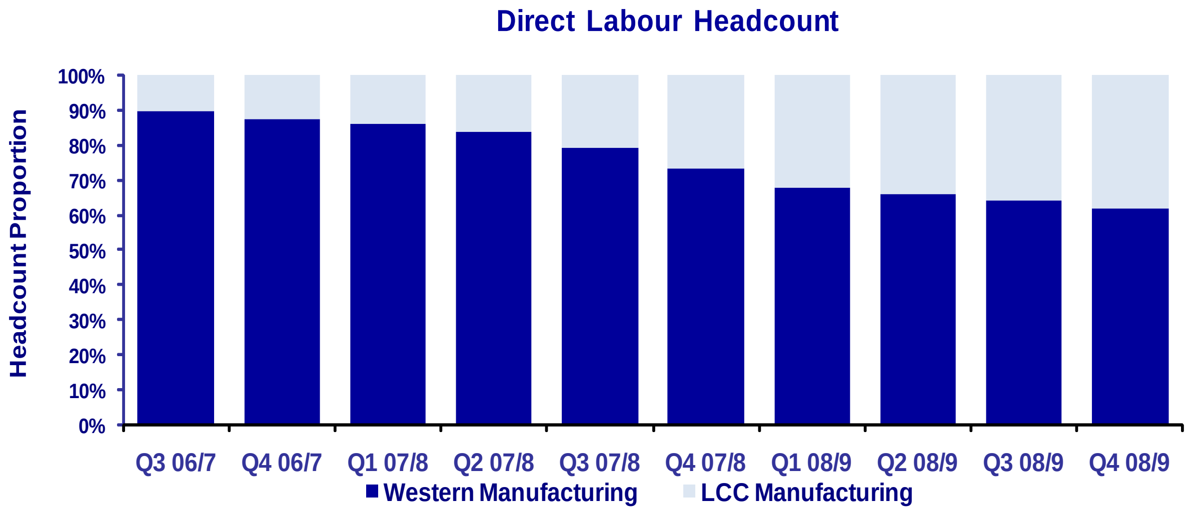
Steel

- An annualised reduction in manufacturing costs of £5.8m
- Reduce working capital to 20% of sales
- Improve ROCE after full impact of savings to >20%
- Establish springboard for future sales and margin growth

Key financial impact of PACE vs. 2006/2007 results

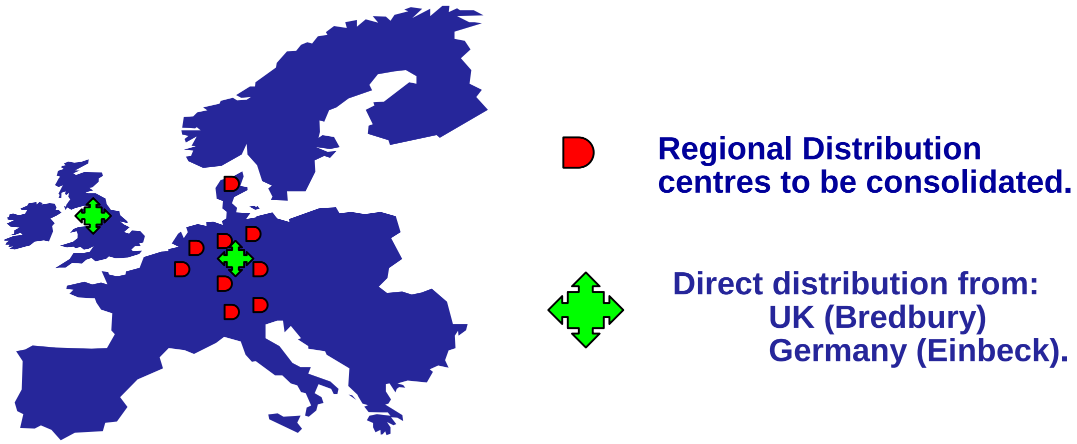
- Manufacturing restructuring will produce an annualised improvement in manufacturing costs of £5.8m
- £2.4m of these changes will be implemented in 2007/2008
- Changes will have a capital cost of £8m of which the vast majority will be incurred in 2007/2008
- Inventory reduction of £4m will be achieved by the end of 2008/2009
- The total PACE programme cash costs of £15m including capital costs, redundancy and other cash costs will be funded by property disposals of c. £10m plus cash from working capital improvements
- This is expected to produce earnings in line with expectations for 2007/2008 and the prospect of exceeding current estimates for 2008/2009

Manufacturing Restructure



- Focus is on accelerating the move of existing European production to Low Cost countries (LCCs), Poland and China
- Direct Labour based in LCCs will increase to at least 40% over the period
- Additional outsourcing of production will increase this effective percentage
- The new facilities, particularly in China will allow Renold to exploit the rapidly growing major Asian markets

Rationalise Logistics and Supply Chain



- Existing Regional Warehouses to be consolidated into 2 Distribution Centres adjacent to the production facilities in UK and Germany
- Management changes will create:
  - A supply chain function and centralised inventory for the group globally
  - Pull-based or demand led inventory management
- Minimising stock locations will improve efficiency and reduced stockholdings
- Rationalisation of product lines has begun
- The initial impact of this will be to reduce inventory over the period by £7m including a £3m write-off with a reduction in working capital to sales ratio to 20%

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Risk Management - UK Pension Strategy

- The focus is on the UK scheme which is closed to new members
- Primary overseas pension liability relates to a "pay as you go" scheme which does not require pre-funding

➡ ***Target to reduce net deficit to 15% of market capitalisation in line with comparables***

- Active liability management
- Progressive asset management to focus on
  - Wider Asset Classes
  - Enhanced Return
  - Reduced Volatility
  - Better Management of Risk/reward
- Potential one-off cash injection on the right terms
- Current cash contribution to deficit reduction is £3m/yr

Position @ March 2006 (£m)

	Gross	Deferred Tax	Net
UK	32.9	9.9	23
Overseas	21	2.8	18.2
TOTAL:	53.9	12.7	41.2

Comparable UK Engineering Companies	Net Pension Deficit	Net Pension Deficit / Mkt Cap (%)
Renold PLC (UK deficit)	£23.0m	26.2%
Carclo PLC	£15.7m	26.7%
Avon Rubber PLC	£13.8m	26.4%
Alumasc Group PLC	£17.0m	21.5%
GKN PLC	£424.0m	16.6%
Molins PLC	£5.4m	15.3%
Senior PLC	£36.4m	14.0%
Tomkins PLC	£198.3m	9.3%
600 Group PLC	£2.1m	7.0%
Fenner PLC	£20.5m	6.2%

Risk Management: Tax, Energy

Tax

- Corporate tax rates have been high and volatile with little focus on tax planning
    - First phase of tax planning including tax effective financing initiated
        - *Reduces cash tax rate by 3%*
    - Next stage being reviewed with Ernst & Young
- Overall tax rate expected to be less than 40%

Energy

- Energy costs have been a volatile component of the P&L
- Process of contracting energy costs on two year fixed terms in each manufacturing facility aimed at locking in current reduced energy costs

Risk Management: Forex and Steel

Forex

- New bank facilities allow unconstrained hedging of exposure
- Internal hedging reviewed and now maximised
- Forward cover being rolled out to hedge long $ and € exposure
  - Operating profit exposure
    - ± 10% USD/GBP c. £1m
    - ± 10% EUR/GBP c. £0.2m

Steel

- Steel volatility has reduced – some increases in the last 2 months
- Improved internal procedures give better responsiveness

Summary

- PACE phase one takes us substantially towards our corporate goal of 10% ROS, and >20% ROCE
- Manufacturing changes are based on an existing LCC footprint and the acceleration of current production moves
- The programme is internally funded over the 24 month period
- The board is now fully focused not only on operational risk management but balance sheet and financial risk management

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