

RENOLD

**Preliminary Announcement
2004**



Agenda

- Financial Review
- Overview of 2003/04 results
- Key challenges going forward
- Summary

Financial Review

Financial Summary

	2004 £m	2003 £m
Turnover	192.1	187.4
Operating profit (before exceptionals)	7.7	9.2
Profit before tax (before exceptionals)	5.4	6.1
Profit before tax	6.4	4.2
Earnings per share – adjusted	5.4p	5.2p
Dividend per share	4.5p	4.5p

Note: Exceptionals comprise goodwill amortisation, redundancy and restructuring costs and profit on sale of property

Profit and Loss Account

	2004 £m	2003 £m
Turnover	192.1	187.4
Operating profit (before exceptionals)	7.7	9.2
Goodwill amortisation	(1.3)	(1.4)
Redundancy and restructuring costs	(0.5)	(1.0)
Operating profit	5.9	6.8
Exceptional gain on disposal of property	2.8	0.5
Interest payable	(2.3)	(3.1)
Profit before tax	6.4	4.2
Tax	(1.0)	(1.7)
Profit after tax	5.4	2.5
Operating profit margin	4.0%	4.9%
Return on average operating assets	8.7%	9.9%

Balance Sheet

	2004 £m	2003 £m
Goodwill	18.8	22.6
Tangible fixed assets	47.0	50.0
Stocks	47.0	46.1
Debtors	47.2	46.7
Creditors	(45.3)	(48.6)
Net borrowings	(19.2)	(20.9)
Provisions for liabilities and charges	(14.3)	(13.8)
Net assets	81.2	82.1
Share capital	17.9	17.9
Reserves	63.3	64.2
Shareholders' funds	81.2	82.1
Gearing	24%	25%

Cash Flow

	2004 £m	2003 £m
Cash flow from operating activities	9.2	17.9
Capital expenditure	(6.0)	(5.0)
	<u>3.2</u>	<u>12.9</u>
Servicing of finance	(3.3)	(2.8)
Taxation	(1.6)	(1.3)
Equity dividends paid	(3.2)	(3.2)
Proceeds from disposal of property held for sale	<u>5.1</u>	<u></u>
Cash flow in the period	<u>0.2</u>	<u>5.6</u>
Net debt (opening)	(20.9)	(29.1)
Movement resulting from cash flow	0.2	5.6
New finance leases	(0.5)	
Other non-cash changes	(0.1)	
Exchange translation difference	<u>2.1</u>	<u>2.6</u>
Net debt (closing)	<u>(19.2)</u>	<u>(20.9)</u>



	2004 £m	2003 £m
Op. profit	5.9	6.8
Dep/amort	10.1	10.1
Stocks	(2.7)	1.3
Debtors	(3.5)	(5.0)
Creditors	(0.8)	5.0
Other	<u>0.2</u>	<u>(0.3)</u>
	<u>9.2</u>	<u>17.9</u>

Segmental Analysis

		2004 £m	2003 £m
Turnover	Power transmission	174.2	168.3
	Machine tool and rotor	20.7	20.0
		<hr/> 194.9	<hr/> 188.3
	Less: Interactivity sales	(2.8)	(0.9)
		<hr/> 192.1	<hr/> 187.4
Operating profit (before goodwill amortisation and exceptionals)	Power transmission	7.4	10.0
	Machine tool and rotor	0.3	(0.8)
		<hr/> 7.7	<hr/> 9.2
		<hr/>	<hr/>
Operating profit margin	Power transmission	4.2%	5.9%
	Machine tool and rotor	1.4%	(4.0)%
Return on average operating assets	Power transmission	9.6%	12.8%
	Machine tool and rotor	2.4%	(5.3)%

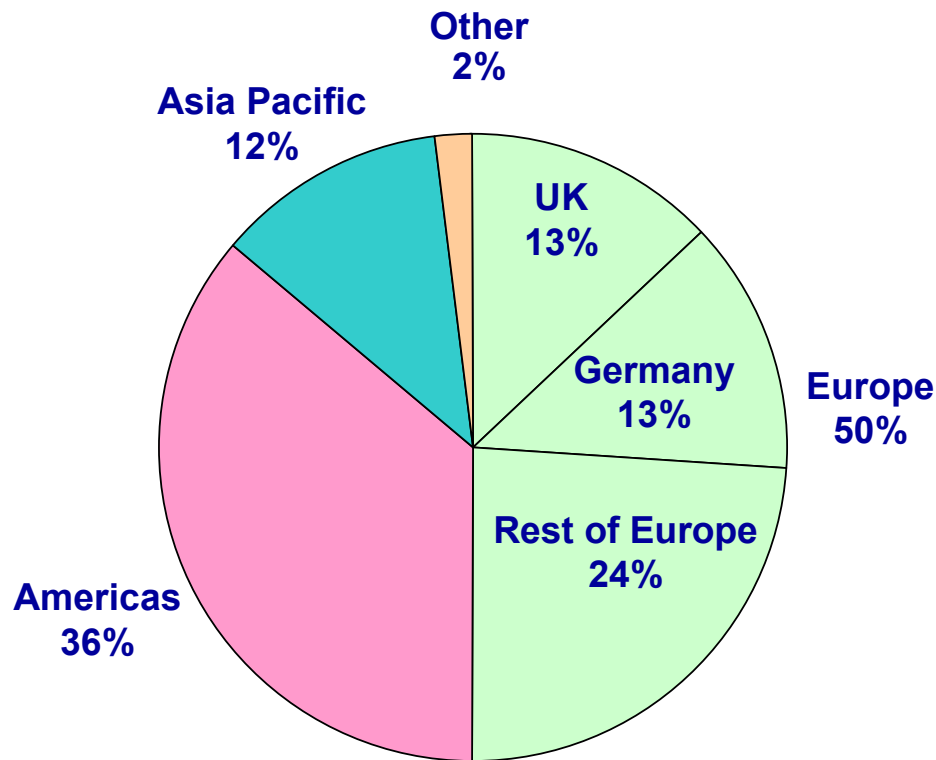
Power transmission analysis

	2004 £m	2003 £m	
Sales	174.2	168.3	Favourable translation effect (£3.2m) Weak European markets
Operating profit	7.4	10.0	Nil translation effect Adverse transaction effect (£1.4m) Weak performance in France and other European markets
Operating profit margin	4.2%	5.9%	Excluding currency effects this would have been 5.1%

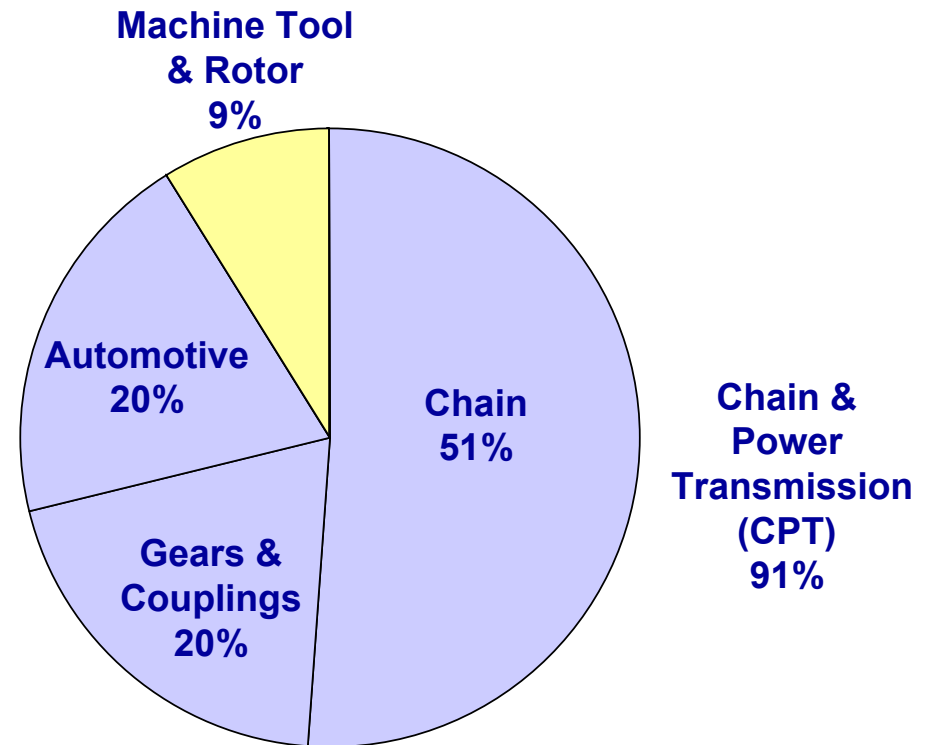
Business Review

Overview

By Country

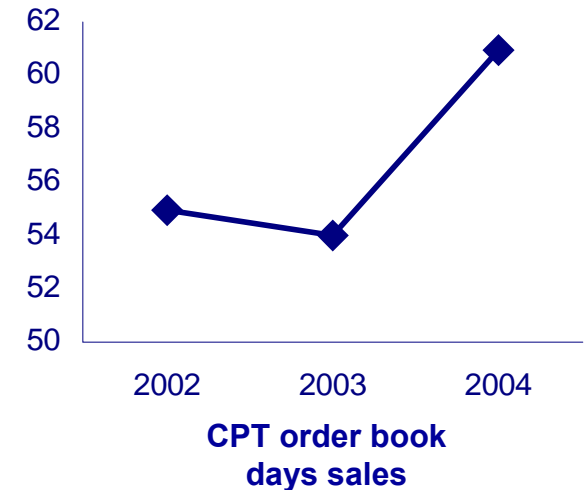


By Product



CPT - Chain

- US sales grow on back of strong 2nd half order intake
- Major European sales decline in UK and France; Germany flat
- USD exchange rate has adverse profit impact partially offset by strengthening of Euro
- New products ensure market leadership maintained
 - Synergy – latest generation premier performance
 - Hydroservice –superior corrosion resistance



Order rate increasing

CPT – Gears and Couplings

- Project driven sales increase
- Multi-year order for Mass Transit couplings won in the USA worth \$13M
- Good initial order intake from China
- Sales growth and introduction of Lean manufacturing techniques have a positive impact on profitability



Major project wins based on strong technology

CPT - Automotive Systems

- Good sales growth driven by “world class” Renold technology
- New contracts secured during year which broadens customer base
- Productivity improvements offset by adverse currency effects
- Additional manufacturing capacity added in Germany



Continues to be the growth engine

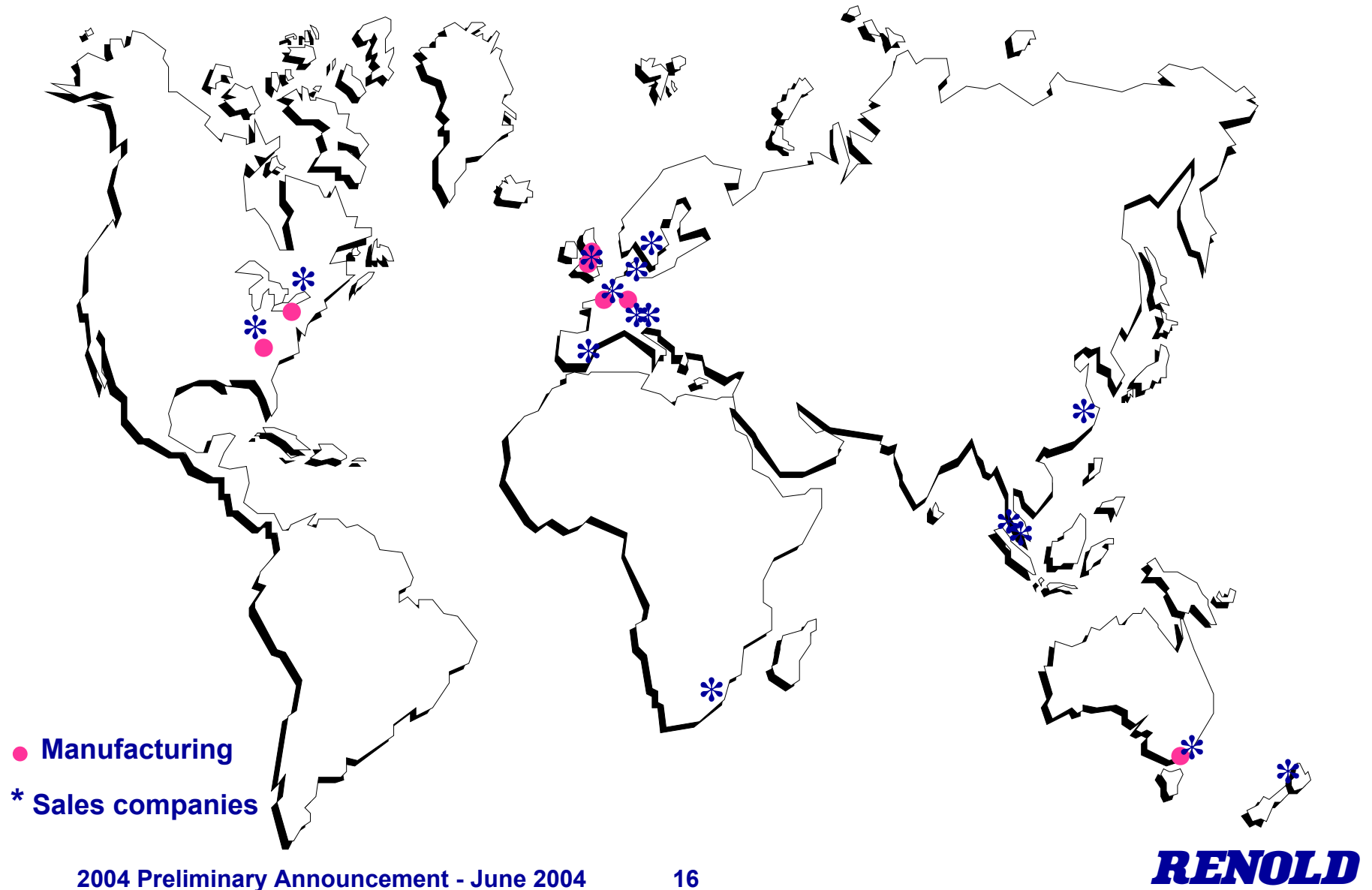
Machine Tool and Rotor

- Restructuring complete - business traded profitably
- Demand for machine tools picking up; recent order levels improved
- Excellent new orders won for Edgetek superabrasive grinding machines for aerospace applications
- Surplus land at Leicester sold during year for £5.1 million net cash



Queen's Award for Enterprise: Innovation

Worldwide operations



Key Challenges going forward

- Achieve required levels of profitability within Automotive and provide adequate capacity for new programs
- Accelerate Chain sales growth
- Develop Chinese market for all Group products
- Implement manufacturing strategy

Automotive

- Good growth opportunities for timing chain systems driven by strong technical differentiator
- Strengthen management team with automotive operational experience
- Accelerate introduction of Lean manufacturing
- Add capacity in Germany to support local customers
- Open US facility to support local customers and take advantage of lower labour rates and reduced shipping costs



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RENOLD

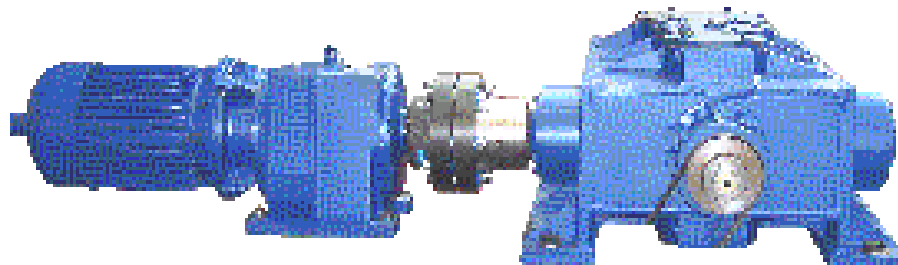
Chain

- Focus on sales growth
- Good market share in Europe and Australasia but under represented in
 - US (transmission chain)
 - China
 - Eastern Europe
- New product launches
 - Syno – low maintenance/no lubrication
 - Smart Link – wear and load data collection
- Expand system offering by selective outsourcing



China

- Opportunity for all Group products
- Wholly owned business established in Shanghai with local sales manager in place
- Rapidly build sales team
- Establish local manufacturing to compete across entire range of products within China



Manufacturing Strategy

- Much greater focus on variable cost reduction
- Make/Buy decision where no clear technology differentiator
- Launch Design to Cost initiative
- Accelerate introduction of Lean manufacturing
- Establish assembly and manufacturing in low cost labour regions



finding improvements together
needs everyone's special skills

Summary

- Growth driven by technology and new markets
- Counter impact of steel/oil price increases and exchange rates with improved operational efficiency
- Drive productivity within Automotive to improve financial performance

Challenging year ahead but good opportunities

www.renold.com