Preliminary Results 2008/09

RENOLD

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Highlights

Robust set of results in challenging circumstances. A new lower cost base has been established which should allow profitable development going forward and positions Renold well for any upturn.

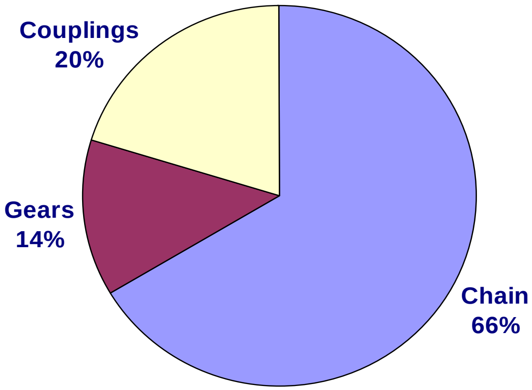
- **Financial summary – year of two markedly different halves**
  - Strong first half with performance meeting Board expectations
  - Second half, typically our strongest, impacted by the severe economic downturn
  - Significant destocking from major OEMs and Distributors
  - Sales growth of 13% to £195m but 1% at CER with flat order book at actual rates
  - Operating profit (pre exceptionals) of £10m reduced by 17% compared to 2008/9
  - Inventory volume reductions of £4.6m offset by steel costs, India acquisition and exchange
- **New 3 year bank agreement with similar sized Facilities**
- **Significant Cost base reductions implemented**
  - Responded rapidly with cost saving and cash conservation measures initiated in October
  - Headcount reduced by 23%
- **Pension volatility reduced going forward by closure of schemes to existing members**
  - Net pension deficit increased by £18m following a reduction in plan asset values
- **Well placed for recovery with diverse markets and geographies**
  - Completed the acquisition of the Industrial Steel Chain business from LGB in India
  - Now have market Leadership in India
  - Mitsubishi Mass Transit Couplings contract award of $18m over two years

Group Overview

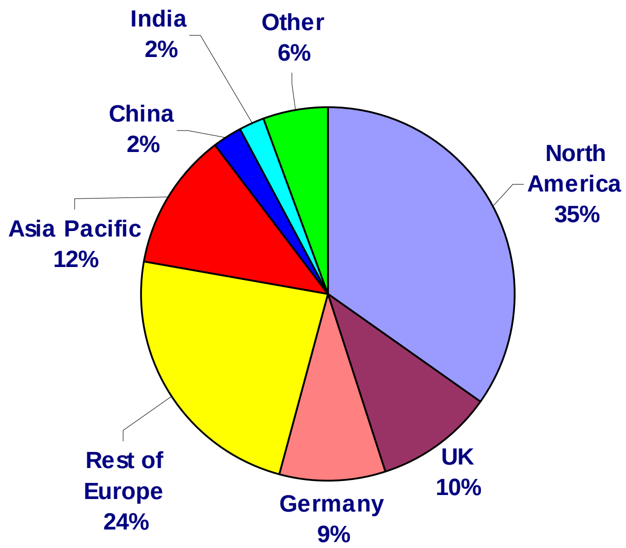
Industrial Power Transmission manufacturer with a focus on Chain, Couplings and Gears.

- **Serve a £1Bn global market**
- **Sell to diverse, wide range of markets and customers**
- **Renold is the global number two by market share**
  - The market leader Europe, Australasia and India
  - In the top three in North America
- **Quick facts**
  - Group Revenue of £195M in 2008/9
  - Sales to over 105 countries
  - Selling companies located in 20 countries
  - Manufacturing in 9 countries
  - 2,400 employees worldwide
  - No customer is greater than 5% of sales

Revenue by Product Group



Revenue by Geography



Group Income Statement

Robust first half followed by significant reduction in orders and sales in H2 driven by customer destocking and demand weakness.

(£ m) Year end 31 March	H1 2008/09	H2 2008/09	2008/09	2007/08	Variance
Revenue	95.2	99.5	194.7	172.6	22.1
Operating profit before exceptional items	6.0	4.0	10.0	12.0	(2.0)
Exceptional items	0.0	(2.4)	(2.4)	0.2	(2.6)
Operating profit	6.0	1.6	7.6	12.2	(4.6)
Net financing costs	(1.9)	(2.8)	(4.7)	(2.9)	(1.8)
Profit before tax and exceptional items	4.1	1.2	5.3	9.1	(3.8)
Profit before tax	4.1	(1.2)	2.9	9.3	(6.4)
Tax	(1.3)	0.5	(0.8)	(3.1)	2.3
Profit after tax	2.8	(0.7)	2.1	6.2	(4.1)
Adjusted earnings per share	4.3p	3.0p	7.3p	8.5p	-1.2p
Operating profit margin (before exceptionals)	6.3%	4.0%	5.1%	7.0%	(1.9%)

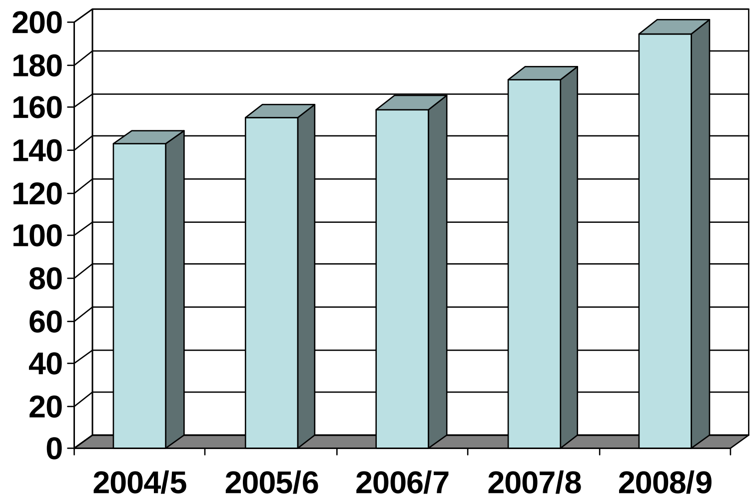
PBT

- Adverse operating profit following weak demand in H2
- Exceptional items driven by redundancy costs
- Financing costs includes non cash IAS 19 charge

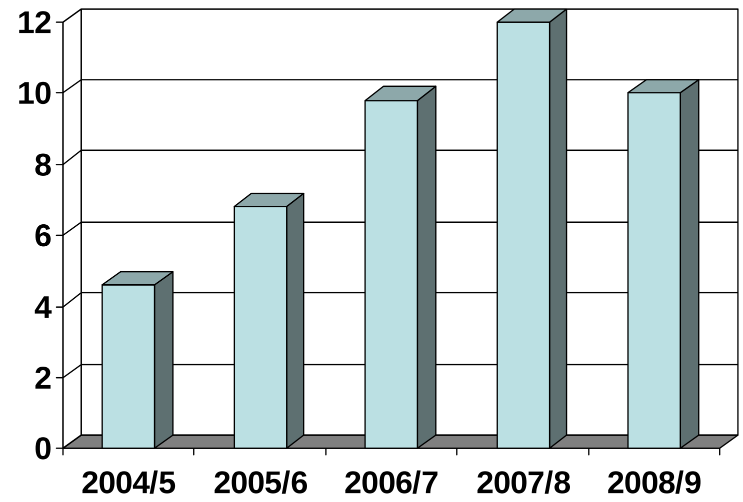
Financial Summary

Consistent growth interrupted by global economic recession. Market share believed to be growing following new customer wins.

£m **Sales**



£m **Operating Profit**



ROS	3.2%	4.4%	6.2%	7.0%	5.1%	**ROCE**	4.7%	7.7%	14.9%	17.4%	11.6%

Group Cash Flow Statement

Increase in net debt driven by exchange rate movements and decrease in payables

(£ m) Year end 31 March	2008/09	2007/08
Continuing operations	**1.1**	4.5
Taxes paid	**(1.7)**	(2.3)
Net cash from operating activities	**(0.6)**	2.2
Investing activities	**(9.6)**	(3.2)
Financing activities	**2.7**	(1.3)
Decrease in cash and cash equivalents	**(7.5)**	(2.3)
Movement in net debt		
Movement in cash and cash equivalents	**(7.5)**	(2.3)
Movement in debt and lease financing	**(0.2)**	(1.3)
Foreign currency translation differences	**(5.6)**	(0.9)
Net debt at start of period	**(23.9)**	(19.4)
Net debt at end of period	**(37.2)**	(23.9)

- Investing activities inc. £5.6m LGB acquisition and £5.8m Capex less proceeds from disposals £1.7m
- Financing activities inc. £5.1m share placing

Operating cash flow breakdown

£m	2008/09	2007/08
PBT	2.9	9.3
Dep/Amort	4.7	5.1
Net Finance Costs	4.7	2.9
Inventory	3.4	(5.0)
Receivables	3.8	(3.0)
Payables	(13.0)	2.4
Profit on PPE	(0.7)	(3.0)
Pension plans	(3.9)	(4.0)
Other	(0.8)	(0.2)
	1.1	4.5

- Inventory redn. despite increased steel price
- Receivables decreased with lower activity levels
- Payables reduced with fewer purchases particularly steel and the release of payroll accruals in Germany.

Debt

- Increase of £13.3m driven by exchange and payables
- New Bank facility better accommodates exchange rate movements

Balance Sheet

(£ m)	31 Mar 09	31 Mar 08	Mar 08 @ 09 rates
Goodwill	24.5	16.3	22.4
Property, plant and equipment	51.1	39.5	45.2
Inventories	46.4	41.0	48.6
Receivables	37.5	35.6	42.3
Deferred tax	13.3	8.3	8.5
Payables	(38.1)	(42.5)	(50.5)
Net borrowings *	(36.7)	(23.9)	(26.0)
Provisions	(3.4)	(4.4)	(4.9)
Retirement benefit obligations	(55.1)	(31.2)	(35.0)
Other assets	0.6	2.3	2.8
Net assets	**40.1**	**41.0**	**53.4**

* Net borrowings of £36.7m exclude preference shares of £0.5m

Significant impact of exchange on translation of overseas balances

	2009	2008
USD	1.4	2.0
EUR	1.1	1.3

Retirement Benefit Obligations increased as plan assets declined due to market conditions

Cost Reduction Initiatives

Business has been sized for a 25% reduction on 2008 calendar sales with a series of major cost reductions across the Group.

- **Annualised Cost Reductions achieved between Sept 08 and April 2009 were £11m**
  - Overall headcount reduction of 23% since Sept 2008 (720 people)
  - Pay cuts via short working week in Germany, Switzerland and France
  - Pay cuts (10%) for Board, Senior Management teams and most staff
  - By April payroll costs reduced by 18% and non payroll overheads by 9%.
  - Poland manufacturing facility closed in Q1 2009/10
  - Brussels office sold and business relocated
- **A further £3m of reductions will be achieved in 2009/10**
  - Annualised impact of these reductions will be £5m taking annualised savings to £16m
- **Cash conservation**
  - Inventory reduction program is continuing with another £5m expected this year
  - Capex expenditure constrained to H&S, maintenance and new product launch.

Pension Update

The pension deficit is being actively managed

- Two of the three UK DB pension schemes closed to future accrual in August 2008
- The third scheme was closed in June 2009
  - Contributes £1m reduction to IAS 19 deficit in 2009/10
- Recent legislation provides opportunities to reduce liabilities and risk
  - Guaranteed minimum pension (GMP) conversion – effective April 2009
  - Trivial commutation effective December 2009
- Short-term cash flow requirements are unchanged
- German pension liability of £22m relates to an unfunded scheme
- Pension liabilities are long term in nature allowing time for recovery in asset values.

Refinancing

Refinancing agreed and committed in July

- Previous 3 year facility due to expire February 2010
- New 3 year facility with existing banks RBS and Fortis expiring 30 June 2012
- Credit and ancillary facilities in-line with the size of previous facilities
- Interest rates in-line with market
- Multi Currency draw down
- Warrants over 4.3% of ordinary share capital reflecting short term outlook
- Covenants set to reflect the volatile industrial environment and flex for currency movements

Going Forward

Opportunities to take market share are being created during the current recession. Renold is well positioned to increase market share

Target Markets

- Currently serve a wide range of markets in 105 countries
- Impacted by GDP rather than specific market weakness
- Targeting markets that are expected to be robust

Agriculture	Power Generation
Food	Steel
Mining	Transportation
Oil	Water Mgt

Exploit Low Cost Base

- Target major OEM's
- Well positioned with Chinese and Indian owned facilities

Cost Reduction

- Sized business for sales 25% less than calendar 2008
- Aim to match costs to demand level
- Much of the overhead reduction will be retained when recovery comes

Cash Generation

- Inventory reduced by £4.6m in 2008/9
- Reduction program is continuing
- Sale of property assets

Pension Mgt

- Schemes closed to active members

Grow Market Share

- When markets stabilise target ROS remains at 10%
- Target ROCE is 20%

Chain Global Manufacturing

The key focus of the division in recent years has been to migrate to low cost manufacturing facilities to reduce cost, regain lost business and gain access to new markets. This strategy is being implemented successfully.

- Opened low cost facilities in Poland and Malaysia in 2005
  - Moved manually intensive assembly from Bredbury and Einbeck
  - Malaysia is primarily focused on chain for the palm oil industry
  - Poland was closed in Q1 because it is not as low cost as India & China
- Acquired 90% of a low cost Chinese manufacturer in 2007 to provide a global low cost capability for transmission chain and access to Asia Pacific market
- Acquired 75% of the leading Indian chain business for both its #1 position in the Indian market and to give low cost capability in various additional products
- Existing facilities in UK and Germany for transmission chain and Morristown for conveyor chain
- Additional smaller facilities in France and Australia for conveyor chain.

Acquisition completed in September 2008 and is currently meeting or exceeding expectations

- Acquired 75% interest from LGB
- H2 sales were £5M
- Currently sales are ahead of expectation
- Generated an operating profit in the 6 months after acquisition

Opportunities

- Access to a still growing Indian market
- Sell Indian products through Renold's global channels to markets.
- Utilize established distribution network for existing Renold products
- Exploit strong links to Middle East

Gears and Couplings have a degree of commonality of customers and markets. Focus continues to be on providing an Engineering solution for Infrastructure Projects

Target markets

- Transportation

- Steel Industry

- Power Generation

- Cement Industry

- Marine Drives


- Visibility of c90% of expected sales already in the order book, looking forward 3 months.
- Less impacted than Chain by recession
- Won new $18m Mass Transit contract from Mitsubishi starting in Q4

Gears and Couplings

Targeting global stimulus money in mass transit, power generation and structural industry has underpinned past growth and future opportunity.

- **Mass Transit applications continue to be a focus**
  - Customer base now includes Alstom, Mitsubishi, Siemens and Bombadier.
  - Future large contract opportunities include Chicago, Philadelphia, London and Prague.
- **Land based power generation industry remains strong.**
  - Long term growth with next generation power generator sets.
  - Major customers opportunities with Rolls Royce, Caterpillar and Wartsila.
- **Steel industry remains active to support both stimulus projects and energy industry**
  - New $1.0 million contract won in Q1 2009/10
- **Expand product offering to customers in cement, power generation and amusement industry**
- **Recession has changed the market to maintenance/refurbishing of product vs new equipment.**
  - Investment to target the large gearbox market in mining and the metal industry has helped off set decline other markets.

Aggressive cost reduction to match new level of market demand

- Downturn is a result of a sudden shortfall in orders from most customers and markets
- This has been as a consequence of global economic crisis not specific to Renold issues
- Significant destocking from major OEMs and Distributors
- Renold has reacted swiftly from October 2008 with a headcount reduction of 23% by Q1
- Pay cuts or a shorter working week implemented for most employees
- Annualised total of £16m cut from overheads since the start of H2 2008/9
- New 3 year facility with existing banks RBS and Fortis expiring 30^{th} June 2012
- Ensure profitable development should sales decline further or recovery be delayed
- Solid platform created to take advantage of any recovery