Preliminary Results 2009/10

RENOLD

Highlights

A new lower cost base and stronger balance sheet have been established which positions Renold well for the upturn.

- **Impact of the recession – revenues were £156m (2008/9 £195m)**
  - Revenues down 25% (at constant exchange rates) as a result of the global economic crisis
  - Operating loss of £2.1m (2008/9 operating profit £10.0m)
  - Extensive destocking from major OEMs and distributors adversely impacted Chain Division
- **Response**
  - Overhead cost savings of c£13m achieved
  - Number of employees reduced by 27%
  - Inventory reduced by 20% from peak
- **Balance sheet strengthened**
  - Net debt reduced to £17.9m following £26.9m fund raising in December 2009
  - New 3 year bank agreement with similar sized facilities
  - Pension volatility reduced by closure of schemes to existing members
- **Well placed for recovery with diverse markets and geographies**
  - Winning market share in US and with product from China
  - Majority of cost savings will be retained during recovery
- **Evidence of recovery**
  - Sales, and order book have increased consistently over recent months
  - Good year on year order growth for Chain in last 3 months
  - Short lead times are making long term forecasting challenging

Following a re-organisation the Group is made up of two divisions both operating in the Industrial Power Transmission Sector

Chain

- Serves a £1bn global market
- Global #2 by market share
    - Market leader in Europe, Australia and India
    - In top 3 in North America
- Sells to wide range of markets and customers
    - Sales in 105 countries
- Manufacturing in 8 countries including China and India

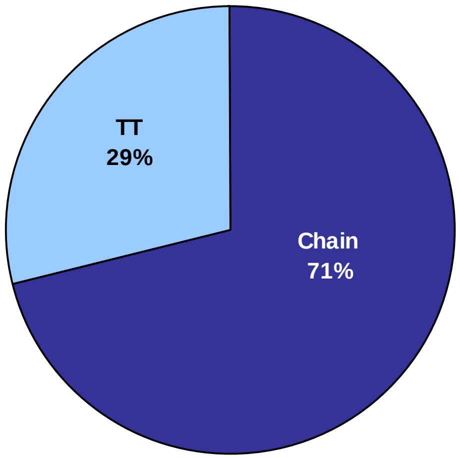
Torque Transmission

- Engineering solutions for niche markets
- Main product lines are Couplings and Gears
- Target markets include
    - Mass transportation
    - Power generation
    - Commodity extraction
- Manufacturing in 4 countries including China and South Africa

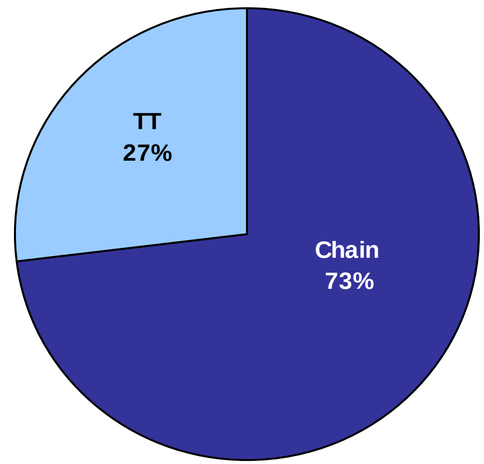
Renold is well diversified geographically and serves a wide range of markets and customers

Revenue by division

2009/10
£156m

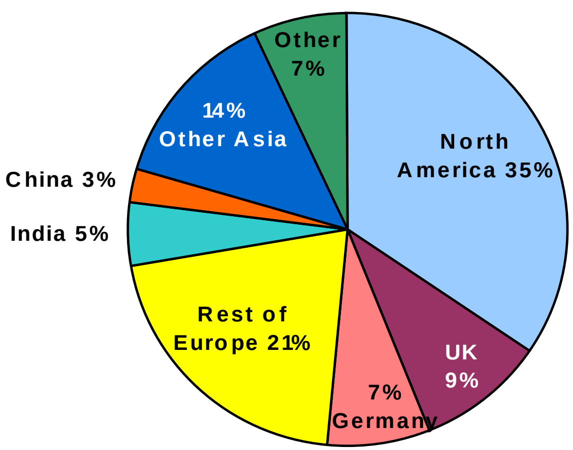


2008/09
£195m

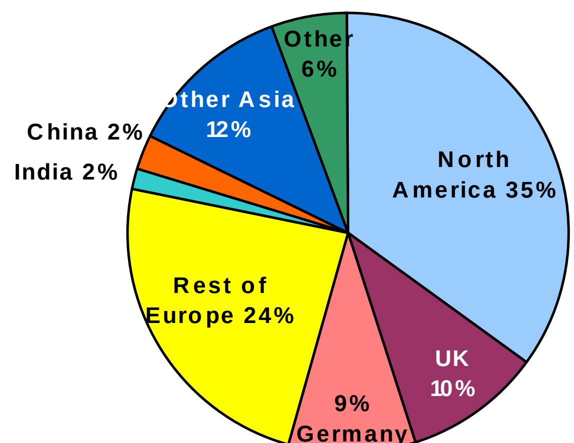


Revenue by geography

2009/10



2008/09



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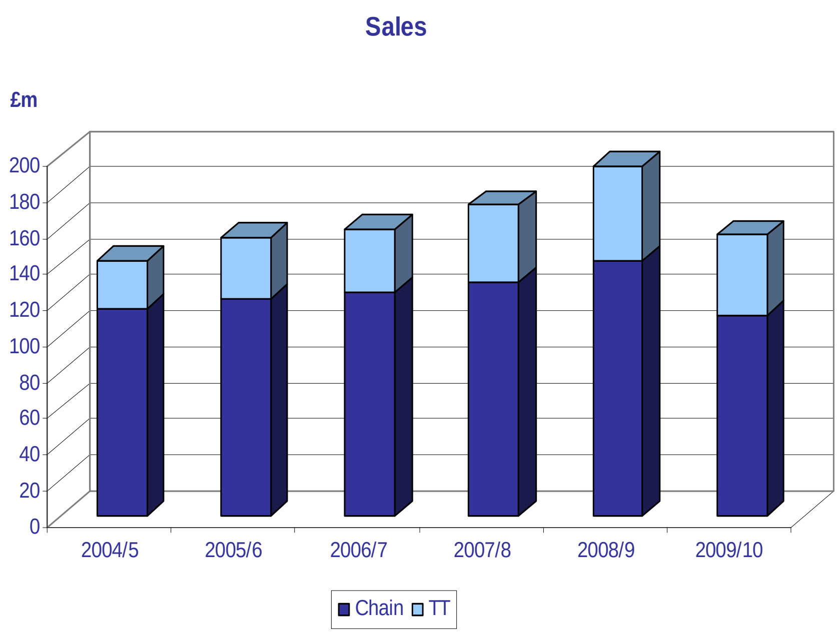
Results of the initiatives implemented over recent years are apparent with a good history of increasing sales and profit. This was interrupted by the global economic recession from Q3 08/09



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

- **After 5 years of growth, revenues fell 25%**
  - Chain sales were down 29%
  - Chain sales were adversely impacted by destocking
  - Torque Transmission sales were down 15%
- **Actions taken**
  - Overheads reduced by c£13m
  - Headcount reduction of 27%
  - Direct labour and material costs were reduced in line with sales
  - Poland manufacturing facility closed in Q1 2009/10
  - Brussels office sold and business relocated
- **Cash conservation**
  - Inventory reduced 20% from the peak
  - Capex expenditure constrained to H&S, maintenance and new ERP system

Group Income Statement 2010

Significantly lower sales and high operational gearing adversely impacted PBT despite cost reductions

(£m) Year end 31 March	FY 2009/10	FY 2008/09	Variance
Revenue	156.1	194.7	38.6
Operating (loss)/profit before exceptional items	(2.1)	10.0	(12.1)
Exceptional items	(2.7)	(2.4)	(0.3)
Operating (loss)/profit	(4.8)	7.6	(12.4)
Net financing costs	(8.8)	(4.7)	(4.1)
(Loss)/profit before tax and exceptional items	(8.1)	5.3	(13.4)
(Loss)/profit before tax	(13.6)	2.9	(16.5)
Tax	3.9	(0.8)	4.7
(Loss)/profit after tax	(9.7)	2.1	(11.8)
Adjusted (loss)/ earnings per share	(1.4)p	7.3p	-8.7p

Segment Sales	09/10	08/09	Var
Chain	111.2	142.1	(30.9)
TT	44.9	52.6	(7.7)

Operating Profit / (Loss)	09/10	08/09	Var
Chain	(7.4)	2.2	(9.6)
TT	3.0	6.3	(3.3)

PBT

- Adverse operating profit following weak demand and significant Chain destocking
- Traded profitably in H2 as sales increased
- Exceptional items driven by redundancy costs
- Financing costs includes £3.8m IAS 19 charge and £2.8m exceptional refinancing charge

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Group Cash Flow Statement

Cash flow from operating activities positive and net debt significantly reduced by £26.9m fund raising

(£m) Year end 31 March	2009/10	2008/09
Continuing operations	0.9	1.1
Taxes refunded/(paid)	1.0	(1.7)
Net cash from operating activities	1.9	(0.6)
Investing activities	(4.4)	(9.6)
Financing activities	0.2	2.7
Decrease in cash and cash equivalents	(2.3)	(7.5)
Movement in net debt		
Movement in cash and cash equivalents	(2.3)	(7.5)
Movement in debt and lease financing	21.0	(0.2)
Foreign currency translation differences	0.6	(5.6)
Net debt at start of period	(37.2)	(23.9)
Net debt at end of period	(17.9)	(37.2)

Operating Cash £m	**2009/10**	**2008/09**
PBT	(13.6)	2.9
Dep/Amort	5.0	4.7
Net Finance Costs	8.8	4.7
Inventory	4.0	3.4
Receivables	8.6	3.8
Payables	(5.3)	(13.0)
Loss/(Profit) on PPE	0.5	(0.7)
Pension Plans	(5.1)	(3.9)
Other	(2.0)	(0.8)
	0.9	1.1

Working capital

- Inventory continues to be managed down
- Receivables and payables decreased with lower activity levels

Investing activities include capital expenditure of

- £3.3m tangible assets (£0.7m ERP)
- £0.9m intangible (£0.9m ERP)

Debt

- Decrease of £19.3m driven by £26.9m fund raising offset by £2.8m exceptional refinancing charge and £2.7m restructuring costs

Balance Sheet

(£m)	**31 Mar 10**	**31 Mar 09**
Goodwill	23.5	24.5
Property, plant and equipment	49.9	51.1
Deferred tax	22.0	13.3
Inventories	42.9	46.4
Receivables	28.7	37.5
Payables	(33.5)	(38.1)
Net borrowings *	(17.4)	(36.7)
Provisions	(1.1)	(3.4)
Retirement benefit obligations	(73.0)	(55.1)
Other assets	2.8	0.6
Net assets	**44.8**	**40.1**
Gearing	39%	92%

* Net borrowings of £17.4m exclude preference stock of £0.5m

Depreciation exceeds capital expenditure

Working capital reduced with lower activity levels

Retirement benefit obligations increased as reduction in discount rate only partly offset by increase in plan asset value

Placing and open offer and firm placing in December 2009 raised £26.9m after expenses through the issue of 142.5m new shares at 20p

Pensions obligations are actively managed and cash flows stable despite increase in IAS 19 obligations

- **IAS 19 retirement benefit obligations**

Mar 10	Mar 09
(56.8)	(44.1)

  - German pension liability of £21.2m relates to an unfunded scheme
  - Retirement benefit obligations net of associated deferred tax asset

- **Sensitivities**
  - IAS 19 liabilities have increased as the AA corporate bond discount rate has declined
  - The valuation of these liabilities will reduce as interest rates increase
  - Sensitivity: 0.5% increase in discount rate reduces gross liabilities by approximately £19m

- **Action taken**
  - All UK defined benefit schemes closed to future accrual
  - Buy-out opportunities are being pursued
  - Liability capping exercises under consideration

- **Cash contribution**
  - Short-term cash flow requirements are agreed and are stable

£m	2010	2009	2008	2007	2006	2005
IAS 19 retirement benefit obligations	56.8	44.1	26.4	36.9	41.2	38.9
UK annual deficit repair contributions	2.1	2.0	3.1	3.1	3.1	2.9

Current trading

Markets started to show first steady signs of recovery in September. The rate of recovery has increased in the last 3 months. Forward visibility is limited because of short order lead times.

- **Market recovery**
  - Renold is late cycle - Mar 09 operating profit was only 15% lower than previous year
  - China and India were the first countries to show signs of growth
  - Last 3 months growth has accelerated particularly in the US
  - Destocking is basically over with little expectation of restocking
  - Chain which was most adversely impacted is showing the strongest recovery

- **Market share**
  - Gains have been made particularly with large US distributors
  - Product from our Chinese factory has taken business from local competitors
  - Good progress has been made on reducing lead times which is supporting new business

- **Cost base**
  - Despite recent sales increase costs base reduction has been retained
  - Overhead savings of £13m compared with Sept – Nov 2008
  - Inventory reduction has continued through April

The current strategy has led to good progress with product manufactured in China and India by Renold having a significant impact on the range of markets and customers that can now be served

Target markets

- Product from China and India enables Renold to be competitive in all segments of price performance pyramid
- Targeting markets that are expected to be robust in the short-term and those that are attractive for the longer-term

Agriculture	Power generation
Food	Mineral extraction
Steel	Mass transit
Oil/Gas	Water management

Cost reduction

- Over £13m of overhead reduction has been retained despite the sales growth of recent months

Cash generation

- Inventory reductions are being maintained
- Steel prices and exchange adverse movement would impact inventory
- Potential sale of property assets

Pension management

- Schemes closed to active members
- Pursue buy out opportunities
- Liability capping

Exploit low cost-base

- High growth expectations for China & India product in 2010/11
- Target major OEM’s

Grow market share and strengthen competitive position

Profitable growth has resumed

Target ROS of 10% and ROCE of 20%

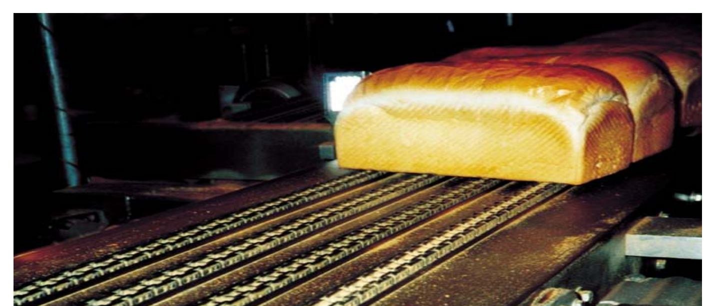
Chain

Exploit the wider range of cost effective products combined with acknowledged engineering strength and brand recognition to serve market segments that offer good growth potential

- **Focus on distribution**
  - Continue to grow strong relationships with major US and European distributors
  - Emulate this in a wider range of countries
  - Exploit strong brand recognition
  - Increase integration with customer systems

- **Chinese product**
  - Satisfy increased demand for lower cost products
  - Target markets particularly in Europe served by only Chinese competitors until recently
  - Market share gain from Chinese competitors

- **Target attractive market segments**
  - European conveyor chain
  - Food and beverage
  - Infrastructure projects
  - Oil and gas



Target specific niches with good growth potential that require challenging technical solutions alongside high quality and integrity

- **Mass Transit**
    - Exploit strong US customer relationship to win contracts in Europe and China
    - Utilise UK and China manufacturing base to support market growth

- **Power Generation**
    - Supply to major US, European and Asian OEM's
    - Target future design projects for long term growth
    - Expand into both land and sea generator sets

- **Mineral Extraction**
    - Capitalise on applications requiring engineered solutions
    - Target oil and gas industries
    - Focus on mining industries requiring specialised solutions

Opportunities for industry consolidation

Power Transmission Industry is still fragmented and has the potential for consolidation

- **Chain is well placed to take advantage of consolidation opportunities**
  - Global #2 by market size
  - Market leader in Europe, Australia and India, top 3 in US
  - Excellent brand recognition
  - Effective low cost manufacturing capability
  - Well positioned to maximise synergies from potential acquisitions

- **Torque Transmission is well positioned to develop leadership positions in targeted markets**
  - Acquire or form relationships to expand geographic coverage
  - Increase product scope to offer wider range of solutions
  - Increase manufacturing footprint to serve Asian markets

- **Track record**
  - Good track record of acquisition
  - 2007 acquisition in China of HangZhou Shanshui Chain business
  - 2008 acquisition in India of Industrial Chain interest from LGB

A new lower cost base and stronger balance sheet have been established which positions Renold well for the upturn

- **Demand started to improve from September 2009**
- **This improvement has increased in the last 3 months especially in the Chain Division and is expected to continue in the short term**
- **Majority of cost savings will be retained**
- **Short order lead times are making long term forecasting challenging**