Delivering performance

First Half Results November 2010

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Executive Summary

Good recovery from the recession with a strong increase in orders from most customers. Expected to continue in H2

- **Markets recovering with incremental gains in market share**
- **Order book increased in 5 of the last 6 months,**
  - 27% higher order intake than same period last year
  - 13% order book growth in the period
- **Sales**
  - 17% underlying* growth compared to the prior period
  - 16% below the underlying revenue level of the pre-crash peak in H1 2008/09
- **Underlying operating profit**
  - £3.1m operating profit in the period
  - £5.4m turnaround from the £2.3m underlying operating loss in the comparable period
  - 40% ‘drop through’ rate of incremental revenue to operating profit
- **0.7p adjusted earnings per share compared to a loss of 3.1p**
- **Working capital ratio maintained despite higher activity levels**

* Throughout this document the use of ‘Underlying’ means after eliminating the impact of movements in foreign exchange rates and exceptional items

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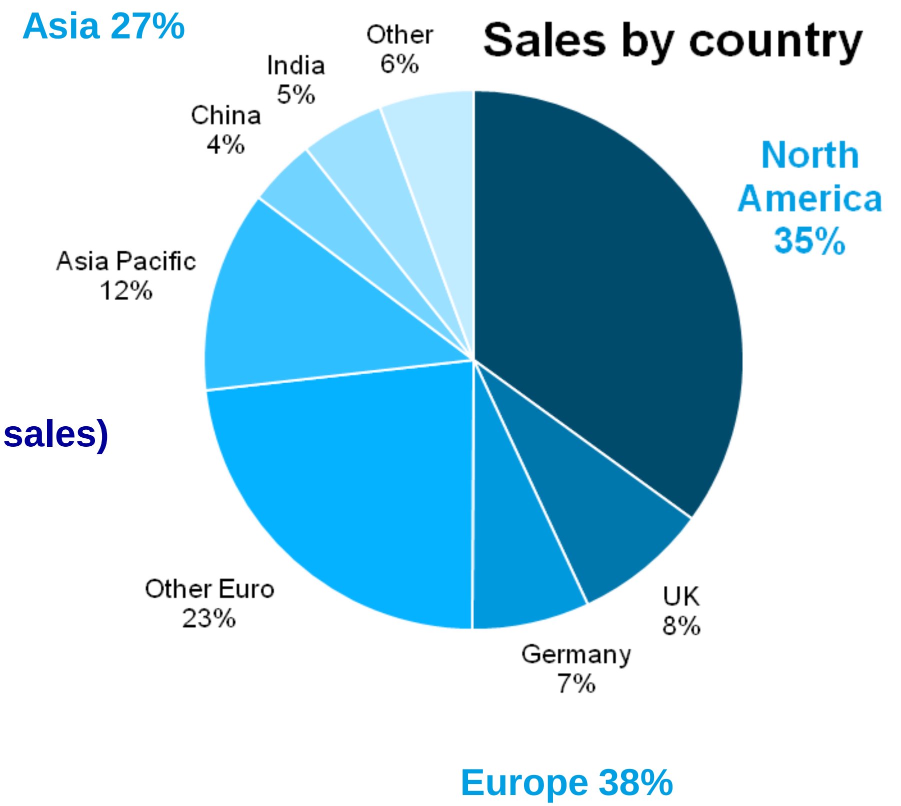
Excellent reputation for engineering and quality with strong brand recognition in industrial chain and torque transmission markets

- **Quick facts**
  - H1 2010/11 sales of £93m
  - Sales in over 105 countries worldwide
  - Selling companies located in 20 countries
  - 14 manufacturing sites worldwide
  - Approximately 2,700 employees worldwide
  - No customer is greater than 5% of sales
- **Largest division is industrial steel chain (76% sales)**
  - £1 billion global market
  - #2 global player by market share
  - Market leader in Europe, Australia and India
- **Torque Transmission division (24% sales)**
  - Engineered products for bespoke solutions
  - Target mass transit, power generation, steel and mineral extraction markets



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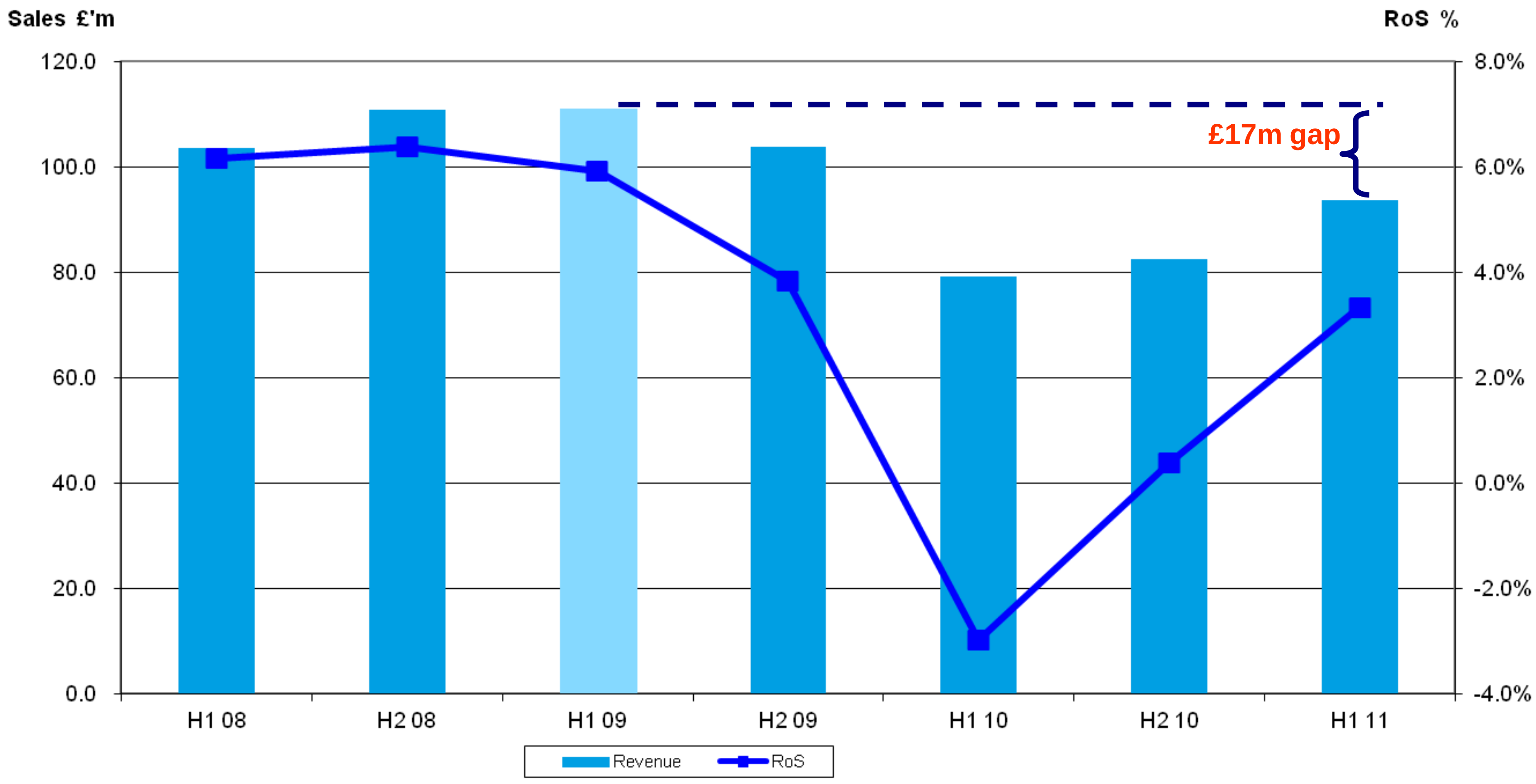
Emerging strongly from recession with a leaner business and growing market share



- The chart above shows underlying revenue and return on sales margin
- H1 2010/11 underlying sales circa £17m below the pre-recession peak H1 2008/09 (hatched area)
- Current drop through rate of incremental revenue to operating profit is ~40%

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Group Income Statement

Strong turnaround from the loss making position in the comparable period. RoS recovery consistent with short term goal of 10% for the Group

	H1 2010/11 £'m	H1 2009/10 £'m	Variance £'m
Revenue	92.9	75.5	17.4
Operating profit before exceptional items	3.1	(2.3)	5.4
Exceptional items	(0.2)	(1.4)	1.2
Operating profit / (loss)	2.9	(3.7)	6.6
Net financing costs	(2.5)	(5.1)	2.6
Profit / (loss) before tax and exceptional items	***0.6***	*(5.1)*	***5.7***
Profit / (loss) before tax	0.4	(8.8)	9.2
Tax	(0.2)	1.3	(1.5)
Profit / (loss) after tax	**0.2**	(7.5)	**7.7**
Adjusted earnings / (loss) per share	**0.7p**	(3.1p)	**3.8p**
Return on Sales	**3.3%**	**(3.0%)**	

Group Income Statement

Good drop through to operating profit from the 17% increase in sales with much of the 2008/09 cost reductions retained

Underlying Analysis	H1 2010/11 £'m	H1 2009/10 £'m	Var £'m
Revenue as reported	**92.9**	75.5	
Impact of FX	**-**	3.8	
Underlying Revenue	**92.9**	79.3	**13.6**
Operating profit as reported	**3.1**	(2.3)	
Impact of FX	**-**	**-**	
Underlying Operating Profit	**3.1**	(2.3)	**5.4**
Underlying Return on Sales %	**3.3%**	(2.9%)	

- Underlying revenue has increased by 17%
- Significant £5.4m increase in underlying operating profit
- Return on sales reflects the ~40% ‘drop through’ of incremental revenue to operating profit

Segmental Analysis - Chain

Chain sales recovered well following the end of destocking by distributors and OEMs

Underlying Analysis	H1 2010/11 £'m	H1 2009/10 £'m	Var £'m
Revenue as reported	**70.3**	51.0	
Impact of FX	-	2.7	
Underlying Revenue	**70.3**	53.7	**16.6**
Operating profit as reported	**2.0**	(3.2)	
Impact of FX	-	(0.1)	
Underlying Operating profit	**2.0**	(3.3)	**5.3**
Underlying Return on Sales %	**2.8%**	(6.1%)	

- Underlying revenue has increased by 31%
- £5.3m turnaround from a loss in the prior period to the profit above.
- Commenced discussions on the closure of the manufacturing arm of our business in France which further improves the European manufacturing foot print and cost base. Payback of ~1 year.

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Segmental Analysis – TT

Expected revenue fall following successful completion of a large mass transit contract but operating profit improved

Underlying Analysis	H1 2010/11 £'m	H1 2009/10 £'m	Var £'m
Revenue as reported	**22.6**	24.5	
Impact of FX	**-**	1.1	
Underlying Revenue	**22.6**	25.6	**(3.0)**
Operating profit as reported	**3.3**	2.7	
Impact of FX	**-**	0.1	
Underlying Operating Profit	**3.3**	2.8	**0.5**
Underlying Return on Sales %	**14.6%**	10.9%	

- Underlying revenue fell 12% on completion of a major contract in March 2010 (annual sales ~£10m)
- Order books are however 14% ahead of the same time last year despite this contract completion
- Underlying operating profit still grew by 18% due to better mix of margins
- Return on sales increased further to 14.6%

Group Cash Flow Statement

Significant improvement in debt compared to last year following fund raising. Increases in WC in line with the large increase in sales.

£m	H1 2010/11	H1 2009/10
Cash outflow from operating activities	(2.2)	(1.0)
Taxes paid	-	0.7
Net cash from operating activities	**(2.2)**	(0.3)
Investing activities	(3.3)	(0.8)
Financing activities	-	(2.1)
Decrease in cash and cash equivalents	**(5.5)**	(3.2)
Other movement in debt	(0.8)	(1.0)
Foreign currency differences	0.6	1.8
Net debt at start of period	(17.9)	(37.2)
Net debt at end of period	**(23.6)**	(39.6)

£m	H1 2010/11	H1 2009/10
OP	2.9	(3.7)
Dep/Amort	2.5	2.4
Debtors	(5.4)	8.3
Inventory	(3.4)	1.7
Payables	1.8	(7.4)
Provisions	(0.1)	(0.5)
Pensions	(0.7)	(1.9)
Other	0.2	0.1
	(2.2)	(1.0)

- EBITDA improved by £6.7m compared to the PY
- Working capital ratio shows a decrease to 24.4% (influenced by upturn and increase in steel prices)
  - Interim target to return to <20%
- Capital projects deferred from prior years and the SAP project drive Capex increase of £1.8m plus deferred consideration for Indian acquisition £0.7m

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Group Balance Sheet

Balance sheet health maintained since equity fundraising.

£m	30 Sept 2010 £'m	31 Mar 2010 £'m	30 Sept 2009 £'m
Goodwill	22.7	23.5	22.1
Property, plant and equipment	48.9	49.9	48.6
Deferred tax	24.8	22.0	19.6
Inventories	45.6	42.9	43.7
Receivables	33.3	28.3	27.4
Payables	(34.0)	(33.0)	(30.2)
Net borrowings	(23.6)	(17.9)	(39.6)
Provisions	(0.9)	(1.1)	(2.8)
Retirement benefit obligations	(87.1)	(74.5)	(73.8)
Other assets	5.7	4.7	3.4
Net assets	**35.4**	44.8	18.4
Gearing (D/(D+E))	**40%**	29%	68%

- Changes in deferred tax asset values largely reflect changes in pension liabilities.
- Net debt change reflects increase in working capital with higher activity levels.
- Changes in pension deficit covered in more detail on slide 11.

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Cash cost of pensions is unchanged despite volatility in the deficit which is driven by market factors.

Balance Sheet	30 Sept 2010 £m	31 Mar 2010 £m
UK deficits net of deferred tax	(44.9)	(35.8)
Overseas net deficit	(21.6)	(21.0)
Total retirement benefit obligation	**(66.5)**	(56.8)

Variance	£m
Discount rate (5.6% to 5.0%)	(20.0)
Inflation rate (3.7% to 3.2%)	9.5
Net other	0.8
Movement in Liability	**(9.7)**

- Reducing the overall liabilities and annual cash costs a key executive focus
- Annual ongoing cash cost of UK pension funding is £3.2m (including £0.9m admin / PPF levy).
- Cash costs above reflects action to reduce PPF costs by £0.5m p.a.
  - £3.1m of PY PPF levies remain outstanding and subject to discussion with the PPF.
- Two closed UK schemes currently undergoing triennial review, expect result in 2011.
- The overseas net deficit is primarily the unfunded German scheme (£19.8m net deficit) and this scheme is also closed to new members.
- Potential benefits from CPI / RPI changes (£5m+).
- A number of other initiatives underway to reduce liabilities.

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Strong recovery seen in most geographies and from most customers and market segments

Market Recovery

- Order intake 27% higher than the same period last year
- Forward visibility improving but still limited more than 3 months out
- Destocking largely complete with little evidence of re-stocking

Market Share

- Gains in market share driven by wider product offering following acquisitions in China / India
- Leveraging existing customer relationships for a greater ‘share of wallet’

Cost Base

- Operational gearing is strong with 40% drop through on incremental revenue
- Manufacturing footprint and cost base still being improved
- Some cost pressures from rising steel prices and increased activity levels

Cash generation

- Working capital ratios maintained with interim target of 4% reduction
- Scope to invest in rapid pay back projects following restraint of last two years

Future developments

A number of near term opportunities exist both inside and outside the Group to further enhance our cost base and exploit our market presence.

- **Manufacturing footprint**
  - Additional capacity being added in China to service increased demand
  - France manufacturing closure project
  - US warehouse consolidation

- **Target attractive market segments**
  - Expanding mass transit (TT) footprint outside North America
  - Other sectors include food & beverage, infrastructure, oil and gas, power generation and mineral extraction
  - Opportunities to expand geographical footprint

- **Further efficiency improvements**
  - Further automation in western facilities
  - SAP implementation creates opportunities for structural and business process efficiency
  - Additional cost reduction initiatives already underway

- **Priorities are 10% RoS target and cash generation**

Outlook

Current activity levels are expected to continue through H2.
Increasing uncertainty in the US looking forward.

- Order intake and hence revenue forecast for Q3 continue positive trends
- Recovering markets enhanced further by market share gains
- Less visibility into Q4 but nothing to indicate downturn at this stage
- Sentiment remains strong in Europe with increasing uncertainty in the US
- Underlying operational gearing should continue at current levels - some moderation due to activity levels
- Steel prices are not stable and other input costs such as energy are expected to increase
- Focus on returning working capital ratio to Renold long term average rate of 20% (24% today)
- 10% RoS target for 2012/13 with initiatives already underway to bridge the gap