RENISHAW PLC

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OUR PASSION...

ANNUAL REPORT 2008

...IS PERFORMANCE

Behind every Renishaw product there is an innate commitment to innovate and create a positive impact on our customers' operations

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Company secretary and registered office
A C G Roberts FCA
New Mills, Wotton-under-Edge
Gloucestershire GL12 8JR
Registered number 1106260

Telephone (01453) 524524
Facsimile (01453) 524401
Email uk@renishaw com
www renishaw com

Registrars and transfer office
Equiniti Limited, Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA

Telephone 0871 384 2169 (UK callers)
+44 121 415047 (international callers)
Facsimile +44 (0)871 384 2100
www shareview co uk

UK calls to 0871 numbers are charged at 8p per minute from a BT landline Other telephony providers cost may vary

Auditors
KPMG Audit Plc

Solicitors
Norton Rose

Stockbrokers
UBS

Principal bankers
Lloyds TSB

HIGHLIGHTS (as adjusted)

- Record results – revenue, profit and cash flow all increased
- Revenue growth in all geographic territories
- Engineering costs, including research and development, increased by 14%
- Operating margin increased to 18 6% (2007 16 4%)
- Earnings per share increased by 28%
- Dividend increased by 11%

	2008	2007	change
Revenue (£m)	**201 2**	180 9	+11%
Adjusted operating profit (£m)*	**37 3**	29 7	+26%
Adjusted profit before taxation (£m)*	**41 7**	32 7	+28%
Adjusted earnings per share (pence)*	**45 9**	35 9	+28%
Dividend per share (pence)	**25 39**	22 87	+11%
Statutory			
Profit before tax (£m)	**43 1**	52 1	-17%
Basic earnings per share (pence)	**47 6**	55 2	-14%

Adjusted figures are stated before the pension curtailment credits of £1 344,000 for Renishaw (Ireland) Limited (2008) and £19,460,000 for Renishaw plc (2007)

THE BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Sir David McMurtry, CBE, RDI, CEng, FIMechE, FREng, Chairman and Chief Executive, age 68, was employed by Rolls-Royce plc, Bristol, for 17 years latterly holding the positions of Deputy Chief Designer and Assistant Chief of Engine Design of all Rolls-Royce engines manufactured at Filton in Bristol After inventing the original probe in the early 1970s, Sir David founded Renishaw in 1973 with John Deer His CBE was awarded "for services to Science and Technology" and he was appointed a Royal Designer for Industry (RDI) in 1989 He is a visiting Professor of Huddersfield University and has been awarded an honorary Doctorate of Engineering at the University of Birmingham and honorary degrees of Doctor of Engineering at Heriot-Watt University, the University of Bristol and the University of Bath Sir David is a Chartered Engineer, a Fellow of the Institute of Mechanical Engineers, a Fellow of the American Society of Manufacturing Engineers and a Fellow of the Royal Academy of Engineering In addition to his role as Chairman and Chief Executive, Sir David also has responsibility for group technology

John Deer, Deputy Chairman, age 70, trained as a mechanical engineer and worked for Rolls-Royce plc, Bristol, from 1960 to 1974 He was Managing Director of Renishaw from 1974 to 1989 primarily involved in the commercial direction of the Group with particular emphasis on marketing and the establishment of the Group's wholly-owned subsidiaries in the USA, Ireland Japan, Germany, France and Italy John and Sir David McMurtry were members of the four-man team of Renishaw engineers honoured with the MacRobert Award in 1987 John is responsible for group manufacturing and group quality and is chairman of the overseas marketing subsidiaries

Ben Taylor, CEng, FIMechE, Assistant Chief Executive, age 59, has been involved in the field of metrology all his working life, after graduating in mechanical engineering and design from Pennsylvania State University Before joining Renishaw Inc as President in 1985, he was the Director of Engineering at Sheffield Measurement USA Ben was appointed to the Board of Renishaw plc in 1987 and is responsible for group marketing, international operations and human resources He serves on various metrology committees and other professional associations and is a Chartered Engineer, a fellow of the Institute of Mechanical Engineers and a Liveryman of The Worshipful Company of Scientific Instrument Makers

Allen Roberts, FCA, Group Finance Director, age 59, is a Fellow of the Institute of Chartered Accountants in England and Wales Before joining Renishaw in 1979, he was employed for 11 years by Peat, Marwick, Mitchell & Co He was appointed a director in 1980 Allen heads group finance, business systems and Wotton Travel Ltd and is the Company Secretary

Geoff McFarland, Group Engineering Director, age 40, graduated in mechanical engineering from Heriot Watt University and is a visiting professor at Bath University After working in the medical device and electronic manufacturing sectors, Geoff joined Renishaw's research facility in Edinburgh in 1994, before moving to headquarters to become Director and General Manager of the CMM Products Division Geoff was appointed to the Board in July 2002 He heads the group engineering function and is also responsible for group IP and patents Geoff is a non-executive director of Delcam plc

NON-EXECUTIVE DIRECTORS

Joe McGeehan, CBE FIEE, FREng, the senior independent non-executive director, age 62, is Managing Director of Toshiba Research Ltd Telecommunications Research Laboratory, Bristol After obtaining the degrees of BEng and PhD in electrical and electronic engineering from the University of Liverpool, he spent several years involved in industrial research before entering academia Since 1985, he has held a number of senior positions at the University of Bristol In 2003 he was awarded the degree of DEng by the University of Liverpool for his major contribution to mobile communications research, much of which has formed the basis of international standards He is a Fellow of the Institution of Electrical Engineers and a Fellow of the Royal Academy of Engineering Joe was appointed a director in January 2001

Terry Garthwaite, FCA, non-executive director, age 61, is a chartered accountant, who after qualifying, joined Price Waterhouse in London He held a number of senior finance positions within Foseco plc including Director of Corporate Finance, prior to spending eleven years as Group Finance Director at the multinational engineering group Senior plc He is a non-executive director of Brammer plc and Wilmington Group plc Terry was appointed a director of Renishaw plc in July 2003 and is chairman of the Audit committee

David Snowden, FCA, non-executive director, age 71, was a partner at KPMG for 25 years, latterly acting as Senior Partner for KPMG in South Wales David was appointed a director of the Company in July 2003 and is the chairman of the Remuneration and nomination committee

Bill Whiteley, FCMA, non-executive director, age 59 was, until his retirement in May 2008, the chief executive of Rotork plc, where he had been a director for 24 years During this period, Bill managed Rotork plc's business during a period of major expansion, both geographically and in product lines Bill is also a non-executive director of Spirax Sarco plc, Dialight plc and Brammer plc Bill was appointed a director of the Company on 20th June 2008

Audit committee
Terry Garthwaite (Chairman)
Joe McGeehan
David Snowden
Bill Whiteley

Remuneration and nomination committee
David Snowden (Chairman)
Terry Garthwaite
Joe McGeehan
Bill Whiteley

OUR PASSION IS PERFORMANCE

I am delighted to announce record results for the financial year to 30th June 2008

REVENUE

Revenue growth has accelerated since the half year resulting in an overall increase of 11% to £201 2m (2007 £180 9m) representing growth of 9% at constant exchange rates We have experienced growth across all geographical markets, in particular the Far East and Europe, and there was significant progress in our laser calibration, machine tool and encoder product lines

PROFIT

Operating profit, excluding pension curtailment credits in Ireland in 2008 and in the UK in 2007, increased by 28% to £37 3m (2007 £29 7m), reflecting in part £1 4m of additional profit due to favourable exchange rates Profit before tax, excluding pension curtailment credits, increased by 28% to £41 7m (2007 £32 7m), resulting in adjusted earnings per share up 28% to 45 9p (2007 35 9p)

SALES AND MARKETING

Renishaw increased its market penetration and market offering We continue to focus on existing markets, customers and new applications for our ever-increasing product range Our overseas marketing and sales network has been further strengthened during the year, particularly in the Far East India and Brazil

Renishaw's 5-axis scanning and measuring product Renscan5™ and REVO™ is now being widely accepted for new sales and also increasingly for the substantial retrofit market, reflecting the significant improvements available to customers on throughput and productivity The new laser interferometer XL-80 and XC-80 compensator products within the laser and calibration market have also been very warmly welcomed

MANUFACTURING

During the year we have completed the introduction in both the UK and India of our new manufacturing Enterprise Resource Planning (ERP) system which will give rise to improved manufacturing efficiencies, from the ordering of goods from suppliers to the production of finished products

In addition a groupwide initiative to review and implement changes to inventory management policies was established This has resulted in group inventory being reduced by £2 0m at 17% of sales (2007 20%), despite the increase in turnover, at the same time the level of finished stock has increased by 12% maintaining and improving our ability to respond to customer demands The effects of this initiative should continue to be evident in the current financial year In India our production facility in Pune is to be further enlarged, building on its success in improved quality control, cost reduction and increasing volumes

RESEARCH AND DEVELOPMENT

Research and development remains at the core of Renishaw's business and new and updated products continue to increase our product range and help maintain our market position Total engineering expenditure including research and development increased by 14% to £35 4m (2007 £31 1m) prior to the capitalisation of development costs (net of amortisation) of £2 8m (2007 £1 6m) giving a net profit and loss charge of £32 6m (2007 £29 5m)

A number of new products have been introduced during the year including

- Two new high-accuracy strain gauge touch trigger probes for machine tool applications
- A contact sensing probe for articulating arm measuring machines
- neuro | inspire™ software and neuro | guide™ devices for neurosurgical procedures
- New CAD software for the design of dental crowns and bridges
- New interfaces for our laser scales and encoders
- New and improved range of angle and linear encoders
- New low-cost servo controller and handset for CMMs
- Thermally controlled module rack for scanning probes

The application of Renishaw technology to markets outside traditional engineering continues to challenge and excite the Company The development of precision functional neurosurgery is the latest to offer significant potential in the medium-term to add to our growing interest in advancing dental technology

PATENTS

Renishaw invests heavily in the research and development of new products and in protecting intellectual property rights by way of patents and proprietary processes As a matter of policy therefore, Renishaw takes action for alleged patent infringements where appropriate In June 2008 we announced that Renishaw has commenced legal proceedings in the US in the Northern District of Illinois against Tesa SA and Hexagon Metrology Inc, each part of the Hexagon Metrology Group of Hexagon AB, a Swedish company It is considered that the litigation could take several years to reach a final decision

BALANCE SHEET

Operating cash flow more than doubled to £46 9m (2007 £22 4m) reflecting both improved profitability and management of working capital Capital expenditure was £5 3m, compared with £9 7m At the year end group net cash balances increased to £38 2m (2007 £20 8m), providing a sound basis for future investment opportunities

EMPLOYEES

This year has involved a great deal of hard work and commitment by our employees who, at the year end, numbered 2,151 (2007 2,154) I am grateful to them all for their individual contribution which has led to this successful year

I am also pleased to welcome Bill Whiteley as a new non-executive director I am sure his experience at Rotork plc where he was CEO during a period of substantial growth will be invaluable to Renishaw

PROSPECTS AND DIVIDEND

2008 was a very successful year with record results The Group continues to expand its international presence and the flow of new products entering the market These provide the platforms to maintain progress despite the less than certain current economic environment worldwide

We start the current year with a record order book and, although historically this order book provides little longer-term visibility, it is clear that many of our customers who traditionally have much longer lead-times than ourselves are still very buoyant Encouraged by the increasing market opportunities for the application of our technologies, we view the Company's future with confidence and optimism

Your board proposes a final dividend of 17 63p per share, giving a total for the year of 25 39p per share (2007 22 87p), an increase of 11%

Sir David R McMurtry
CBE, RDI, CEng, FIMechE, FREng
Chairman & Chief Executive
23rd July 2008

FIVE-AXIS CHAMPIONS

Renishaw client TURBOCAM International specialises in five-axis machining of turbomachinery components — impellers, blades and blisks, some of industry's most complex and exacting shapes

However, efforts at high-throughput production were frustrated by slow, tedious measurement inspection on a legacy co-ordinate measuring machine (CMM) that required stopping the machine and recalibrating for each axis

So, when Renishaw launched the revolutionary Renscan5™/REVO™ ultra-high-speed automated CMM scanning system, TURBOCAM was quick to see its potential

In January 2007 TURBOCAM became one of the first adopters of this new continuous programmable, five-axis inspection capability Fitted on a new Wenzel LH8 10 7 bridge-type CMM at the company's Dover, New Hampshire, USA plant, Renscan5 transformed part measurement and inspection from a bottleneck to an enabler

"What used to take three days to program now takes three hours."

High-speed continuous probing routines are reducing programming time, set-up time and measurement time by 50% and more Besides faster throughput Renscan5 time-savings allow the taking of many more data points for greater measurement precision, freeing up CMM time for qualification of turned blanks and in-process checks before final machining passes

Those powerful advantages led TURBOCAM to become the first company worldwide to add a second Renscan5-equipped CMM in early 2008 this time at their new facility in nearby Barrington

On complex parts such as blisks (integral hub and blades machined from a monolithic blank), "What used to take three days to program now takes three hours," according to Dave Romaine, Quality Assurance Manager With the previous CMM, changing part geometries required many different probe orientations, he explains "We would have to manually select and calibrate each orientation of the probe That was compounded as we inspected multiple blades around the part Hundreds of calibrations have now been eliminated, saving us hours of calibration time "

REVO employs industry s first tip-sensing probing A laser mounted in the head sends its beam down a hollow stylus to a reflector at the tip The return beam is received by a position sensor and any deflection used to calculate true tip position This allows REVO to perform a complete part inspection routine in a continuous operation without recalibration

The previous CMM could be repositioned in 2 5 degree increments 'Even with this tight resolution, programming, access, stylus change and calibration were incredibly painful," notes Romaine The REVO head provides infinite positioning through co-ordinated rotary motion in horizontal and vertical axes, optimising part access and delivering high-accuracy part measurements

REVO gives TURBOCAM many more data points on greatly reduced cycle times — up to 4,000 points per second in scanning mode "Increased point data allows us to see a more complete picture of what we're manufacturing," says Romaine "We can see deviations better as they increase and decrease along a blade or around a part This lets us better trouble-shoot our manufacturing process "

MAKE NO MISTAKE

When it comes to machining front chassis assemblies for JCB, errors are not an option

JCB is famous the world over for its earthmoving, construction and agricultural vehicles The chassis for its large-wheeled loader is a massive, three-dimensional, welded steel assembly Each one is over 1 5 m tall and weighs more than 2,000 kilogrammes – they represent a substantial investment in work and materials

To make error-free machining of these assemblies a reality, JCB invested more than £2m in a state-of-the-art machining cell at its factory in Staffordshire, UK This machining cell brings together the best of British precision engineering innovation, using CNC machine tools from Asquith Butler and the wireless RMP60 touch probe from Renishaw

The RMP60 system consists of two separate components, the touch probe and the RMI, a combined receiver-interface unit that interacts with the CNC machine's controller

After the chassis is craned into position, the RMP60 system is used to locate its position on the machine, at the same time helping to identify if the part is outside specification prior to machining If the part is outside specification, no time is wasted It is removed and the next part to be machined is placed on the table

Measuring the part is a simple process that takes a matter of minutes and once machining commences the RMP60 system ensures the part is machined accurately Total cutting time varies between 1 25 and 2 50 hours depending on the assembly

And because this process is automated, JCB knows that the machine cutter will find the part exactly, part after part, day after day

instead the RMP60 is the world's first probe to use frequency hopping spread spectrum (FHSS) data transmission, as it 'hops' through a sequence of frequencies in the 2 4 GHz band

This unique solution allows multiple probes to be used alongside one another with confidence in heavy industrial environments, even those with debilitating levels of electro-magnetic interference

"Scrapping an assembly is simply not an option."

Using this system brings a number of unique benefits The compact radio-transmission design allows access to any point on the assembly that the machine head can reach Moreover, because machining takes place close to the area where the assemblies are fabricated, there is a real danger of electromagnetic signal interference caused by welding To overcome this, the touch probe does not rely on a fixed radio channnel

Renishaw's innovation ensures that the vital feedback signal from the touch probe arrives intact and without interruption to the machine controller and production can proceed unhindered

SHINE A LIGHT

Renishaw's advances in the field of Raman spectroscopy mean that when it comes to diagnosing and treating cancers, what was once science fiction is now becoming science fact

Historically, biopsy samples from suspected cancer patients were stained and then sent for histopathological diagnosis Histopathology is a branch of pathology concerned with the study of the microscopic changes in diseased tissues

Now medical teams can detect cancers by directing a laser at the tissue in question and then analysing how the tissue changes the wavelength of the laser light Molecules within the tissues that relate to the disease will change the light differently to the molecules in healthy tissue

The idea of using Raman spectroscopy to identify cancerous cells grew from a discussion in 1996 between Dr Nick Stone, now head of Biophotonics Research at the Gloucestershire Hospitals NHS Foundation Trust in the UK, and consultant surgeon Professor Hugh Barr, on extending the use of lasers to cover diagnosis as well as treatment

Work on turning the theory into reality began a decade ago However, until now, the biggest barrier to routine use of this technique was the time needed to produce the image of the tissue being analysed

Enter Renishaw's StreamLine™ fast Raman imaging system Work undertaken by the Biophotonics Department of the Gloucestershire Hospitals NHS Foundation Trust, Cranfield University and Renishaw plc has demonstrated that Renishaw's StreamLine Raman imaging gives between a three- and sevenfold reduction in imaging times making clinical use of the technology viable for the first time

Raman also could enable doctors to identify pre-cancerous cells in vivo at an earlier stage than they ordinarily would by using regular endoscopy to select areas for biopsy Moreover, instead of random sampling, doctors are able to carry out thorough checks of an area of tissue In time, doctors believe that it will be possible to carry out diagnosis and

Improvements in the methodology continue to be made One of the technique s latest developments has come from work carried out at the Rutherford Appleton Laboratory in Oxford to enable scientists to shine a light through several centimetres of tissue instead of the traditional method of examining a specific area through an endoscope

"Renishaw's StreamLine™ Raman imaging gives between a three- and sevenfold reduction in imaging times."

treatment procedures during one appointment, rather than putting patients through the stress of waiting for treatments after diagnosis

Although the application of Raman spectroscopy to histology and endoscopy (or cancer diagnosis as a whole) is still in its infancy, Renishaw's advances in this field offer a brighter future in the detection and treatment of cancers

QUALITY IS COMPULSORY

In the aviation industry, when a part fails, it could cost lives So, when Alp Aviation puts a part into production there needs to be total trust in the manufacturing process

Based in Eskisehir, Turkey, Alp achieves this by using Renishaw's Productivity+™ software and touch probes

Alp manufactures aircraft parts for aviation industry leaders, such as Pratt & Whitney and Sikorsky The company started out as an independent enterprise in 1998 and was soon making parts for Sikorsky, who was so impressed with Alp's service they bought a 50% stake in the business in June 1999

When a new part is introduced, a production engineer is assigned full responsibility for all processes throughout the production cycle Computer aided design (CAD) data is supplied by the customer Then, using a computer aided manufacturing (CAM) system, a cutting process for manufacturing the part is planned Probing using Productivity+ is utilised to set up the part and inspect it during production

In the past, some companies may not have been able to get the best from their probing systems because of software limitations and a lack of skilled staff By using Productivity+, Alp has removed this barrier and placed probing at the heart of its production engineering process

The results have been startling Before the implementation of Productivity+ the operator had to manually align the part on the table, or Alp would need to fabricate a special, and expensive, fixture for every variation of component

Another benefit of Productivity+ is that the probing routines automatically update the machine Previously, this was done by the operator and errors were easily made resulting in unnecessary scrap and wasted man hours Accuracy has improved

"We looked at the whole production cycle time and in some cases were able to reduce it by up to 50%."

Now the operators use a simple clamp and the machine is programmed to locate the part And the probe is used again later in the process, for example, every part is checked prior to the finishing cuts and inspected again once finished

In some instances production cycle times have been halved

Reduced set-up times are particularly important to Alp Parts have many variants and there is a strong need for flexibility in production Some batches can run on a machine for more than a year while other machines can change batches two or three times a day with just a few parts in each batch

too – the probing is regularly cross-checked using manual gauges and Alp is usually able to achieve less than one micron (1/1000 of a millimetre) repeatability

Time and cost savings, accuracy and absolute trust in the process – all made possible by Renishaw's Productivity+ software and part setting probes

STRONG-ARM TACTICS

A Miniature Remotely Operated Vehicle (MROV) is designed for use in hostile and corrosive environments, where a human life would be in danger

To provide its latest MROV Guardian, with the highest levels of manoeuvrability and dexterity, AB Precision, in Poole, UK uses a network of non-contact encoders that provide positional feedback to a computer And, when it came to choosing a supplier for those encoders, Renishaw was the natural choice

The Guardian is a highly sophisticated vehicle with several moveable parts including the base Operators can also raise, lower extend and retract the main arm, pan and tilt, plus tilt the camera and a variety of implements

In bomb disposal situations, for example, the arm carries a disruptor which fires a jet of very high-pressure water to neutralise a device The water jet disables the circuitry controlling the explosive device and renders it safe without destroying vital forensic evidence In other applications handling devices or sensors replace the disruptors

The onboard rotary encoders, produced by RLS d o o , Renishaw's Slovenian associate company, detect the positions of all articulated components of the arm and track mechanisms, while a continuous telemetry stream sends data back to the base station control

On a remote control, at a safe distance from whatever hazard is being dealt with, the operator is able to see a live, rotating graphical representation of the vehicle which, when viewed in conjunction with images from four onboard video cameras, means that Guardian can be operated out-of-sight in confined spaces

Guardian project engineer and the man responsible for specifying Renishaw components, Nigel Peter says, "AM512 sensors are easy to interface, they are mounted directly to the controller printed circuit boards so no wiring is required This reduces cost and increases reliability "

"AM512 sensors are easy to interface; they are mounted directly to the controller printed circuit boards so no wiring is required. This reduces cost and increases reliability."

Thanks to the AM512 magnetic sensors and RMB20 high-speed rotary magnetic encoders, Guardian's spatial awareness is about as advanced as an electromechanical system can be All of which means that Guardian can climb stairs, reach inside or underneath vehicles, and stand up to 2 6 m tall when fully extended It has bi-directional audio capability and is narrow enough to move down aircraft and train aisles

The result is that Guardian has a remote, 'intelligent' arm with full vision, capable of carrying and using a wide variety of tools depending on the application The reality is that MROVs like Guardian are helping to protect and save human lives every day

IMPLANTING HOPE

Renishaw is proving its reputation for providing tools to improve precision and throughput in one of its newest markets

Neurological surgical procedures, such as Deep Brain Stimulation (DBS) used in the treatment of Parkinson s disease, rely on the identification of targets within the brain using medical imaging systems and plotting target co-ordinates and trajectories

Renishaw's neuro | guide™ electrode introducer kit has simplified the process and significantly reduced the amount of time required in theatre

Using its extensive experience in identifying the source and levels of distortion in industrial machinery, Renishaw is developing algorithms designed to significantly reduce distortion levels on magnetic resonance image scans used for planning surgery Moreover, when available, neuro | inspire™ surgical planning software will give additional anatomy identification functions that are designed to provide surgeons with the information they need to identify target brain anatomy, even deep within the brain with increasing confidence

The neuro | guide electrode introducer kit is implanted into the brain to assist in the targeted delivery of DBS electrodes Traditionally, DBS electrodes have been implanted whilst the patient lay awake on the operating table The patient needed to be awake to provide the operating surgeon with information about the side effects of stimulating different parts of the brain whilst they measured signals from it This type of surgery can take as long as 20 hours, is harrowing for both the patient and the surgical team, and can lead to complications along with inaccuracies in delivering the permanently implanted electrodes

Using the neuro | guide electrode introducer kit, the surgery can be completed within four hours with the patient under general anaesthetic throughout Further reductions in surgery time will be possible when the neuro | inspire surgical planning software is used

Until now, at Frenchay hospital, in Bristol, UK, surgical planning has been done manually, which is particularly time-consuming and introduces the possibility of human error

Professor Steven Gill, consultant neurosurgeon at Frenchay Hospital has witnessed the improvement in surgical technique and, ultimately, patient outcome since he first started using neuro | guide electrode introducer kits In May 2006 he operated on John Platt, a 64-year-old former teacher to implant DBS electrodes After undergoing this life-changing surgery, Mr Platt's wife said, "John is three inches taller! Our lives are transformed, John has so much more independence I have got my husband back physically and emotionally The benefits of surgery are continuing to be revealed and it is hard to remember how tough life was and how bleak the future looked "

"Our lives are transformed; John has so much more independence. I have got my husband back physically and emotionally."

LASER-GUIDED ACCURACY

Machined components can only ever be as accurate as the machines that produce them So, regardless of the machining technology used, it is vital for production companies to ensure the accuracy of their machines

Moreover, in addition to increased accuracy, industry is now demanding certified evidence that machines are calibrated to international standards

Take into account production schedules and time becomes of the essence – the less downtime for calibration, the less disruption there is to production Which equates to time and money saved Accordingly, portability and ease of set-up are important characteristics of calibration equipment

To meet this demand, many production companies and smaller machine manufacturers find it easier and more cost-effective to have their machines calibrated and tested by field service engineers using laser interferometer systems

"The benefit of the compact design of the XL-80 becomes apparent when calibrating machines.. it allows us to obtain measurements that were previously a problem."

Geo Tec Messtechnik is one such calibration service company Based in Stuttgart, Germany, the company has a long history as a user of the industry-standard Renishaw ML10 laser However, the extra benefits of using the new Renishaw XL-80, to Geo Tec and its clients, meant upgrading was virtually mandatory

The new system's portability and ease of use minimises transportation and set-up times and it is robust enough to make it practical to use in a shop floor factory environment

Jurgen Emslander of Geo Tec says, The benefit of the compact design of the XL-80 becomes apparent when calibrating machines such as Edel machining centres It is small enough to allow the use of a magnetic base, which allows us to work inside the machine, making the job much quicker and easier And it allows us to obtain measurements that were previously a problem "

And, LEDs on top of the XL-80 make setting it up very straightforward Engineers can monitor the beam strength of the laser interferometer without having to go back and forth to the PC connected to it

Precision is guaranteed by the fact that the XL-80 has a certified linear measurement accuracy of ±0 5 ppm (possible error of ± half a micron per metre of path length) regardless of ambient conditions When the XL-80 is paired with the XC-80 compensator unit, external factors, such as fluctuations in temperature, are measured continuously and compensated for automatically

Using Renishaw s XL-80 system gives shorter testing times This allows calibration when machines are not running, for example at night or weekends and results in the minimum downtime, saving money, increasing productivity and ensuring accuracy

ENHANCED COMPETITIVE PERFORMANCE

Renishaw continues to supply machine builders across the globe with products that enhance the competitive performance of their products, increasing speed and accuracy of operation, and allowing certification to international standards

In Asia particularly, there is an increasing drive to produce high quality machinery, both for domestic consumption and export markets

Han's Laser is China's largest producer of laser machining equipment, with applications as diverse as laser marking, engraving and wafer slicing It sold 6,000 machines in 2007, with customers including large electronics businesses such as Foxconn and Panasonic

"We have grown by offering our customers strong local service, by being committed to continuous improvement and by offering much better price-to-performance ratios than our competitors ', explains Qun Lei, Han's Laser's PCB Division Vice General Manager

Han's Laser's printed circuit board (PCB) drilling machines operate at speeds of up to 2 metres per second, and the position and depth of the drilled holes ('vias') is critical to ensure the integrity of the interconnecting circuit traces between the multiple copper layers of the circuit boards To achieve positioning performance on the higher-end machines (up to ± 5 microns), each of the machine's two axes is fitted with a Renishaw optical linear encoder whilst a Renishaw laser calibration system is also used to check for machine performance accuracy during final 'sign-off'

With small tools (down to 0 1 mm diameter) and high-speed drilling spindles, tool breakages are a real possibility, and for each spindle on the machine, a Renishaw NCPCB laser-based, broken tool, detection system is fitted, to rapidly check for breakages during operation

Taiwanese manufacturer Quaser Machine Tools is strongly focused on Western markets, with machining centres sold under its own brand and machines produced for other leading international brands "Our users within Europe are very diverse, from aerospace suppliers in Switzerland to an Italian forklift manufacturer, and a subcontractor making parts for Ferrari" says Rock Liao Quaser's President

Additionally, Quaser machines are subjected to a Renishaw QC10 ballbar test, with all three axes checked using an 'XY', XZ' and 'YZ' test, referred to as the 'double-ballbar' standard

With a growing order book and an increased focus on high-accuracy five-axis and horizontal machines, Quaser has purchased twelve of the latest

"We are finding the XL-80 more compact, more portable, more stable and easier to operate."

Since its formation in 1991, Quaser has used Renishaw's laser calibration systems to check the accuracy of its machines, enhance specifications and then produce certification to ISO or JIS standards Routines to compensate for machine pitch errors are carried out as standard whilst on large and five-axis machines, tests for linearity and straightness are also performed

XL-80 laser measurement systems "Compared to the original ML10 systems that we had for many years, we are finding the XL-80 more compact, more portable, more stable and generally easier to operate " explains Mr Liao

The Financial review has been prepared for the purpose of assisting members of the Company to assess the strategies adopted by the Company and the potential for those strategies to succeed and no-one, including members of the Company, may rely on it for any other purpose The directors owe their duties only to members of the Company as a whole and they undertake no duty of care to individual members, other stakeholders or potential investors

This review has been prepared on the basis of the knowledge and information available to the directors at that time Given the nature of some forward-looking information, which has been given in good faith, members should treat this information with due caution

BUSINESS OUTLINE

Renishaw's business is metrology, the science of measurement The Group manufactures a comprehensive range of high-precision probing systems, accessories, calibration and measuring systems and other innovative products which enable customers worldwide to carry out dimensional measurements to traceable standards

The Group's products comprise

- Co-ordinate measuring machine ("CMM") probes and accessories, which are used for accurate post-process inspection of components on CMMs With Renishaw's latest Renscan5™ 5-axis scanning technology, manufacturers can inspect complex components at unprecedented speed without compromising measurement accuracy
- Machine tool probes and tool setting systems, used for automated component identification, workpiece and tool setting and component inspection, which can be fitted on CNC turning and milling machines To remain competitive companies need to automate production whilst maintaining tight control of the dimensions and finish of their manufactured components The acceptance of quality control in the production environment means that probing is considered essential and allows the complete manufacturing process to be monitored and made self-correcting
- Laser calibration systems and the QC10 ballbar, used to determine the accuracy of CMMs, machine tools and other industrial and scientific equipment Regular use of these systems improves the precision of the production process and thus helps increase product quality, reduce scrap and machine down-time
- Linear and angle encoder systems, for precise linear and rotary motion control These systems offer precision feedback for a variety of applications, ranging from long-axis machine tools to X-Y wafer inspection systems
- Scanning and digitising systems, used to gather data from 3D surfaces specifically for certain dental processes These systems are used where high rates of data capture with high accuracy from fine detail impression dies is required
- Spectroscopy products, including a Raman microscope, used to identify the composition and structure of materials, which can be applied in many different fields, such as pharmaceutical, forensic, semiconductor and chemical industries
- A broad range of styli for CMM and machine tool probes, enabling precision measurement in any application
- Custom products, where Renishaw's standard product does not address the customer's specialised requirements

The Group principally manufactures its products in the UK, Ireland India and, for a range of styli, in Germany

The Group markets and distributes its products to customers around the world, with sales outside the UK representing over 94% of total group sales

The Group has established overseas marketing and distribution subsidiaries in the USA, Japan, Germany, France, Italy, Spain, Switzerland, Hong Kong, Brazil, The Netherlands, India, Australia, Czech Republic Poland, Russia, Sweden Austria South Korea, Canada, Israel, The People's Republic of China, Singapore and Taiwan These subsidiaries provide support to customers in our major markets

There are also representative offices in Hungary, Turkey, Malaysia and Thailand, and an associate company, 50%-owned in Slovenia

BUSINESS STRATEGY

The Group's business plan is to develop technologies that provide patented products and methods which support our product strategies These solutions include high-speed, high-accuracy, error-corrected dimensional measurement systems, motion controllers with enhanced high-speed performance, ultra high-resolution encoders and the development of novel approaches to materials analysis

Based upon our core technologies, the Group is developing market opportunities in a range of other industries These include printing, scientific research, dental, process control in chemical semiconductor and material production, and motion feedback systems for equipment used in the production of electronic and semiconductor components Also, in the medical field, the Group is developing systems for precision functional neurosurgery

The Group also plans to develop further geographic markets, with ongoing investment mainly in South East Asia, especially China and India

To improve the Group's ability to design, manufacture and support its products, continuing investment has been made in manufacturing facilities in the UK and in India Further expansion of these operations is planned for the future and is being considered in Ireland

It is the Board's belief that success comes from patented and innovative products and processes, low-cost, high-quality manufacturing and the ability to provide local customer support in all the Group's markets

RISKS AND UNCERTAINTIES

Research and development

The Group invests heavily in research and development, to develop new products and processes to maintain the long-term growth of the Group This research and development encompasses new innovative products within our core metrology business, as well as the application of our technology in other areas, such as dental and specific applications in the medical field

The development of new products and processes involves risk, such as with development time, which may take longer than originally forecast and hence involve more cost Also, being at the leading edge of new technology in metrology, there are uncertainties whether new developments will work as planned and in some cases, projects may need to be halted with the consequent non-recoverability of expenditure if the intended deliverables of the project are not forthcoming Expenditure is only capitalised once the commercial and technical feasibility of a product is proven

These risks are minimised by operating strictly managed research and development programmes with regular reviews against milestones achieved and against forecast business plans

Research and development also involves beta testing at our major customers to ensure that new products will meet the need of the market and at the right price

Defined benefit pension schemes

This year has seen the closure for future accruals to all existing members of the Irish defined benefit scheme, replacing it with a new defined contribution scheme similar to that introduced into the UK last year

These changes eliminate the major risk of growth in liabilities for future accrual of salary increase above RPI and additional years of service The fund is still subject to fluctuations arising from investment performance and actuarial assumptions and as a result, this year has seen the Consolidated statement of income and expense (the 'SORIE") bear an actuarial loss of £20 5m (2007 gain of £3 1m)

The UK defined benefit scheme is secured by a registered charge on certain of the Group's UK properties The Pension Regulator has confirmed that it does not propose to issue any scheme funding directions under Part 3 of the Pensions Act 2004

Treasury

With the concentration of manufacturing in the UK and Ireland, there is inevitably an exposure to fluctuating currencies on export sales, largely in respect of the US Dollar, Euro and Japanese Yen This year has seen favourable movements in exchange rates which have resulted in improved profits when the results of overseas operations have been translated into Sterling

The Group was hedged throughout the year for a significant amount of its exposure to changes in the Euro, but the US Dollar and Japanese Yen were unhedged in expectation of these currencies strengthening against Sterling

The hedging contracts were marked to market at the year end and the SORIE shows a loss of £5 9m on these outstanding contracts

The Group continues to be hedged against the Euro on a rolling three-and-a-half year basis, but there are continuing risks associated with the US Dollar and Japanese Yen The policy relating to the Group's hedging practices is noted within the treasury policies on page 32

Patent legal cost

As noted in the Chairman s statement, the Company began legal proceedings in the USA against two companies, each part of Hexagon AB, a Swedish company, which are customers of the Group, alleging infringement of patents

The case is expected to take a number of years to resolve and a decision against Renishaw may have a negative financial impact on the Group's results

Order book

Orders from customers generally involve short lead times with the outstanding order book at any time being around one month s worth of sales value

This limited forward order visibility leaves the risk of annual sales forecasts not being met

Tax

Significant judgement is required in determining the effective tax rate and in evaluating certain tax positions Tax provisions are adjusted due to changing facts and circumstances such as case law, progress of tax audits or when an event occurs requiring a change in tax provisions Management regularly assess the appropriateness of tax provisions

ACQUISITION

During the year the Company invested £1 7m in a 75% shareholding in a new start-up company, D3 Technologies Limited, which was formed to exploit certain patents related to Raman spectroscopy From this investment, £0 85m was used to purchase the business and assets of the analytical business unit ("ABU") operated by Mesophotonics Limited, a spin-out company from the University of Southampton

Further investments of £3 17m, giving a total of £4 85m are expected to be made over the next 4 years This additional investment will comprise the supply of spectroscopy equipment to the value of £2 82m and a further cash investment of £0 35m, this cash investment being dependent on D3 Technologies Limited achieving specified performance targets

KEY PERFORMANCE INDICATORS

The Group aims to achieve sustainable growth in revenue and profits in order to provide an increasing dividend to shareholders This is to be achieved through the substantial investment in research and development of new products and processes, the application of technologies into different market areas and the development of its global marketing facilities

KEY PERFORMANCE INDICATORS (CONTINUED)

The main financial performance measures monitored by the Board are

	2008	2007	2006
Revenue growth			
At actual exchange rates	+11%	+3%	+14%
At constant exchange rates	+9%	+8%	+11%

We are focussed on increasing our market penetration, which is best highlighted by the growth in revenue at constant exchange rates

	2008	2007	2006
Total engineering expenditure including research and development			
Gross expenditure	£35 4m	£31 1m	£29 3m
Included in Income statement	£32 6m	£29 5m	£27 5m

The growth of the business is fundamentally dependent on the continuing investment in engineering costs for the development of new products and processes

	2008	2007	2006
Adjusted earnings per share (pence)	45 9p	35 9p	41 9p

In order to provide an increasing return to shareholders, along with retaining adequate funds for reinvestment in the business, we aim to achieve year-on-year growth in earnings per share

	2008	2007	2006
Dividend per share (pence)	25 4p	22 9p	21 8p

We aim to achieve significant returns to shareholders by maintaining a progressive dividend policy

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In accordance with EU law, the consolidated financial statements of the Company are prepared in accordance with IFRS adopted by the EU, for all accounting periods beginning on or after 1st January 2005 The Company has elected to prepare its parent company financial statements in accordance with UK GAAP

OPERATING REVIEW

In the year to 30th June 2008, group revenue increased by £20 3m, or 11%, over the previous year, from £180 9m to £201 2m Overall, exchange rates have been favourable for the Group relative to the previous year and sales would have increased by £16 7m, or 9%, if translated at the previous year's exchange rates

Geographically, the Far East saw the best growth in sales, increasing by 17%, followed by Continental Europe at 15%, UK and Ireland at 2% and North and South America at 1%

The following table shows the analysis of revenue by geographical market and the effect of exchange rate changes

Geographical analysis	2008 sales at actual exchange rates £'000	Change from 2007 %	2008 sales at 2007 exchange rates £'000	Change from 2007 %	2007 sales at actual exchange rates £'000
Continental Europe	77,219	+15%	73,686	+10%	67,196
Far East, including Japan and Australia	59,536	+17%	58,716	+16%	50,736
North and South America	46,644	+1%	47,413	+3%	46,160
UK and Ireland	12,020	+2%	12 020	+2%	11,789
Other regions	5,738	+15%	5,701	+14%	5 002
Total group revenue	201,157	+11%	197,536	+9%	180 883

The number of personnel in the Group remained relatively constant during the year, with headcount at 2,151 at June 2008, down 3 from 2,154 at June 2007

Labour costs increased by £5 5m, from £75 1m last year to £81 5m, an increase of 9%

Research and development

The Group has a continuing commitment to a high level of research and development The expenditure involved is directed towards the research and development of new products relating to metrology, computer aided design and manufacturing systems, Raman spectroscopy systems, dental and certain areas in the medical field

Gross expenditure in engineering costs comprising research and development costs related to new products and processes, along with continuing development costs on existing products and processes was £35 4m The capitalisation of development costs (net of amortisation charges) amounted to £2 8m, giving a net charge in the Consolidated income statement of £32 6m This compares with a gross figure of £31 1m, capitalised costs of £1 6m and a net charge of £29 5m last year

Included in engineering costs was £21 8m related to new product research and development, which compares with £19 8m spent last year

Land disposal

Following approval by shareholders at the extraordinary general meeting held on 12th October 2007, the sale of surplus land to Swinhay Developments Limited, a company wholly-owned by Sir David McMurtry, was effected during the year resulting in a profit on disposal of £0 9m This profit is included in administrative expenses in the Consolidated income statement

Pension curtailment credit

Due to changes in the Irish subsidiary's defined benefit pension scheme, there is a pension curtailment credit disclosed in the Consolidated income statement This amounted to £1 3m, with an associated tax charge of £0 1m In 2007, there was a similar change to the UK defined benefit pension scheme, where there was a pension curtailment credit disclosed in the Consolidated income statement of £19 5m, with an associated tax charge of £5 4m

Profits

Excluding the pension curtailment credits, the operating profit for the year was £37 3m, an increase of 26% over the £29 7m in the previous year

Profit before tax, excluding the pension curtailment credits, was £41 7m, compared with £32 7m in the previous year

The overall effective rate of tax, a combination of the varying tax rates applicable throughout the countries in which the Group has operations, was 20% The comparable rate for the previous year was 23%

Adjusted earnings per share, which excludes the pension curtailment credits, increased by 28%, from 35 9p to 45 9p

BALANCE SHEET

The Group spent £5 3m on property, plant and equipment during the year, mainly relating to the continuing development of our manufacturing facilities in the UK and India The net book value of these assets decreased by £0 7m during the year, from £69 5m to £68 8m

Intangible fixed assets, comprising capitalised development costs, goodwill and intangible assets relating to acquisitions, and software licences, grew by £4 8m during the year from £13 8m to £19 1m The principal increase was the capitalisation of development costs, which, net of amortisation charges, amounted to £2 8m

Group inventories have decreased by 5% during the year, as part of a group-wide initiative, from £36 2m to £34 2m, despite an 11% increase in revenue However, finished goods increased by 12%, reflecting the drive to maintain and improve our ability to meet response times to customer demands

There was good cash generation during the year, with cash balances at 30th June 2008 of £38 2m, up £17 4m from the £20 8m held at 30th June 2007 Cash flows from operating activities increased to £46 9m from £22 4m last year

At the end of the year the two defined benefit pension funds, now closed for future accrual, showed a deficit of £11 1m, compared with a surplus of £5 6m at 30th June 2007 Defined benefit pension fund assets at 30th June 2008 were £85 1m (2007 £91 5m) with liabilities of £96 2m (2007 £85 9m)

For the UK defined benefit scheme a guide to the sensitivity of the value of the liabilities is

Valuation sensitivity	Variation	Approximate effect on liabilities
Discount rate	0 1%	£3 0m
Inflation	0 1%	£1 8m
Assumed retirement age	1 year	£6 4m
Mortality	Change to medium cohort	£1 8m

TREASURY POLICIES

The Group's treasury policies are designed to manage financial risks to the Group that arise from operating in a number of foreign currencies and to maximise interest income on cash deposits As an international group, the main exposure is in respect of foreign currency risk on the trading transactions undertaken by overseas subsidiaries and on the translation of the net assets of these subsidiaries

Weekly groupwide cash management reporting and forecasting is in place to facilitate management of this currency risk The operations of group treasury which is situated at head office, are governed by Board-approved policies

All Sterling and foreign currency balances not immediately required for group operations are placed on short-term deposit with leading international highly-rated financial institutions

The Group uses a number of financial instruments to manage foreign currency risk, such as foreign currency borrowings to hedge the exposure on the net assets of the overseas subsidiaries and, from time to time, forward exchange contracts to hedge foreign currency cash inflows

Also, currency swaps are used to minimise the interest cost of maintaining the currency borrowings The foreign currency borrowings are short-term with floating interest rates The Group does not speculate with derivative financial instruments

See note 21 on page 64 for an analysis of cash balances and currency borrowings at the year end

During the year, there were forward contracts in place to hedge against the major part of the Group's Euro cash inflows for the year This resulted in a profit for the year of £0 1m on maturity of these contracts, compared with £2 0m in the previous year

Forward contracts are also in place as a hedge against a major part of the Group's estimated Euro cash inflows on a rolling three and a half years' basis The average exchange rates applicable to these contracts are

Year ending 30th June	2009	2010	2011	2012 (6 months)
Average forward rate	1 33	1 31	1 30	1 24

INVESTMENT FOR THE FUTURE

The Group has continued to invest heavily in innovative products and processes, with 18% of revenue being spent on engineering costs The Group is committed to continuing this policy in order to develop new patented products to support its existing markets and to expand into new market areas

We will also continue to invest in manufacturing, improve efficiencies in production and ensure capacity for the future, and extend our presence around the world by opening offices in new territories and expanding existing offices where considered appropriate

A C G Roberts FCA
Group Finance Director
23rd July 2008

Renishaw s global business interests have been built on the Company's commitment to help its customers improve their quality and manufacturing efficiency, a consequence of which has been the diminution of wasted resources Through continued innovation Renishaw has helped those customers reduce their use of raw materials, natural resources and energy Sustainability is a cornerstone of the business For more information on this, turn to the Metrology in action application stories starting on page 12

At the same time, the Renishaw Board has long recognised the need for the effective management of the social and environmental factors affecting the business and, in turn, their impact on its reputation and profitability The Company has worked closely with the local community since its formation and there has been a Renishaw Charities Committee (RCC) since 1987

Renishaw is now formalising the process of managing these factors further by evaluating measures to analyse the Company's performance in the following key areas

> Staff

> The environment

> The community

This will include the continuing development of systems to identify and report on non-financial key performance indicators whilst at the same time ensuring the quality of the indicators reported

STAFF

The Company's staff is at the heart of all its operations and a good indicator of how they perceive their employer can be seen in the retention of staff Renishaw's worldwide staff turnover is less than 7% which compares favourably with our industries' average of over 15%

Long service awards are given for every five years of service and can include small gifts, extra holiday allowance and a cash sum

Communication within the Company is very much a two-way affair

In the month of their birthday, staff members in the Wotton-under-Edge locations are invited to attend a communications meeting with all Board members present These monthly meetings provide staff with the opportunity to ask any question of the Board in an open discussion forum Meetings are also held at Woodchester and Stonehouse The presentation and responses to questions raised at these meetings are made available on the group's intranet which is available to staff worldwide

At other times managers operate an open door policy for one-to-one communication There is a suggestion scheme with awards for the best suggestions

An in-house journal *Probity* which features group activities and events is distributed to all employees throughout the Group

Following feedback by the workforce in the UK, the Company will be introducing a variable working time trial in August 2008 It is intended that this will allow staff members to organise their work- and private-lives to create a better balance

Other benefits that the staff receive include gymnasiums at the New Mills, Stonehouse, Ireland and Woodchester sites and subsidised restaurant in each location There are also discounts for sports and social activities

A group performance bonus programme has been established whereby staff receive an annual bonus based upon group results and individual performance

Renishaw also has a very active sponsored student and industrial placement programme with 52 students participating We have recently hired 16 graduates and are training 31 apprentices We also are supporters of the Gloucester Training Group using them to provide external training for our apprentices and graduates

THE ENVIRONMENT

In an industry that is increasingly aware of its impact on the environment, Renishaw strives to take its responsibilities seriously Energy consumption, water usage emissions to air and water and disposal of waste materials are all taken into consideration The Company is also using the waterless printing method and vegetable oil-based inks to print some of its corporate communications material This printing technique eliminates water consumption and the release of volatile organic *compounds (VOCs) into the atmosphere Additionally, the chosen* paper stock is made entirely from waste paper containing at least 75% post-consumer waste

Although none of the Company's products fall within the scope of the requirements of the European Directive 2002/95/EC on the Restriction of the use of certain Hazardous Substances (RoHS) in electrical and electronic equipment, the Company has undertaken to develop and implement processes that meet the requirements of RoHS, which we intend to progressively use across the majority of our products wherever possible For example, all new position encoder products are being introduced as RoHS compliant

In recent years, the manufacturing organisation has expanded its procurement activities to include purchasing teams based in both India and China These teams operate within strict guidelines to ensure that when procuring goods in these regions, Renishaw does not harm the environment or exploit people involved in the manufacture of goods supplied

ENERGY

The Group evaluates and actively pursues energy saving technologies As an example, the Patents group relocated to the former anodising works, following the extensive refurbishment of that facility Work began with the building stripped back to its basic structure before a new roof, windows and internal refitting commenced

As part of these works, a ground source heat pump was installed so that geothermal energy could be used to heat or cool the building according to the season

Pipes filled with a water and antifreeze solution were laid in an adjacent field In winter the system absorbs warmth from the ground and uses it to heat the building, in summer the system operates in reverse, absorbing heat from the air and transferring it into the earth

Furthermore, as facilities are renovated, passive infra-red detectors are used to control lighting If no movement is detected after a certain period, the system automatically turns the lights off in the room concerned The Company is in the process of rolling out its energy-saving lighting plan to all UK sites

Over the course of the next twelve months the Company plans to implement energy monitoring technology at its main UK sites that will facilitate the measurement of energy usage at a more detailed level and provide the impetus for further energy saving initiatives

EMISSIONS

Renishaw is extremely conscious of the environmental impact of its operations

Before 1994, all machine shop cleaning was performed using Arklone solvent vapour Since then, Renishaw has migrated its cleaning solution to water-based technology where possible Renishaw has invested in aqueous cleaning technology with the purchase of MecWash cleaning machines during 2007 which have fluid recovery systems that minimise water consumption

The new, sealed units reduce losses to, and improve, the operating environment At the same time, the new machines have a much greater throughput whilst achieving significantly improved levels of cleanliness

Solvent cleaning only takes place when unavoidable, which is during the assembly of certain finished products and in cleaning some mechanical parts Where solvents are utilised three sealed and closed loop controlled units containing either Perklone or Acetone are used, the sealed units virtually eliminate emissions to air

Other activities to reduce the Company's emissions include the implementation of shower facilities for cyclists and video conferencing to reduce the amount of travel Car sharing is encouraged, lift shares are published on the company intranet, staff can post lift-share notices on notice boards at the various company sites and regular email reminders of the benefits of car sharing are circulated

To facilitate journeys between the various Renishaw sites, the Company operates a regular bus service, thereby reducing the number of unnecessary car journeys

WASTE DISPOSAL

Historically, swarf, the waste shavings and chippings of metal from metalworking operations, was collected at wheeled bins at each machine, before being separated into aluminium and mixed metals The scrap merchant paid per tonne for the aluminium, the mixed metals were simply taken away

Now, swarf management has been rethought Instead of selling tonnes of coolant-soiled waste metal for a fraction of its worth, Renishaw has invested in a briquetter, which compresses the aluminium swarf squeezing out the oil and water The waste aluminium is then sold as uncontaminated waste and is reused in the processing of new raw materials

The added advantage is that this system also allows the reclamation of cutting oil Therefore, in addition to looking into alternatives to mineral-based cutting oils, Renishaw can now reuse reclaimed oil in some of its lower-grade machining activities At present the Company is also investigating the feasibility of introducing similar strategies for swarf and waste oils generated from processing other materials such as stainless steels

Initiatives are in place at many of the sites in the Group to minimise wastage including recycling of waste paper, cardboard, plastic cups, toner cartridges and batteries Renishaw also uses recycled materials in much of its packaging

THE COMMUNITY

This year Renishaw continued to forge close links with the community through its involvement with a number of local and national charities, schools and Rotary

CHARITY

Together the RCC and staff support a number of charitable institutions, particularly those that help enrich the lives of children and adults

Renishaw has supported Children in Need for a number of years and in keeping with a long tradition, money raised by Renishaw personnel for Children in Need is matched pound for pound by the Company This year, staff from New Mills, Old Town, Wotton-under-Edge, Woodchester and Stonehouse organised fund-raising activities, offered prizes and paid forfeits

Employees took part in the Reebok Bristol Half Marathon and together with the support of the RCC raised funds for the Bristol-based Association of Children's Hospices (ACH) This national charity works to develop and improve care for children who are not expected to reach adulthood and Renishaw's donation was the largest amount raised by a single company Renishaw staff members have already committed to run in next year's event

St Werburgh's City Farm in Bristol offers first-hand contact with the natural world Adults with learning disabilities can undergo horticultural training while educational sessions involving natural and traditional crafts storytelling, bush craft skills and heritage and sensory trails are run for primary schools The RCC donated cash towards the purchase of a truck In addition to being used on the farm, the vehicle is used to show the various farm sites to its clients

In Pune, India, the RCC donated money to The Akanksha Foundation Akanksha helps children from very underprivileged backgrounds, giving them opportunities we would take for granted The money was used to pay for basics such as teaching supplies and school field trips

EDUCATION

Nurturing the next generation of engineering excellence is a fundamental part of the Company's involvement with education

As part of Renishaw's commitment to this endeavour, it has fostered relationships with local schools at both a corporate and individual staff member level

Typical of this is the Renishaw Centre at the Katharine Lady Berkeley School in Wotton-under-Edge, an information technology (IT) room that laid the foundations for the school's IT curriculum

Since its opening in 1989, the school has installed three more computer rooms and Renishaw has renewed the equipment in the Renishaw Centre The original hardware was recycled for use in the school's Special Needs Department Today, Renishaw continues to maintain strong ties with the school through work placements and mock interviews

Separately, Renishaw has provided land adjacent to the school to the Wotton Community Sports Foundation for the creation of a Wotton Community Leisure Complex

At Rednock School, a specialist science school in Dursley, Renishaw provided funding for a technology centre

As well as engaging at a school level, Renishaw staff work directly with pupils from Chipping Sodbury School and two feeder schools Working on entries for the Greenpower electric car race for schools, the staff offer engineering and other technical advice

ROTARY

The Company together with a local Rotary club, has, amongst other initiatives, established an annual programme of mock-interviews for year 11 pupils who attend Katharine Lady Berkeley School The interviews, hosted at Renishaw, provide the students with experience of interview techniques, preparation of CVs and letters of application to potential employers, further education bodies and university entrance

As recognition of Renishaw s commitment to Rotary endeavours, the Company was awarded the Paul Harris award The Paul Harris award, usually awarded to individuals commends Renishaw's involvement as a business

FTSE Group confirms that Renishaw plc has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series

Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards Companies in the FTSE4Good Index Series have met stringent social, ethical and environmental criteria, and are positioned to capitalise on the benefits of responsible business practice

The directors have pleasure in presenting their 35th Annual report together with the audited financial statements for the year ended 30th June 2008 as set out on pages 46 to 73

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the Group during the year were the design, manufacture and sale of advanced precision metrology and inspection equipment, computer aided design and manufacturing systems and Raman spectroscopy systems

A review of the business and likely future developments are given in the Chairman's statement and the Financial review Segmental information by geographical market is given in note 2 to the financial statements

The Companies Act 2006 requires the Directors' report to include a business review Certain information that fulfils the requirements of the business review can be found in the Financial review on pages 28 to 30 of this Annual report and the description of corporate social responsibility activities on pages 33 and 34 of this Annual report

There are no persons with whom the Company has contractual or other arrangements which are essential to the business of the Company

Further information is also available on the Company's website www renishaw com

DIVIDENDS

The directors propose a final dividend of £12,832,620 or 17 63p per share (2007 £11,515,147 or 15 82p per share) which, together with the interim dividend of £5,648,391 or 7 76p per share (2007 £5,131,592 or 7 05p per share), makes a total of £18,481,011 or 25 39p per share for the year, compared to £16,646,739 or 22 87p per share for the previous year

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their interests in the share capital of the Company (with the equivalent number of voting rights), at the beginning and the end of the year, were -

	Ordinary shares of 20p each	
	2008	2007
D R McMurtry	26,377,291	26,377,291
D J Deer	12,533,040	12,533,040
B R Taylor	10,147	10,147
A C G Roberts	5 165	5,165
G McFarland	-	-
J P McGeehan	900	900
T D Snowden	5,000	5,000
T B Garthwaite	3,000	3,000
W H Whiteley (appointed 20th June 2008)	1,690	-

All the above holdings were beneficially held with the exception of 2,420,311 shares (2007 2,420,311 shares) which were non-beneficially held by D J Deer but in respect of which he has voting rights

There has been no change in the above holdings in the period 1st July 2008 to 23rd July 2008

Allen Roberts and Geoff McFarland, both of whom are employed under a service agreement with the Company, retire by rotation and being eligible, offer themselves for re-election at the annual general meeting ("AGM") to be held on 10th October 2008 Bill Whiteley, who provides services under a letter of appointment with the Company, offers himself for election at the AGM, it being the first such meeting since his appointment Bill Whiteley, was until his retirement in May 2008, the Chief Executive of Rotork plc, a global business with over 30 subsidiaries around the world, where he had been a director for 24 years During this time, Bill managed Rotork plc's business during a period of major expansion, both geographically and in product lines The Board considers Bill to be a valuable addition to the Board and recommends that he be elected to the Board at the AGM

Biographical details of the directors are shown on pages 6 and 7

DIRECTORS' AND OFFICERS' INDEMNITY INSURANCE

Subject to the provisions of the Companies Acts the Company's Articles of Association provide for the directors and officers of the Company to be appropriately indemnified The Company maintains insurance for the directors and officers of the Company for their acts and omissions during the performance of their duties

SHARE CAPITAL

Details of the Company's share capital including rights and obligations is given in note 20 to the financial statements

AUDITORS

A resolution to re-appoint KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming AGM

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

ANNUAL GENERAL MEETING

The notice of AGM on pages 41 to 43 sets out special business relating to (1) a resolution for the purchase of own shares and (2) a resolution to adopt new Articles of Association

In relation to (1) the directors consider that the Company should have the flexibility to be able to make market purchases of its own ordinary shares, up to a total of 10% of the issued share capital Shareholders are being asked to pass the necessary special resolution no 8 at the AGM to give the required authority until the earlier of the conclusion of the 2009 AGM and 31st December 2009 There is at present no intention to purchase shares and, if granted, the authority would only be exercised if an improvement in earnings per share were expected to result

In relation to (2), a number of amendments are proposed to the Company's Articles of Association, primarily to reflect the provisions of the Companies Act 2006 An explanation of the main changes between the proposed and the existing Articles of Association is set out on pages 42 and 43

SUBSTANTIAL SHAREHOLDINGS

Apart from the shareholdings (and corresponding voting rights) of Sir David McMurtry and John Deer (36 2% and 17 2% respectively) there are no voting rights notified to the directors, which represent 3% or more of the voting rights attached to issued shares in the Company, as at 23rd July 2008

RESEARCH AND DEVELOPMENT

The Group has a continuing commitment to a high level of research and development The expenditure involved is directed towards the research and development of new products relating to metrology, computer aided design and manufacturing systems, Raman spectroscopy systems, dental and certain areas in the medical field

CREDITOR PAYMENT POLICY

The Company has a variety of payment terms

- Contracts have been negotiated with a number of suppliers and payments are made in accordance with the terms of these contracts
- Payment terms are disclosed on the Company's standard purchase order forms, or, where appropriate, specified in individual contracts agreed with suppliers

Two payment runs are made each month The Company s policy is to ensure that all invoices are settled within 60 days of the receipt and agreement of a valid and complete invoice Wherever possible, payments are made using the Bankers Automated Clearing Service

Typically, the Company settles all due invoices in the calendar month following their receipt The number of days purchasing outstanding at the end of June 2008 was approximately 30 days (2007 30 days)

EMPLOYEES

The maintenance of a highly skilled workforce is essential to the future of the business and the directors place great emphasis on the continuation of the Company's approved training policy Health and safety matters are given special attention by the directors and well established systems of safety management are in place throughout the Group to safeguard employees, customers and visitors

Employment policies are designed to provide equal opportunities irrespective of race, colour, religion, sex, age, disability or sexual orientation Opportunities are given to employees who become disabled, to continue in their employment or to be trained for other positions

Regular contact is maintained with all employees through monthly communications meetings and departmental channels The quarterly in-house journal ensures staff are kept well informed on the progress of the Group In addition, in February and August the Assistant Chief Executive presents the interim results and final results respectively to all employees following their publication

Employees are encouraged to be involved in the Company's performance through various methods, including a staff suggestion scheme under which awards are given for innovative suggestions for improving the way in which the Company undertakes its business, an inventors award scheme for individuals who are named as inventors on patent applications that are subsequently granted and an annual performance bonus programme which is dependent upon individual performance and the performance of the Company

DONATIONS

During the year the Group made charitable donations of £41,000 (2007 £64,000) The Group organises its charitable donations by two methods firstly, by allocating a fund of money to its Charities Committee, and secondly, through direct grants as decided by the Board The Charities Committee meets at least four times a year to consider all applications for donations from local groups in the area Its donations policy is to provide funds to local causes or local branches of national groups, with focus on youth projects Further information is set out on pages 33 and 34

No political donations were made during the year (2007 £nil)

By order of the Board
A C G Roberts FCA
Secretary
23rd July 2008

The Board is committed to maintaining high standards of corporate governance

This report, together with the Directors' remuneration report on page 40 sets out how the Company has applied the principles of the Combined Code on Corporate Governance (the "Code") issued by the Financial Reporting Council

A DIRECTORS

THE BOARD

The Board comprises five executive and four non-executive directors The directors holding office at the date of this report and their biographical details are given on pages 6 and 7

The Board focuses on formulation of strategy, management of effective business controls and review of business performance There is a formal schedule of matters specifically reserved to it for decision These include the approval of annual and interim results, acquisitions and disposals, major capital expenditure, borrowings, material agreements, senior executive appointments and removals (including the company secretary), any patent-related dispute and other material litigation, forecasts and major product development projects

The Board meets as often as is necessary to discharge its duties effectively In the financial year ended 30th June 2008, the Board met eight times and the directors' attendance record at Board and committee meetings is set out at the end of this report In addition, the non-executive directors met a number of times without executive directors present

The Board has two formally constituted committees, the Audit committee and the Remuneration and nomination committee There is an executive committee known as the Executive Board that is responsible for the executive management of the Group's businesses It is chaired by the Chairman and includes the executive directors of Renishaw plc, the President of Renishaw Inc and other senior management representatives

A framework of delegated authorities is in place that maps out the structure of delegation below Board level and includes the matters reserved to the Executive Board

The Company maintains liability insurance for its directors and officers as disclosed in the Directors' report

CHAIRMAN AND CHIEF EXECUTIVE

The role of Chairman and Chief Executive is a combined role and thus contrary to the recommendations of the Code However, the Board considers that there is still a clear division of responsibilities at Board level to ensure an appropriate balance of power and authority

BOARD BALANCE AND INDEPENDENCE

Each of the four non-executive directors is considered by the Board to be independent in character and judgement and there are no relationships or circumstances that are likely to affect a non-executive director's judgement

The Code recommends that at least half the board, excluding the Chairman, should comprise independent non-executive directors The Board has recently appointed a further non-executive director to the Board and if the Chairman were to be excluded, this Code requirement would be met However, as the Chairman is an executive director, the intention behind the Code requirement is not met

The Board does not comply with this requirement as it considers the balance of the Board to be appropriate for the size of its business

The senior independent director is Joe McGeehan and he is available to discuss concerns with shareholders should the normal channels of the Chairman and Chief Executive or the Group Finance Director fail to resolve such concerns or for which such contact is inappropriate

APPOINTMENTS TO THE BOARD

The Remuneration and nomination committee is the committee responsible for reviewing the structure and composition of the Board and nominating candidates for appointment to the Board All the members of this committee are independent non-executive directors and a list of membership and the chair of the committee is set out on page 7 The terms of reference of this committee are published on the Company's website

Bill Whiteley was appointed a non-executive director on 20th June 2008 and a resolution to elect him as a director is contained in the notice of AGM

The terms of appointment of the non-executive directors are available for inspection at the AGM and at the registered office upon written request

None of the executive directors holds a directorship in a FTSE 100 company

INFORMATION AND PROFESSIONAL DEVELOPMENT

The Board receives appropriate documentation, management accounts, forecasts and commentaries thereon in advance of each Board meeting to enable its members to review the financial performance of the Group, current trading and key business initiatives

Directors are offered the opportunity to attend formal training courses to update their knowledge of their duties as directors Guidance notes on changes to law and regulations are provided as appropriate Non-executive directors are invited to attend internal conferences, which provide information to the Group on new product development and marketing initiatives

All directors have access to the company secretary and to independent professional advice at the Company's expense where necessary to discharge their responsibilities as director

PERFORMANCE EVALUATION

The Board has established a formal process, led by the senior independent director, for the annual evaluation of the performance of the Board and the Chairman This includes the completion of a questionnaire designed and approved by the Board to provide a framework for the evaluation process

It is the role of the senior independent director to summarise the responses and discuss them with individual directors and with the Board as a whole

RE-ELECTION

In accordance with the articles of association of the Company, the directors who offer themselves up for re-election at the AGM to be held in October 2008 will be Allen Roberts and Geoff McFarland

B DIRECTORS' REMUNERATION

The Directors remuneration report set out on page 40 explains how the Company applies the Code principles relating to remuneration

C ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The respective responsibilities of the directors and auditors in connection with the financial statements are explained in the Statement of directors responsibilities and the Independent auditors' report

GOING CONCERN

On the basis of current financial projections and available funds and facilities, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future For this reason they continue to adopt the going concern basis in preparing the financial statements

INTERNAL CONTROL

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness

Any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss •

There are defined lines of responsibility and delegation of authorities There are also established and centrally documented control procedures, including, for example, capital and other expenditure, information and technology security, and legal and regulatory compliance These are applied throughout the Group

The Group internal audit function provides independent and objective assurance that the procedures are appropriate and effectively applied The Group Audit Manager attends Audit committee meetings to present annual internal audit plans and the results of such internal audits Actions are monitored by the Audit committee on an ongoing basis

There is a process for the review of business risks throughout the Group These are reported on a monthly basis by senior management and by overseas subsidiaries These reports are reviewed by the Board at each of their meetings

The Board undertakes an annual formal review of the effectiveness of the Group's system of internal controls and an updated risk and controls analysis for the Group The review covers all material controls, including financial, operational and compliance controls and risk management systems

The Board considers that there is an ongoing process for identifying, evaluating and managing the significant risks facing the Group that has been in place during the year, and which is regularly reviewed and accords with the Turnbull guidance The Board confirms that necessary action has been or is being taken to remedy any significant failings or weaknesses identified from its review

AUDIT COMMITTEE AND AUDITORS

The Audit committee comprises the four non-executive directors A list of the members and the chairman is set out on page 7 The Board is satisfied that at least two members of the committee have recent and relevant financial experience, being Terry Garthwaite and David Snowden The terms of reference of this committee were reviewed during the year and are available on the Company's website

The committee reviews the accounting policies and procedures of the Group, its annual and interim financial statements before submission to the Board and its compliance with statutory requirements The committee monitors the integrity of the Group's financial statements and announcements relating to financial performance and reviews the significant reporting judgements contained therein

It also reviews the scope, remit and effectiveness of the internal control systems and internal audit function

The committee has primary responsibility for making the recommendation on the appointment, re-appointment and removal of external auditors, which the Board puts to shareholders for approval at the AGM

It keeps under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors The auditors provide a confirmation of independence on an annual basis

The committee reviews the nature and extent of the non-audit services supplied by the auditors, receiving regular reports on the balance of audit to non-audit fees

The committee reviews the policy by which employees of the Company may, in confidence, raise matters of concern including possible improprieties in financial reporting or other matters

The committee meets at least three times a year with the Group Finance Director, the Group Financial Controller, the Group Audit Manager and the external auditors in attendance At least one meeting, or part, is held with the external auditors without executive directors present

D RELATIONS WITH SHAREHOLDERS

DIALOGUE WITH INSTITUTIONAL SHAREHOLDERS

Presentations are given to institutional investors following publication of the half-year and full-year results, following which interim and annual reports are delivered to all shareholders Institutional investors are actively encouraged to visit the Company's headquarters and manufacturing sites where they will meet at least one of the executive directors and have the opportunity of discussing any issues with them Meetings with investors, analysts and media are reported at each Board meeting and analysts' and brokers' reports circulated so that the Board develops an understanding of the views of investors and others

If requested, non-executive directors are available to attend meetings with major shareholders

All directors attend the AGM at which they have the opportunity to meet with shareholders

CONSTRUCTIVE USE OF THE AGM

The AGM takes place at the Company's headquarters and formal notification is sent to the shareholders at least 20 working days before the meeting A business presentation is given at the meeting and all directors are available for questions during and after the meeting Tours of the Company's research and development and manufacturing facilities are offered

The Company reports on the number of proxy votes lodged on each resolution, the balance for and against each resolution and the number of abstentions after the resolution has been dealt with on a show of hands This information is provided to the shareholders attending the AGM and published on the Company's website following the meeting

BOARD AND COMMITTEE MEMBERSHIP ATTENDANCE RECORD

Shown against each director s name is the number of meetings of the Board and its committees at which the director was present and, in brackets, the number of meetings that the director was eligible to attend during the year

Director	Board	Audit committee	Remuneration & nomination committee
D R McMurtry	8 (8)	-	-
D J Deer	8 (8)	-	-
B R Taylor	8 (8)	-	-
A C G Roberts	8 (8)	-	-
G McFarland	8 (8)	-	-
J P McGeehan	8 (8)	1 (3)	3 (3)
T D Snowden	8 (8)	3 (3)	3 (3)
T B Garthwaite	8 (8)	3 (3)	3 (3)
W H Whiteley	0 (0)	0 (0)	0 (0)

COMPLIANCE STATEMENT

The Board considers that it has complied with the requirements of the Code except in relation to the following matters (the reasons for non-compliance are stated in the report above)

- the combined role of chairman and chief executive, and
- at least half the board, excluding the chairman, does not comprise independent non-executive directors

A C G Roberts FCA
Secretary
23rd July 2008

REMUNERATION POLICY

The Remuneration and nomination committee is responsible for deciding the Company s framework of executive remuneration and setting remuneration packages for each of the executive directors

The committee s policy is to motivate and retain executive directors by rewarding them with competitive salary and benefit packages and incentives These are linked to the overall performance of the Group and in turn, to the interests of the shareholders

The committee reviews annually all aspects of the executive directors remuneration, performance and employment

REMUNERATION AND NOMINATION COMMITTEE

All the members of this committee are non-executive directors and a list of membership and the chair of the committee is set out on page 7 The terms of reference of this committee are published on the Company's website KPMG, who were appointed by the Company, provide advice in relation to certain benefits for the directors and on the Company's pension scheme

The remuneration of the non-executive directors is determined by the executive directors

During the year, the committee recommended the appointment of Bill Whiteley, who had made an approach to the Board to consider his appointment as a non-executive director Bill Whiteley was interviewed by the committee, with other members of the Board in attendance, and his appointment was approved by the Board As the appointment was not to fill a vacancy, but to take up an opportunity that had arisen, neither an external search consultancy nor open advertising was used

REMUNERATION

Salary

The committee reviews basic salaries to take effect from 1st July each year In deciding appropriate levels, the committee takes account of financial data taken from a cross-section of UK companies within the electronics and engineering sectors

Bonus

This year the Company has introduced an annual performance bonus scheme for executive directors which is based on Group performance as measured against preset earnings per share (eps) targets established for the next four years, drawn from the Renishaw business plan The performance conditions firstly require the achievement each year of a base line eps (excluding directors bonuses and the exceptional pension credits) which for 2008 was set at 38 8p 8% above 2007, with the target designed to deliver 75% of salary set at 49 5p, 38% above 2007 The percentage bonus award increases on a straight-line basis between the baseline and the eps target

In addition there is a further 25% bonus award available for exceeding the eps target based on 5% of salary for every 1p per share in excess of target

For 2008, the Group is reporting eps of 47 24p (pre-directors' bonus) which therefore gives rise to a bonus entitlement of (47 24p - 38 8p) / (49 5p - 38 8p) x 75% = 59 16% of salary for each of the executive directors

There are no share options or long-term incentive schemes in operation for the directors but the position is kept under review

The non-executive directors do not participate in a bonus scheme

Other benefits

Company cars and other benefits provided to directors are subject to income tax The benefits are included in the directors' remuneration table on page 56

Geoff McFarland is a non-executive director of Delcam plc, in respect of which no remuneration is payable by Delcam plc

Pensions

The Company makes annual contributions of 15% of current basic salary to individual pension policies for Ben Taylor and Allen Roberts Neither bonus scheme payments nor other benefits are eligible for pension scheme contributions

Geoff McFarland participated in the Company's defined benefit scheme up to its termination on 5th April 2007 and since that date the Company's defined contribution scheme More details are given in note 8 on page 56

The non-executive directors do not participate in the Company's pension schemes

Summary

Details of directors' remuneration (including pensions) which form the audited section of this report are shown in note 8 on page 56

SERVICE CONTRACTS AND COMPENSATION

The executive directors have each entered into a service contract with the Company The contracts do not contain any specific provisions governing the payment of compensation for loss of office or employment, whether as a result of a takeover bid or otherwise The notice period for termination of the contract is twelve months to be given by either the Company or the director

The non-executive directors have been appointed under contracts for services which are intended to continue for an initial period of three years However, these contracts may be terminated by either the Company or the director on one month's notice

PERFORMANCE GRAPH

The graph below shows the Company's total shareholder return ("TSR") performance, compared with the FTSE mid 250 index, which the directors believe is the most appropriate broad index for comparison

The report was approved by the Board of directors on 23rd July 2008 and has been signed on its behalf by -

T D Snowden FCA
Chairman, Remuneration and nomination committee

Notice is hereby given that the 35th annual general meeting of the Company will be held at New Mills, Wotton-under-Edge, Gloucestershire GL12 8JR on Friday 10th October 2008 at noon You will be asked to consider and pass the resolutions below Resolutions 8 and 9 (inclusive) will be proposed as special resolutions All other resolutions will be proposed as ordinary resolutions

Ordinary resolutions

1 To receive and adopt the reports of the directors and auditors and the financial statements for the year ended 30th June 2008,

2 To declare a final dividend,

3 To re-elect as a director of the Company A C G Roberts, who is retiring by rotation,

4 To re-elect as a director of the Company G McFarland, who is retiring by rotation,

5 To elect as a director of the Company W H Whiteley,

6 To approve the Directors remuneration report contained in the Annual report 2008,

7 To re-appoint KPMG Audit Plc as auditor of the Company and to authorise the directors to determine their remuneration,

Special resolutions

8 To consider and, if thought fit, to pass the following resolution

That the Company be and is hereby unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 20p each in the capital of the Company ("ordinary shares) provided that

(i) the maximum number of ordinary shares hereby authorised to be purchased is 7,278,854,

(ii) the maximum price that may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the 10 business days immediately preceding the day on which the ordinary share is purchased,

(iii) the minimum price which may be paid for an ordinary share shall be 20p,

(iv) the authority hereby conferred shall expire at the earlier of the conclusion of the annual general meeting to be held in 2009 and 31st December 2009 unless such authority is renewed prior to such time, and

(v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to such contract

9 To consider and, if thought fit, to pass the following resolution

That the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association

By order of the Board

A C G Roberts FCA
Secretary

15th August 2008

New Mills
Wotton-under-Edge
Gloucestershire
GL12 8JR

NOTES

1 The Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6pm on 8th October 2008 shall be entitled to attend or vote at the aforesaid annual general meeting in respect of the number of shares registered in their name at that time Changes to entries on the relevant register of securities after 6pm on 8th October 2008 shall be disregarded in determining the rights of any person to attend or vote at the meeting

2 A member entitled to attend and vote is entitled to appoint a proxy or proxies to exercise the member's rights to attend and to speak and vote at the meeting A proxy need not be a member of the Company and the appointment of a proxy will not preclude a member from attending and voting at the meeting A form of proxy is enclosed for this purpose

3 If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes the subject of those proxies are cast, and the voting rights in respect of those discretionary proxies, when added to the voting rights in the Company already held by the Chairman, result in the Chairman having a notifiable obligation under the Financial Services Authority's Disclosure Rules and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority As a result, any member holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure Rules and Transparency Rules need not make a separate notification to the Company and to the Financial Services Authority

4 The following documents will be available for inspection at the registered office of the Company during normal business hours (8 00am - 4 15pm)

(1) copies of the executive directors service contracts and letters of appointment of non-executive directors, and

(2) new Articles of Association

The new Articles of Association will also be available for inspection at the offices of Norton Rose, 3 More London Riverside, London SE1 2AQ during normal business hours (9 00am until 5 30pm) All the documents will be available for inspection at the place of the meeting from 11 30am until the meeting closes

NOTES CONTINUED

5 Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights The statement of the rights of shareholders in relation to the appointment of proxies in paragraph 2 above does not apply to Nominated Persons The rights described in these paragraphs can only be exercised by shareholders of the Company

6 In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions, and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www icsa org uk) for further details of this procedure The guidance includes a sample form of appointment letter if the chairman is being appointed as described in 6(i) above

7 The total number of voting rights as at the business day preceding the date of this notice in respect of the Company's ordinary shares is 72,788,543 There are no other classes of shares nor any held in treasury

ADOPTION OF NEW ARTICLES OF ASSOCIATION (RESOLUTION 9)

Resolution 9 seeks approval for the adoption of new Articles of Association (the "New Articles") The Company proposes to amend the existing Articles of Association (the "Current Articles") to reflect the provisions of the Companies Act 2006 which came into effect in April and October 2007 and April and October 2008 As the bulk of the remaining provisions will be brought into effect in October 2009 members of the Company will be asked to approve further changes to the Articles at the next Annual General Meeting

ARTICLES WHICH DUPLICATE STATUTORY PROVISIONS

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main amended to bring them into line with the Companies Act 2006 Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings The main changes made to reflect this approach are detailed below

CONVENING GENERAL MEETINGS AND ANNUAL GENERAL MEETINGS

The concept of extraordinary general meetings has been removed by the Companies Act 2006 and the New Articles have been amended to reflect this change The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006 In particular a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days notice was required

VOTES OF MEMBERS

Under the Companies Act 2006 proxies are entitled to speak at general meetings and to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder Multiple corporate representatives may be appointed (but if they purport to exercise their rights in different ways, then the power is treated as not being exercised) The New Articles reflect all of these new provisions

AGE OF DIRECTORS ON APPOINTMENT

The Current Articles contain a provision confirming that no director would be required to retire by reason of attaining the age of 70 The previous provision requiring directors of public companies to retire at 70 (in clause 293 of the Companies Act 1985) was repealed in April 2007 and the provision is no longer required and so has been removed from the New Articles

LIMIT OF DIRECTORS' FEES

The aggregate maximum amount of annual fees payable by the Company to the directors without the sanction of an ordinary resolution of the Company has been increased in the New Articles from £75,000 to £250 000

CONFLICTS OF INTEREST

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes Under the Companies Act 2006, from 1st October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests The requirement is very broad and could apply, for example if a director becomes a director of another company or a trustee of another organisation The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict Firstly, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate

It is also proposed that the New Articles should contain provisions (which will be effective from 1st October 2008 only) relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers to authorise conflicts are operated effectively

DIRECTORS' INDEMNITIES AND LOANS TO FUND EXPENDITURE

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies This change has been reflected in the New Articles

ELECTRONIC COMMUNICATIONS

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information

GENERAL

Several statutory references have been amended to take account of the enactment of sections of the Companies Act 2006 and repeal of the corresponding sections of the Companies Act 1985 Some definitions have also been changed to bring them in line with the Companies Act 2006 (or added where the relevant concepts are no longer dealt with in the Companies Act 2006) Other miscellaneous non-material changes have been made to reflect current law and market practice

The directors are responsible for preparing the Annual report and the group and parent company financial statements, in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year Under that law the directors are required to prepare the group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK GAAP)

The group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and the performance of the group, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company

In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- for the group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU,
- for the parent company financial statements state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the parent company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations

The directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

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RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge

(a) the financial statements, prepared in accordance with the accounting standards referred to in the Statement of directors responsibilities, give a true and fair view of the assets, liabilities financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and

(b) the Financial review includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

On behalf of the Board
A C G Roberts FCA
Group Finance Director and Company Secretary

We have audited the group and parent company financial statements (the "financial statements") of Renishaw plc for the year ended 30th June 2008 which comprise the Consolidated income statement, the Consolidated and parent company balance sheets the Consolidated statement of cash flow, the Consolidated statement of recognised income and expense and the related notes These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' remuneration report that is described as having been audited

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU, and for preparing the parent company financial statements and the Directors' remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities on page 44

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements

The information given in the Directors' report includes that specific information presented in the Chairman's statement and the Financial review that is cross-referred from the Principal activities and review of the business section of the Directors' report

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the Corporate governance report reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board s statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read the other information contained in the Annual report and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited

OPINION

In our opinion

- the group financial statements give a true and fair view in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 30th June 2008 and of its profit for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30th June 2008,
- the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
23rd July 2008

Marlborough House
Fitzalan Court
Cardiff
CF24 0TE

for the year ended 30th June 2008

from continuing operations	Notes	2008 £'000	2007 £'000
Revenue	2	201,157	180,883
Cost of sales		(106,759)	(97,899)
Gross profit		94,398	82,984
Distribution costs		(35,694)	(32 911)
Administrative expenses		(21,369)	(20,408)
Operating profit before pension curtailment credit		37 335	29,665
Pension curtailment credit	4	1,344	19,460
Operating profit		38,679	49,125
Financial income	5	9,194	8 180
Financial expenses	5	(5,070)	(5 237)
Share of profits of associates	12	256	64
Profit before tax	6	43,059	52,132
Income tax expense	7	(8,443)	(11,981)
Profit for the year from continuing operations		34,616	40,151

Profit attributable to			
Equity shareholders of the parent company	20	34,716	40 151
Minority interest	20	(100)	-
		34,616	40,151

		pence	pence
Dividend per share arising in respect of the year		25 39	22 87
Dividend per share paid in the year	20	23 58	22 12
Earnings per share (basic and diluted)	9	47 6	55 2

at 30th June 2008

	Notes	2008 £ 000	2007 £ 000
Assets			
Property, plant and equipment	10	68,766	69,460
Intangible assets	11	19,085	13,811
Investments in associates	12	6,788	6,972
Deferred tax assets	13	10,025	4,733
Employee benefits	14	-	5,562
Total non-current assets		104,664	100,538
Current assets			
Inventories	15	34,220	36,178
Trade receivables	21	42,803	37,880
Current tax		490	323
Other receivables		5,036	6,482
Cash and cash equivalents	16 21	38,183	20,761
Total current assets		120,732	101,624
Current liabilities			
Trade payables		12,691	11,223
Current tax		2,178	1,315
Provisions	17	824	693
Other payables	18	15,653	8,779
Total current liabilities		31,346	22,010
Net current assets		89,386	79,614
Non-current liabilities			
Employee benefits	14	11,055	-
Deferred tax liabilities	13	12,382	12,152
Other payables	19	3,968	-
Total non-current liabilities		27,405	12,152
Total assets less total liabilities		166,645	168,000
Equity			
Share capital	20	14,558	14,558
Share premium	20	42	42
Currency translation reserve	20	1,574	(210)
Cash flow hedging reserve	20	(4,252)	1,845
Retained earnings	20	154,403	151,765
Total equity attributable to the equity shareholders of the parent company		166,325	168,000
Minority interest	20	320	-
Total shareholders funds		166,645	168,000

These financial statements were approved by the Board of directors on 23rd July 2008 and were signed on its behalf by -

Sir D R McMurtry

A C G Roberts

Directors

CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 30th June 2008

	Notes	2008 £'000	2007 £'000
Cash flows from operating activities			
Profit for the year		34,616	40,151
Adjustments for			
Amortisation of development costs	11	2,743	2,038
Amortisation of other intangibles	11 12	1,512	1 286
Depreciation	10	8,061	7 874
Profit on sale of property, plant and equipment		(1,042)	(25)
Share of profits from associates	12	(256)	(64)
Pension curtailment credit	4	(1,344)	(19,460)
Financial income	5	(9,194)	(8,180)
Financial expenses	5	5,070	5 237
Tax expense	7	8,443	11,981
		13,993	687
Decrease/(increase) in inventories	15	1,958	(7,819)
Increase in trade and other receivables		(2,733)	(2,936)
Increase/(decrease) in trade and other payables		5,916	(336)
Difference between pension service cost and contributions	14	(58)	(266)
Increase/(decrease) in provisions	17	131	(100)
		5,214	(11,457)
Income taxes paid		(6,902)	(7,021)
Cash flows from operating activities		46,921	22,360
Investing activities			
Purchase of property, plant and equipment		(5,133)	(10,037)
Development costs capitalised	11	(5,497)	(3,624)
Purchase of other intangibles	11	(1,319)	(865)
Purchase of business	11	(482)	-
Investment in associate	12	-	(6,110)
Sale of property plant and equipment		1,421	187
Interest received	5	1,743	1,710
Dividend received from associate	12	80	-
Cash flows from investing activities		(9,187)	(18,739)
Financing activities			
Interest paid	5	(141)	(297)
Dividends paid	20	(17,164)	(16 101)
Cash flows from financing activities		(17,305)	(16,398)
Net increase/(decrease) in cash and cash equivalents		20,429	(12,777)
Cash and cash equivalents at the beginning of the year		20,761	30,728
Effect of exchange rate fluctuations on cash held		(3,007)	2,810
Cash and cash equivalents at the end of the year	21	38,183	20,761

for the year ended 30th June 2008

	Notes	2008 £'000	2007 £'000
Foreign exchange translation differences	20	1,784	(475)
Actuarial (loss)/gain in the pension schemes	14	(20,541)	3 144
Effective portion of changes in fair value of cash flow hedges, net of recycling			
Amounts recycled during the year		(2,563)	(1,262)
Fair value of outstanding amounts		(5,906)	958
		(8,469)	(304)
Deferred tax on income and expense recognised in equity		7,999	(1,151)
(Expense)/income recognised directly in equity		(19,227)	1,214
Profit for the year		34,716	40 151
Total recognised income and expense for the year attributable to the equity shareholders of the parent company		15,489	41,365

(forming part of the financial statements)

1 ACCOUNTING POLICIES

Basis of preparation

Renishaw plc (the "Company) is a company incorporated in the UK

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRS") The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 67 to 73

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are noted below

Basis of accounting

The financial statements have been prepared under the historical cost convention subject to items referred to in the derivative financial instruments note below The accounting policies set out below have been consistently applied in preparing both the 2008 and 2007 financial statements, except for the first time application of IFRS 7 Financial instruments Disclosures, the presentation in financial statements and IFRIC 8 Scope of IFRS 2 They have not had a significant impact on the reported results or on total shareholders' funds of the Group for 2008 or 2007

Critical accounting judgements

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis The key area where estimates have been used and the assumptions applied is in calculating the defined benefit pension scheme liabilities (note 14)

IFRS adopted by the EU not yet applied

The key IFRS adopted by the EU which was available for early adoption but has not been applied by the Group in these financial statements, was

IFRS 8 Operating segments

IFRS 8 is mandatory for accounting periods beginning on or after 1st January 2009 This IFRS requires an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments It is not anticipated that there will be any significant financial impact on the financial statements, although additional disclosures will be required The Group plans to adopt this standard in the year ending 30th June 2010

Consolidation

Subsidiaries are entities controlled by the Group Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases

Associates are those entities in which the Group has significant influence but not control, over the financial and operating policies The consolidated financial statements include the Group s share of the total recognised income and expense of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases

Revenue

Revenue from the sale of goods is recognised in the Consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer, which is considered to be at the time of despatch

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or the possible return of goods

Foreign currencies

Overseas results are translated into Sterling at weighted average exchange rates for the year, which is effected by translating each foreign operation's monthly results at exchange rates applicable to each of the respective months Overseas assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Sterling at the foreign exchange rate ruling at that date Differences on exchange resulting from the translation of overseas assets and liabilities are recognised directly in equity

Gains and losses arising on currency borrowings used to hedge the foreign currency exposure on the net assets of the foreign operations are accounted for directly in equity to the extent that hedge accounting criteria are met and are included in the Consolidated statement of recognised income and expense See the note on derivative financial instruments below, for the accounting policies for forward exchange contracts and currency borrowings

Derivative financial instruments

From time to time, the Group uses derivative financial instruments to hedge its exposure to foreign exchange rate risks arising from operational, financing and investment activities

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes However, derivatives that do not qualify for hedge accounting would be accounted for as trading instruments

Where forward exchange contracts are entered into for the purpose of hedging foreign currency cash inflows any gains or losses arising on the contracts are accounted for in the Consolidated income statement at maturity

Derivative financial instruments are recognised initially at fair value However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see cash flow hedges below)

The fair value of forward exchange contracts is their quoted market price at the balance sheet date Movements in fair value of contracts which have not matured at the year end are recognised in equity through the Consolidated statement of recognised income and expense

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity and the fair value of the instrument is accounted for under other receivables or other payables in the Consolidated balance sheet

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the Consolidated income statement in the same period or periods during which the hedged forecast transaction affects profit or loss An ineffective part of any gain or loss is recognised immediately in the Consolidated income statement

The effectiveness of cash flow hedges is tested on a monthly basis by comparing the cash inflows with the hedging amounts

If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Consolidated income statement

Hedge of net investment in foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity Any ineffective portion is recognised immediately in the Consolidated income statement The effectiveness of the hedging is tested monthly

Goodwill and other intangible assets

Business combinations are accounted for by applying the purchase method In respect of business acquisitions, goodwill arising on acquisition represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired, net of deferred tax Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable

Goodwill is stated at cost less any accumulated impairment losses It is not amortised but is tested annually for impairment

The annual impairment review involves comparing the carrying amount to the estimated recoverable amount and recognising an impairment loss if the recoverable amount is lower Impairment losses are recognised through the Consolidated income statement

Intangible assets such as customer lists, patents, trademarks, know how and intellectual property that are acquired by the Group are stated at cost less amortisation and impairment losses Amortisation is charged to the Consolidated income statement on a straight-line basis over the estimated useful lives of the intangible assets The estimated useful lives of the intangible assets included in the Consolidated balance sheet reflect the benefit derived by the Group and vary from 5 to 10 years

Intangible assets - research and development costs

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the Consolidated income statement as an expense as incurred Development costs incurred after the point at which the commercial and technical feasibility of the product has been proven, and the decision to complete the development has been taken and resources made available, are capitalised The expenditure capitalised includes the cost of materials, direct labour and direct overheads Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses Development expenditure has an estimated useful life of 5 years and is written off over that period, based on forecast unit sales subject to changes in expectations Capitalised development costs are tested for impairment annually

Intangible assets - software licences

Intangible assets comprising software licences, that are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses Amortisation is charged on a straight-line basis over the estimated useful life of the assets The useful life of each of these assets is assessed on an individual basis and they range from 2 to 10 years

Property, plant and equipment

Freehold land is not depreciated Other assets are stated at cost less accumulated depreciation Depreciation is provided to write off the cost of assets less their estimated residual value on a straight-line basis over their estimated useful economic lives as follows

Freehold buildings	50 years
Plant and equipment	3 to 10 years
Vehicles	3 to 4 years

Warranty provisions

The Group provides a warranty from the date of purchase on all its products This is typically for a twelve-month period, although up to three years is given for a small number of products A warranty provision is included in the financial statements, which is calculated on the basis of historical returns and internal quality reports

Employee benefits

The Group operates contributory pension schemes, which, for UK employees, was of the defined benefit type up to 5th April 2007, at which time it ceased any future accrual for existing members and was closed to new members UK employees are now covered by a defined contribution scheme During the year, the defined benefit scheme for the Group's Irish subsidiary was closed for future accrual for existing members and they are now also covered by a defined contribution scheme

The schemes are administered by trustees who are independent of the group finances Contributions were paid to the Irish defined benefit scheme up to the date of curtailment, in accordance with the recommendations of independent actuaries to enable the trustees to meet from the schemes the benefits accruing in respect of current and future service

Pension scheme assets of the defined benefit schemes are measured using market value Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability The expected return on the schemes' assets and the interest on the schemes liabilities arising from the passage of time are included in financial income and financial expenses respectively The Group recognises actuarial gains and losses in full in the Consolidated statement of recognised income and expense The pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the Consolidated balance sheet

Foreign-based employees are covered by state defined benefit and private pension schemes in their countries of residence Actuarial valuations of foreign pension schemes were not obtained apart from Ireland because of the smaller number of foreign employees

For defined contribution schemes the amount charged to the Consolidated income statement represents the contributions payable to the schemes in respect of the accounting period

Accruals are made for holiday pay, based on a calculation of the number of days holiday earned during the year, but not yet taken

Inventory and work in progress

Inventory and work in progress is valued at the lower of cost and net realisable value In respect of work in progress and finished goods, cost includes all production overheads and the attributable proportion of indirect overhead expenses which are required to bring inventories to their present location and condition Overheads are absorbed into inventories on the basis of normal capacity

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term (with an original maturity of less than three months) deposits Bank overdrafts that are repayable on demand form part of cash and cash equivalents for the purpose of the Consolidated statement of cash flow

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately declared and authorised and no longer at the discretion of the Company Unpaid dividends that do not meet this criteria are disclosed in the notes to the financial statements

Taxation

Tax on the profit for the year comprises current and deferred tax Tax is recognised in the Consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the Consolidated statement of recognised income and expense

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in previous years

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for the initial recognition of goodwill the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

2 SEGMENTAL ANALYSIS

The primary format used for segmental reporting is by geographic segment, as the Group operates in only one business segment Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis Unallocated expenses comprise corporate expenses Intragroup trading is determined on an arm's length basis

Geographic segments

The Group operates in the following geographic segments

Continental Europe (excluding the UK and Ireland)
Far East, including Japan and Australasia
Americas (North and South)
UK and Ireland
Rest of the World ("ROW")

Analysis by geographic segment

Revenue	Continental Europe £'000	Far East £'000	Americas £'000	UK and Ireland £'000	ROW £'000	Eliminations £'000	Total £ 000
Year ended 30th June 2008							
Revenue	77,219	59,536	46,644	12,020	5,738	-	201,157
Inter-segment revenue	469	-	-	149,159	4,476	(154,104)	-
Total revenue	77,688	59,536	46,644	161,179	10,214	(154,104)	201,157
Year ended 30th June 2007							
Revenue	67,196	50,736	46 160	11,789	5,002	-	180 883
Inter-segment revenue	458	-	-	141 758	677	(142,893)	-
Total revenue	67,654	50,736	46,160	153 547	5,679	(142,893)	180,883

Segment result

	Continental Europe £'000	Far East £'000	Americas £'000	UK and Ireland £'000	ROW £'000	Eliminations £'000	Total £ 000
Year ended 30th June 2008							
Segment result	13,284	4,147	3,019	20,627*	2,210	-	43,287
Unallocated central costs							(4,352)
Net financial income							4 124
Profit before tax							43,059
Year ended 30th June 2007							
Segment result	12,407	2,860	2 585	34 230*	173	-	52,255
Unallocated central costs							(3,066)
Net financial income							2,943
Profit before tax							52 132

* Includes pension curtailment credit for the year of £1 344,000 (2007 £19,460,000)

Assets

	Continental Europe £'000	Far East £'000	Americas £'000	UK and Ireland £'000	ROW £'000	Eliminations £'000	Total £ 000
Year ended 30th June 2008							
Assets by location	37,250	26,265	21,569	192,418	5,099	(67,720)	214,881
Year ended 30th June 2007							
Assets by location	29,027	23,987	21,134	162,529	3,969	(49,109)	191,537

2 SEGMENTAL ANALYSIS CONTINUED

Liabilities	Continental Europe £'000	Far East £'000	Americas £'000	UK and Ireland £'000	ROW £'000	Eliminations £'000	Total £'000
Year ended 30th June 2008							
Liabilities by location	**18,134**	**17,657**	**8,813**	**50,445**	**999**	**(51,857)**	**44,191**
Year ended 30th June 2007							
Liabilities by location	12,087	11,366	3 480	29,313	943	(35,012)	22,177
Depreciation and amortisation							
Year ended 30th June 2008	**977**	**259**	**302**	**10,585**	**193**	**-**	**12,316**
Year ended 30th June 2007	930	284	330	9,450	204	-	11,198
Capital spend							
Year ended 30th June 2008	**805**	**121**	**248**	**12,497**	**212**	**-**	**13,883**
Year ended 30th June 2007	429	161	259	12 118	1,236	-	14,203

3 PERSONNEL EXPENSES

	2008 £'000	2007 £'000
The aggregate payroll costs for the year were		
Wages and salaries (including annual performance bonus)	67,430	62,073
Compulsory social security contributions	8,118	6,598
Current service cost for defined benefit plans (note 14)	202	5,004
Contributions to defined contribution plans	5,772	1,447
	81,522	75,122

	Number	Number
The average number of persons employed by the Group during the year was		
Continental Europe	195	186
Far East	135	119
Americas	123	113
UK and Ireland	1,586	1,609
ROW	104	76
	2,143	2,103

4 PENSION CURTAILMENT CREDIT

During the year, the Renishaw (Ireland) Limited defined benefit pension scheme was closed for future accrual for existing members The credit is in respect of the change in pension fund liabilities arising from the revised basis of the calculation of future salary increases The curtailment credit was £1,344,000, with a related deferred tax charge of £134,000 During the previous financial year, the Renishaw plc defined benefit pension scheme was closed for future accrual for existing members The pension curtailment credit for 2007 was £19,460,000, with a related deferred tax charge of £5,449 000

5 FINANCIAL INCOME AND EXPENSES

Financial income	2008 £'000	2007 £'000
Expected return on assets in the pension schemes (note 14)	7,451	6,470
Bank interest receivable	1,743	1,710
	9,194	8,180

5 FINANCIAL INCOME AND EXPENSES CONTINUED

Financial expenses	2008 £'000	2007 £ 000
Interest on pension fund liabilities (note 14)	4,929	4,940
Bank interest payable	141	297
	5,070	5,237

6 PROFIT BEFORE TAX

Included in the profit before tax are the following costs/(income)	Notes	2008 £'000	2007 £'000
Depreciation of property, plant and equipment	(a)	8 061	7,874
Amortisation of intangibles	(a)	4,255	3 324
Research and development expenditure	(b)	21,810	19 803
Pension curtailment credit	(e)	(1,344)	(19,460)
Exchange gains	(c)	(461)	(2,004)
Profit on sale of property, plant and equipment	(d)	(1,042)	(25)
Auditors			
Fees payable to the Company's auditor for audit of the Company's annual accounts	(d)	73	74
Audit of subsidiary undertakings pursuant to legislation	(d)	120	108
Tax services	(d)	175	90
Fees in respect of pension schemes - audit	(d)	13	9
- advisory	(d)	69	90
Other services	(d)	97	25

These costs/(income) can be found under the following headings in the Consolidated income statement (a) within cost of sales, distribution costs and administrative expenses, (b) within cost of sales (c) within revenue and administrative expenses, (d) within administrative expenses, and (e) identified separately

7 INCOME TAX EXPENSE

	2008 £ 000	2007 £'000
Current tax		
UK corporation tax on profits for the year	357	2 165
Overseas tax on profits for the year	5,650	4 662
Adjustments for prior years	60	-
Total current tax	6,067	6 827
Deferred tax		
Origination and reversal of other temporary differences	2,376	5,154
Tax charge on profit	8,443	11 981
Effective tax rate (based on profit before tax)	20%	23%

The tax for the year is lower (2007 lower) than the UK weighted average standard rate of corporation tax of 29 5% (2007 30%) The differences are explained as follows

	2008 £'000	2007 £'000
Profit before tax	43,059	52,132
Tax at 29 5% (2007 30%)	12,702	15,640
Effects of		
Different tax rates applicable in overseas subsidiaries	(2,966)	(2,063)
Research and development tax credit	(1,190)	(1,140)
Decrease in UK corporation tax rate to 28%	(201)	(694)
Adjustments for prior years	60	-
Expenses not deductible for tax purposes	32	56
Companies with unrelieved tax losses	63	206
Other differences	(57)	(24)
Tax charge on profit	8,443	11,981

8 DIRECTORS' REMUNERATION

The total remuneration of the directors was	2008 £'000	2007 £'000
Salaries and fees	1,977	1,835
Benefits	88	74
Performance bonus	1,120	-
Pension contributions	139	126
	3,324	2,035

	2008					2007				
	Salary & fees £'000	Benefits £'000	Performance bonus £'000	Pension contributions £'000	Total £'000	Salary and fees £'000	Benefits £'000	Performance bonus £'000	Pension contributions £'000	Total £'000
Chairman										
D R McMurtry	604	1	357	-	962	562	2	-	-	564
Other executive directors										
D J Deer	365	28	216	-	609	339	28	-	-	367
B R Taylor	418	22	247	63	750	389	6	-	58	453
A C G Roberts	253	23	150	38	464	235	23	-	36	294
G McFarland	253	14	150	38	455	235	15	-	32	282
Non-executive										
J P McGeehan	28	-	-	-	28	25	-	-	-	25
T D Snowden	28	-	-	-	28	25	-	-	-	25
T B Garthwaite	28	-	-	-	28	25	-	-	-	25
W H Whiteley	-	-	-	-	-	-	-	-	-	-
	1,977	88	1,120	139	3,324	1 835	74	-	126	2,035

W H Whiteley was appointed a Director on 20th June 2008 and received no remuneration from the Company during the year

Benefits include company cars (or cash alternative), private telephone and private health insurance There were no directors' share options outstanding at any time during the year or the previous year

The amounts in respect of pension contributions are the amounts paid by the Company to the personal pension plans of the directors for the relevant periods, except for G McFarland, where the amounts paid are those to the Company s defined contribution scheme, in which he participates The values required to be reported in respect of the defined benefit scheme for G McFarland were

Year ended 30th June 2008

AB at 30th June 2008 £ p a	Increase in AB excluding inflation (A) £	Increase in AB including inflation £	Transfer value of (A) less director's contribution £	Transfer value of AB at 30th June 2007 £	Transfer value of AB at 30th June 2008 £	Increase in transfer value less director s contribution £
23 978	-	900	-	161,095	361 887	200,792

Year ended 30th June 2007

AB at 30th June 2007 £ p a	Increase in AB excluding inflation (A) £	Increase in AB including inflation £	Transfer value of (A) less director s contribution £	Transfer value of AB at 30th June 2006 £	Transfer value of AB at 30th June 2007 £	Increase in transfer value less director's contribution £
23,078	424	1 358	(2,613)	156,750	161,095	(631)

AB = Accrued benefits

9 EARNINGS PER SHARE

Basic and diluted earnings per share are calculated on earnings of £34,616,000 (2007 £40,151,000) and on 72,788 543 shares, being the number of shares in issue during both years

10 PROPERTY, PLANT AND EQUIPMENT

Year ended 30th June 2008	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £ 000	Assets in the course of construction £'000	Total £'000
Cost					
At 1st July 2007	54,718	64,560	4,348	958	124,584
Additions	50	3 516	840	877	5 283
Transfers	186	1,084	-	(1 270)	-
Disposals	(290)	(335)	(710)	-	(1,335)
Currency adjustment	2 751	1,263	282	-	4,296
At 30th June 2008	57,415	70,088	4,760	565	132,828
Depreciation					
At 1st July 2007	9,418	42,769	2 937	-	55 124
Charge for the year	1,186	6,214	661	-	8,061
Released on disposals	(60)	(271)	(625)	-	(956)
Currency adjustment	748	938	147	-	1 833
At 30th June 2008	11,292	49,650	3,120	-	64,062
Net book value					
At 30th June 2008	46,123	20,438	1,640	565	68,766
At 30th June 2007	45 300	21,791	1 411	958	69,460

At 30th June 2008, properties with a net book value of £24,210,000 (2007 £25 100,000) were subject to a registered charge to secure the UK defined benefit pension scheme liabilities

Additions to assets in the course of construction of £877,000 (2007 £3,773,000) comprise £181,000 (2007 £2,100,000) for freehold land and buildings and £696,000 (2007 £1,673,000) for plant and equipment

Year ended 30th June 2007	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1st July 2006	54,096	58 283	4,296	984	117,659
Additions	976	4,374	591	3 773	9,714
Transfers	1,065	2,734	-	(3,799)	-
Disposals	-	(457)	(466)	-	(923)
Currency adjustment	(1,419)	(374)	(73)	-	(1,866)
At 30th June 2007	54,718	64,560	4,348	958	124 584
Depreciation					
At 1st July 2006	8 501	37,423	2 654	-	48,578
Charge for the year	1,151	5,980	743	-	7 874
Released on disposals	-	(346)	(416)	-	(762)
Currency adjustment	(234)	(288)	(44)	-	(566)
At 30th June 2007	9,418	42,769	2 937	-	55 124
Net book value					
At 30th June 2007	45,300	21 791	1,411	958	69 460
At 30th June 2006	45,595	20,860	1,642	984	69,081

11 INTANGIBLE ASSETS

Year ended 30th June 2008	Goodwill on consolidation £'000	Other intangible assets £ 000	Internally generated development costs £'000	Software licences In use £'000	Software licences In the course of acquisition £'000	Total £'000
Cost						
At 1st July 2007	1,811	1,944	16 858	7 175	39	27,827
Additions	1,784	885	5 497	420	14	8,600
Transfers and reallocation (note 13)	561	-	-	19	(19)	561
Currency adjustment	-	-	-	46	-	46
At 30th June 2008	4,156	2,829	22,355	7,660	34	37,034
Amortisation						
At 1st July 2007	-	265	8,653	5,098	-	14 016
Charge for the year	-	308	2,743	844	-	3 895
Currency adjustment	-	-	-	38	-	38
At 30th June 2008	-	573	11,396	5,980	-	17,949
Net book value						
At 30th June 2008	4,156	2,256	10,959	1,680	34	19,085
At 30th June 2007	1 811	1,679	8,205	2,077	39	13 811

Goodwill acquired has an indeterminable useful life, therefore it is not amortised but is tested for impairment annually and at any point during the year when an indicator of impairment exists

For the testing of impairment of goodwill, the Group prepares cash flow forecasts derived from the most recent financial forecasts and plans relating to the businesses to which the goodwill relates These cash flows are extrapolated forward based on estimated growth rates applicable to the business units and then discounted to the present value at a discount rate of 10%

As noted in the Financial review the Group is investing £4 850,000 in a start-up company, D3 Technologies Limited ('D3"), over a period of five years This comprises an initial investment in newly-issued shares of £1 680 000 along with further investment of £3,170,000 The legal costs associated with the acquisition amounted to £62,000 This additional investment will comprise deferred consideration in the form of the supply of spectroscopy equipment at a fair value of £2,820,000 and further contingent cash consideration of £350,000 This cash investment will be dependent on D3 achieving specified performance targets

The initial investment gave the Company a 75% shareholding in D3 with the minority shareholders having paid par value for their 25% interest Under the Shareholders' agreement additional shares will be issued to the minority shareholders, at their option subject to D3 achieving specific performance targets This may result in the Company's shareholding being diluted from 75% to 64 5%

Goodwill arises from the recognition of the entitlement of the minority to up to a 35 5% shareholding in D3 for a nominal consideration This represents the cost to the Group of acquiring D3 as follows

	Total amount £'000	Goodwill £'000
Amount invested up to June 2008	1,680	420 (note 19)
Deferred consideration	3,170 (note 34)	1,302 (note 18)
Total expected investment	4,850	1,722

In the period from the date of investment to 30th June 2008, D3 generated income of £53 000 and suffered a loss of £400,000

11 INTANGIBLE ASSETS CONTINUED

Year ended 30th June 2007	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £ 000	Software licences In use £'000	Software licences In the course of acquisition £ 000	Total £'000
Cost						
At 1st July 2006	2,372	1,308	13,234	6 407	44	23 365
Additions	-	75	3,624	586	204	4,489
Transfers	(561)	561	-	209	(209)	-
Disposals	-	-	-	(7)	-	(7)
Currency adjustment	-	-	-	(20)	-	(20)
At 30th June 2007	1,811	1,944	16 858	7 175	39	27 827
Amortisation						
At 1st July 2006	-	20	6,615	4,187	-	10,822
Charge for the year	-	245	2,038	931	-	3 214
Released on disposals	-	-	-	(6)	-	(6)
Currency adjustment	-	-	-	(14)	-	(14)
At 30th June 2007	-	265	8,653	5,098	-	14,016
Net book value						
At 30th June 2007	1,811	1,679	8 205	2,077	39	13,811
At 30th June 2006	2,372	1,288	6,619	2,220	44	12,543

12 INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates (all investments being in the ordinary share capital of the associate) whose accounting years end on 30th June unless otherwise stated

	Country of incorporation	Ownership 2008 %	Ownership 2007 %
RLS merilna tehnika d o o	Slovenia	50	50
Metrology Software Products Limited	England & Wales	50	50
PulseTeq Limited	England & Wales	50	50
Delcam plc (31st December)	England & Wales	20	20

Movements during the year were	2008 £'000	2007 £'000
Balance at the beginning of the year	6,972	908
Investments made during the year	-	6,110
Dividends received	(80)	-
	6,892	7,018
Share of profits of associates	256	64
Amortisation of intangibles	(360)	(110)
Balance at the end of the year	6,788	6,972

Summarised aggregated financial information for associates	2008 £'000	2007 £ 000
Revenue	8,144	1,685
Share of profits for the period	256	64
Assets	6,934	5 142
Liabilities	3,558	1 629

13 DEFERRED TAX ASSETS AND LIABILITIES

Balances at the end of the year were

	2008			2007		
	Assets £'000	Liabilities £'000	Net £'000	Assets £ 000	Liabilities £ 000	Net £ 000
Property plant and equipment	-	(4,259)	(4,259)	-	(5,126)	(5,126)
Intangible assets	-	(3,630)	(3,630)	-	(2 297)	(2 297)
Intragroup trading (inventory)	5,291	-	5,291	4 733	-	4 733
Pension schemes	2,996	-	2,996	-	(1 791)	(1 791)
Other	1,738	(4,493)	(2,755)	-	(2,938)	(2,938)
Balance at the end of the year	10,025	(12,382)	(2,357)	4,733	(12,152)	(7,419)

The movements in the deferred tax balance during the year were	2008 £'000	2007 £'000
Balance at the beginning of the year	(7,419)	(1,139)
Movements in the Consolidated income statement	(2,376)	(5,154)
Movement in relation to currency hedging reserve	2,372	142
Other movement in relation to the pension schemes	5,627	(1 268)
Total movement in the Consolidated statement of recognised income and expense	7,999	(1,126)
Transfer in relation to goodwill - adjustment to prior year allocation (note 11)	(561)	-
Balance at the end of the year	(2,357)	(7,419)

No deferred tax asset has been recognised in respect of tax losses carried forward in overseas subsidiaries of £993,000 (2007 £663 000) due to the uncertainty over their recoverability

14 EMPLOYEE BENEFITS

The Group operates a number of pension schemes throughout the world The major scheme, which covers the UK-based employees, was of the defined benefit type In April 2007 this scheme ceased any future accrual for current members and was closed to new members UK employees are now covered by a defined contribution scheme

The total pension cost of the Group for the year was £5 974 000 (2007 £6 451 000), of which £139,000 (2007 £126,000) related to directors and £1 394,000 (2007 £1,213,000) related to overseas schemes

The latest full actuarial valuation of the UK defined benefit scheme was carried out at September 2006 and updated to 30th June 2008 by a qualified independent actuary The major assumptions used by the actuary were

	30th June 2008	30th June 2007	30th June 2006
Rate of increase in pensionable salaries	n/a	n/a	4 5%
Rate of increase in pension payments	3 8%	3 1%	3 0%
Discount rate	6 2%	5 7%	5 3%
Inflation rate	4 1%	3 4%	3 0%
Expected return on equities	9 1%	8 2%	8 5%
Expected return on cash	5 0%	4 75%	4 0%
Expected return on bonds	6 5%	5 3%	5 0%
Retirement age	64	64	64

The mortality assumption adopted for 2008 is PA92 year of birth short cohort, which reflects the increasing life expectancy

The assets and liabilities in the defined benefit schemes were	30th June 2008 £ 000	30th June 2007 £'000	30th June 2006 £ 000
Market value of assets			
Equities	82,576	89,924	70 836
Bonds and cash	2,574	1,575	1 377
	85,150	91 499	72,213
Actuarial value of liabilities	(96,205)	(85 937)	(91,051)
(Deficit)/surplus in the schemes	(11,055)	5,562	(18 838)
Deferred tax thereon	2,996	(1 791)	5 451

The expected rates of return on each asset category are based on market conditions at 30th June 2008 and represent the best estimate of future returns allowing for risk premiums where appropriate

14 EMPLOYEE BENEFITS CONTINUED

The movements in the schemes assets and liabilities were

Year ended 30th June 2008	Assets £'000	Liabilities £ 000	Total £ 000
Balance at 1st July	91 499	(85,937)	5 562
Contributions paid	260	-	260
Current service cost	-	(202)	(202)
Expected return on pension schemes assets	7,451	-	7,451
Interest on pension schemes liabilities	-	(4,929)	(4 929)
Pension curtailment credit	-	1,344	1,344
Actuarial loss	(14 060)	(6,481)	(20 541)
Balance at 30th June	85,150	(96,205)	(11,055)

Year ended 30th June 2007	Assets £'000	Liabilities £ 000	Total £ 000
Balance at 1st July	72,213	(91 051)	(18 838)
Contributions paid	5 270	-	5 270
Current service cost	-	(5,004)	(5 004)
Expected return on pension schemes' assets	6,470	-	6 470
Interest on pension schemes' liabilities	-	(4 940)	(4 940)
Pension curtailment credit	-	19,460	19,460
Actuarial gain/(loss)	7 546	(4,402)	3,144
Balance at 30th June	91,499	(85,937)	5 562

The income/(expense) recognised in the Consolidated income statement was	2008 £'000	2007 £ 000
Current service cost	(202)	(5,004)
Expected return on pension schemes' assets	7,451	6 470
Interest on pension schemes' liabilities	(4,929)	(4 940)
Pension curtailment credit	1,344	19 460
	3,664	15,986

The expected return on pension schemes assets and the interest on pension schemes' liabilities are recognised within financial income and financial expenses respectively The current service cost is recognised within cost of sales, distribution costs and administrative expenses The curtailment credit was shown separately

The analysis of the amount recognised in the Statement of recognised income and expense was	2008 £'000	2007 £'000
Actual return less expected return on scheme assets	(14,591)	7,147
Experience loss arising on scheme liabilities	-	(3 986)
Changes in financial assumptions	(5,950)	(17)
	(20,541)	3,144

The history of experience gains and losses is	Year ended 30th June 2008	Year ended 30th June 2007	Year ended 30th June 2006	Year ended 30th June 2005	Year ended 30th June 2004
Difference between the expected and actual return on scheme assets					
amount (£'000)	(14,591)	7,147	6,492	4,600	2 550
percentage of scheme assets	(17%)	8%	9%	9%	6%
Experience gains and losses on scheme liabilities					
amount (£ 000)	-	(3,421)	(180)	1,120	-
percentage of present value of scheme liabilities	-	(4%)	-	2%	-
Total amount recognised in the Consolidated statement of recognised income and expense					
amount (£'000)	(20,541)	3 144	(147)	(9,370)	(240)
percentage of present value of scheme liabilities	(21%)	4%	-	(13%)	-

15 INVENTORIES

An analysis of inventories at the end of the year was	2008 £'000	2007 £'000
Raw materials	12,573	14 497
Work in progress	6,292	7,949
Finished goods	15,355	13,732
Balance at the end of the year	34,220	36,178

During the year, the amount of inventories recognised as an expense in the Consolidated income statement was £66,460 000 (2007 £61,568,000) and the amount of write-down of inventories recognised as an expense in the Consolidated income statement was £513,000 (2007 £572 000)

16 CASH AND CASH EQUIVALENTS

An analysis of cash and cash equivalents at the end of the year was	2008 £'000	2007 £'000
Bank balances and cash in hand	11,850	11,617
Short-term deposits	26,333	9,144
Balance at the end of the year	38,183	20,761

17 PROVISIONS

Warranty provision

Movements during the year were	2008 £ 000	2007 £'000
Balance at the beginning of the year	693	793
Utilised during the year	(565)	(540)
Created in the year	696	440
	131	(100)
Balance at the end of the year	824	693

The warranty provision has been calculated on the basis of historical return-in-warranty information and other internal reports It is expected that most of this expenditure will be incurred in the next financial year and all expenditure will be incurred within three years of the balance sheet date

18 OTHER PAYABLES

Balances at the end of the year were	2008 £'000	2007 £'000
Payroll taxes and social security	4,692	3,757
Fair value of forward exchange contracts	1,938	-
Other creditors and accruals	9,023	5,022
	15,653	8,779

Other creditors and accruals include £1 302,000 in respect of deferred consideration for the investment in D3 Technologies Limited, which is payable over a five-year period from the date of the initial investment

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 21

19 OTHER PAYABLES (NON-CURRENT)

Non-current other payables represent the fair value of forward exchange contracts which mature after more than one year

20 CAPITAL AND RESERVES

Movements during the year were Year ended 30th June 2008	Share capital £'000	Share premium £ 000	Currency translation reserve £'000	Cash flow hedging reserve £ 000	Retained earnings £'000	Total £'000
Balance at the beginning of the year	14 558	42	(210)	1 845	151,765	168 000
Profit for the year	-	-	-	-	34 716	34,716
Other recognised income and expense	-	-	1 784	(6,097)	(14 914)	(19,227)
Dividends paid	-	-	-	-	(17 164)	(17,164)
Balance at the end of the year	14,558	42	1,574	(4,252)	154,403	166,325

20 CAPITAL AND RESERVES CONTINUED

Movements during the year were Year ended 30th June 2007	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at the beginning of the year	14,558	42	265	2,007	125,864	142,736
Profit for the year	-	-	-	-	40,151	40,151
Other recognised income and expense	-	-	(475)	(162)	1,851	1,214
Dividends paid	-	-	-	-	(16,101)	(16,101)
Balance at the end of the year	14,558	42	(210)	1,845	151,765	168,000

Share capital

	2008 £'000	2007 £'000
Authorised		
75,000,000 ordinary shares of 20p each	15,000	15,000
Allotted, called-up and fully paid		
72,788,543 ordinary shares of 20p each	14,558	14,558

The ordinary shares are the only class of share in the Company Holders of ordinary shares are entitled to vote at general meetings of the Company and receive dividends as declared The Articles of Association of the Company do not contain any restrictions on the transfer of shares nor on voting rights

Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the foreign operations, offset by foreign exchange differences on bank liabilities which have been accounted for directly in equity on account of them being classified as hedging items

Cash flow hedging reserve

The cash flow hedging reserve comprises all foreign exchange differences arising from the valuation of forward exchange contracts which are effective hedges and mature after the year end These are valued on a mark-to-market basis and are accounted for directly in equity and are recycled through the Consolidated income statement when the hedged item affects the Consolidated income statement

Movements during the year were	2008 £'000	2007 £'000
Balance at the beginning of the year	1,845	2,007
Amounts transferred to the Consolidated income statement	(1,845)	(883)
Revaluation of contracts outstanding at the end of the year	(4,252)	721
Balance at the end of the year	(4,252)	1,845

Dividends paid

Dividends paid comprise	2008 £'000	2007 £'000
2007 final dividend paid of 15 82p per share (2006 15 07p)	11,515	10,969
2008 interim dividend paid of 7 76p per share (2007 7 05p)	5,649	5,132
	17,164	16,101

Minority interest

Movements during the year were	2008 £'000	2007 £'000
Balance at the beginning of the year	-	-
Share of investments	420	-
Share of loss for the year	(100)	-
Balance at the end of the year	320	-

The minority interest represents the 25% minority shareholding in D3 Technologies Limited

21 FINANCIAL INSTRUMENTS

The Group has exposure to credit risk, liquidity risk and market risk arising from its use of financial instruments This note presents information about the Group s exposure to these risks along with the Group's objectives, policies and processes for measuring and managing the risks

Credit risk

The Group carries a credit risk, being the risk of non-payment of trade receivables by its customers Credit evaluations are carried out on all new customers before credit is given above certain thresholds There is a spread of risks among a large number of customers with no significant concentration with one customer The Group establishes an allowance for impairment in respect of trade receivables where recoverability is considered doubtful

An analysis by currency of Group financial assets at the year end is as follows

	Trade receivables		Other receivables		Net cash	
Currency	2008 £'000	2007 £'000	2008 £'000	2007 £ 000	2008 £'000	2007 £'000
Pounds Sterling	4,294	6,154	3,700	2 989	77,170	51,172
US Dollar	13,177	11 364	219	155	(13,178)	(10,632)
Japanese Yen	5,234	6 093	246	137	(9,325)	(9 299)
Euro	14,539	11,873	624	2,973	(17,816)	(12,281)
Other	5,559	2,396	737	551	1,332	1,801
	42,803	37,880	5,526	6,805	38,183	20,761

The ageing of gross trade receivables at the end of the year was	2008 £'000	2007 £ 000
Not past due	32,104	28,264
Past due 0 -1 month	6,579	5,349
Past due 1 - 2 months	2,880	2,808
Past due more than 2 months	2,936	3,110
Balance at the end of the year	44,499	39,531

Movements in the provision for impairment of trade receivables during the year were	2008 £'000	2007 £'000
Balance at the beginning of the year	1,651	1,589
Changes in amounts provided	444	242
Amounts utilised	(399)	(180)
Balance at the end of the year	1,696	1,651

Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group s reputation The Group is highly cash generative and uses monthly cash flow forecasts to monitor cash requirements

In respect of net cash the carrying value approximates to fair value because of the short maturity of the deposits and borrowings Interest rates are floating and based on libor/libid

The contractual maturities of financial liabilities at the year end were

	Carrying amount £'000	Up to 1 year £'000	1 - 2 years £ 000	2 - 5 years £'000
Trade payables	12,691	12 691	-	-
Current tax	2,178	2,178	-	-
Other payables	13,715	13,715	-	-
Forward exchange contracts	5,906	1,938	1 878	2,090
	34,490	30,522	1,878	2,090

The contracted cash flows for the financial liabilities are the same as the carrying values For 2007 all financial liabilities had maturities within one year There is no difference between the fair value of financial assets and financial liabilities and their carrying value in the balance sheet

21 FINANCIAL INSTRUMENTS CONTINUED

Market risk

As noted in the Financial review under Risks and uncertainties the Group operates in a number of foreign currencies with the majority of sales being made in these currencies but with a concentration of manufacturing in the UK, Ireland and India

Exchange rates and sensitivity analysis

The main exchange rates having an effect on the Group s results are the US Dollar and Japanese Yen The Group has hedged the majority of its forecasted Euro cash flows and hence there is not a significant impact on the Group's results resulting from fluctuations in the Euro exchange rate

The following are the exchange rates which have been applicable during the financial year Also noted is the increase in profit that a one US Dollar cent and one Japanese Yen change in exchange rate, where the foreign currency is strengthening against Sterling, might have on the Group's results The method of estimation involves assessing the impact of these currencies on the Group's transactions assuming all other variables are unchanged

	2008		2007		Increase in group profit of one cent/yen movement
Currency	Year end exchange rate	Average exchange rate	Year end exchange rate	Average exchange rate	£'000
US Dollar	1 99	2 01	2 01	1 95	290
Japanese Yen	211	220	248	231	120
Euro	1 26	1 36	1 49	1 48	-
Average Euro forward contract rates	-	1 35	-	1 37	-

The Group classifies its forward contracts hedging forecasted transactions as cash flow hedges and states them at fair value

Further details are noted in the Treasury policies on page 32

Net assets and associated borrowings

The Group maintains foreign currency borrowings as a method of providing hedging against the currency translation risk of the net assets of its overseas subsidiaries The level of hedging in place at the year end for the major currencies and their relative base borrowing interest rates, were

Currency	Net assets of subsidiary £'000	Currency borrowing £ 000	Base borrowing interest rate %
US Dollar	17,710	17,410	2 0%
Japanese Yen	10,486	10,845	0 5%
Euro	23 590	22 160	4 2%

The currency borrowings are short-term, with floating interest rates In order to minimise the cost of these borrowings, short-term currency swaps are used on a rolling one-month cycle These currency swaps are not reflected in the table above

The Company has Euro forward contracts which mature after the balance sheet date The fair value of these contracts at the year end was a loss of £4,252,000 (2007 profit £1,845,000) (see note 20)

Capital management

The Board s policy is to maintain a strong capital base and to maintain a balance between significant returns to shareholders, with a progressive dividend policy, whilst ensuring the security of the Group supported by a sound capital position

22 OPERATING LEASES

The total of future minimum lease payments under non-cancellable operating leases (all of which relate to land and buildings in subsidiaries) were

	2008 £'000	2007 £ 000
Expiring within one year	531	321
Expiring between two and five years	375	116
	906	437

Lease payments recognised as an expense during the year were	2008 £'000	2007 £'000
Total lease payments for the financial year	796	743

23 CAPITAL COMMITMENTS

Capital commitments at the end of the year for which no provision has been made in the financial statements, were

	2008 £'000	2007 £'000
Authorised and committed	3,887	1,589

24 CONTINGENCIES

The UK banking arrangements are subject to cross-guarantees between the Company and its UK subsidiaries These accounts are subject to a right of set-off

25 SUBSIDIARY UNDERTAKINGS

The following are the subsidiary undertakings of Renishaw plc all of which are wholly-owned, unless otherwise stated The country of incorporation and registration is England and Wales unless otherwise stated The country of incorporation is also the country of operation The accounting year end for each subsidiary undertaking is 30th June unless otherwise stated

Company	Principal activities
Renishaw International Limited	Overseas holding and investment company
Renishaw (Ireland) Limited (Republic of Ireland)*	Manufacture and sale of advanced precision metrology and inspection equipment
Renishaw Finance and Insurance (Guernsey) Limited (Guernsey)*	Finance and captive insurance company (31st January)
Renishaw Holdings Limited	Holding and investment company
Renishaw Finance Limited*	Finance company
Renishaw S A S (France)*	Service, distribution, research and development and manufacture of group products
itp GmbH (Germany)	Manufacture and sale of advanced precision metrology and inspection equipment
Wotton Travel Limited	Travel agency
D3 Technologies Limited (75%) (Scotland)	Design and sale of surface enhanced Raman spectroscopy products

Company – principal activity is the service and distribution of group products

Renishaw Inc (USA)
Renishaw KK (Japan)
Renishaw GmbH (Germany)
Renishaw S p A (Italy)
Renishaw Iberica S A U (Spain)
Renishaw A G (Switzerland)
Renishaw (Hong Kong) Limited (Hong Kong)
Renishaw Latino Americana Ltda (Brazil) (31st December)
Renishaw Metrology Systems Private Limited (India) (31st March)
Renishaw Benelux BV (The Netherlands)
Renishaw Oceania Pty Limited (Australia)
Renishaw s r o (Czech Republic)
Renishaw Sp z o o (Poland)
OOO Renishaw (Russia) (31st December)
Renishaw AB (Sweden)
Renishaw (Austria) GmbH (Austria)
Renishaw (Korea) Limited (South Korea)
Renishaw (Canada) Limited (Canada)
Renishaw (Israel) Limited (Israel)
Renishaw (Shanghai) Trading Company Limited (The People s Republic of China) (31st December)
Renishaw (Singapore) Pte Limited (Singapore)
Renishaw (Taiwan) Inc (Taiwan)

* equity held by a subsidiary undertaking

26 RELATED PARTIES

During the year associates purchased goods and services from the Group to the value of £236,000 (2007 £129 000) and sold goods and services to the Group to the value of £1 450 000 (2007 £908 000) At 30th June 2008 associates owed £479,000 to the Group (2007 £259,000) including a loan of £287,000 (2007 £194 000) Associates were owed £90 000 by the Group (2007 £151 000) Dividends of £80 000 were received from associates during the year (2007 £nil)

Following approval at the extraordinary general meeting held in October 2007, land which was surplus to the requirements of the Group and with a net book value of £226,000, was sold to Swinhay Developments Limited, a company wholly-owned by Sir David McMurtry The sale proceeds were £1,165,000

All transactions were on an arm s length basis at 30th June 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	28	46,248	50 014
Investments in subsidiaries	29	5,128	216
Investments in associates	30	6,714	6 714
		58,090	56 944
Current assets			
Deferred tax	31	974	-
Stock	32	21,190	23,100
Debtors	33	177,821	198,432
Cash at bank		22,884	7,197
		222,869	228,729
Creditors			
Amounts falling due within one year	34	(56,504)	(48,321)
Net current assets			
Due within one year		67,067	33,369
Due after more than one year		99,298	147 039
		166,365	180,408
Total assets less current liabilities		224,455	237 352
Creditors			
Amounts falling due after more than one year	35	(7,138)	-
Provisions for liabilities and charges	36	(686)	(3,077)
Net assets excluding pension (liability)/asset		216,631	234,275
Pension (liability)/asset	37	(7,562)	4 930
Net assets including pension (liability)/asset		209,069	239,205
Capital and reserves			
Called up share capital	38	14,558	14,558
Share premium account		42	42
Currency reserve	39	(4,252)	1,845
Profit and loss account	40	198,721	222,760
Shareholders' funds – equity		209,069	239 205

These financial statements were approved by the Board of directors on 23rd July 2008 and were signed on its behalf by

Sir D R McMurtry
A C G Roberts
Directors

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

for the year ended 30th June 2008

	2008 £'000	2007 £'000
Profit for the financial year	7,409	36 703
Dividends paid	(17,164)	(16,101)
Fair value of forward exchange contracts, net of deferred tax	(6,097)	(162)
Actuarial (loss)/gain in the pension scheme, net of deferred tax	(14,284)	2,121
Net (decrease)/increase in shareholders' funds	(30,136)	22,561
Shareholders' funds at 1st July	239,205	216 644
Shareholders' funds at 30th June	209,069	239,205

27 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Company

Basis of preparation

The financial statements have been prepared in accordance with applicable UK GAAP

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

Investments

Investments in subsidiary and associated undertakings are stated at cost less any provision for permanent impairment losses

Tangible assets and depreciation

Tangible assets are stated at cost less accumulated depreciation Depreciation is provided to write off the cost of assets less their estimated residual value on a straight-line basis over their estimated useful economic lives as follows -

Freehold buildings – 50 years

Plant and equipment – 3 to 10 years

Motor vehicles – 3 to 4 years

No depreciation is provided on freehold land

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately declared and authorised and no longer at the discretion of the Company Unpaid dividends that do not meet this criteria are disclosed in the notes to the financial statements

Research and development

Research and development expenditure is charged to profit and loss account in the year in which it is incurred

Taxation

The charge for taxation is based on the Company profit for the year Deferred tax is recognised, without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered

Long-term amount owed by a group undertaking

A balance owing to the Company by a subsidiary undertaking, which is expected to be repaid over a number of years, has been initially valued at fair value and is valued at amortised cost thereafter

Employee benefits

The Company operated a contributory pension scheme of the defined benefit type up to 5th April 2007, after which this scheme was closed for future accruals to existing members and was closed to new members Since 5th April 2007 the Company has operated a defined contribution scheme, which is part of the same scheme

The scheme is administered by trustees who are independent of the Company finances

Pension scheme assets in the defined benefit scheme are measured using market value Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability The expected return on the scheme s assets and the interest on the scheme s liabilities arising from the passage of time are included in other finance income

The pension scheme's surplus, to the extent that it is considered recoverable, or deficit is recognised in full and presented on the face of the balance sheet net of the related deferred tax

Accruals are made for holiday pay, based on a calculation of the number of days holiday earned during the year but not yet taken and also for the annual performance bonus

Warranty on the sale of products

The Company provides a warranty from the date of purchase on all its products This is typically for a twelve-month period although up to three years is given for a small number of products A warranty provision is included in the accounts, which is calculated on the basis of historical returns and internal quality reports

Derivative financial instruments

In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments

Derivative financial instruments are recognised initially at fair value The gain or loss on re-measurement to fair value is recognised immediately in the profit and loss account The fair value of forward exchange contracts is their quoted market price at the balance sheet date

Stocks

Stocks are valued at the lower of cost and net realisable value Cost comprises direct materials and labour plus overheads applicable to the stage of manufacture reached

28 TANGIBLE FIXED ASSETS

Year ended 30th June 2008	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1st July 2007	33,155	62,694	2,315	997	99,161
Additions	42	2,438	239	892	3,611
Transfers	186	1,103	-	(1289)	-
Disposals	(290)	(156)	(307)	-	(753)
At 30th June 2008	33,093	66,079	2,247	600	102,019
Depreciation					
At 1st July 2007	5 977	41,426	1 744	-	49 147
Charge for the year	721	6,095	305	-	7 121
Released on disposals	(60)	(136)	(301)	-	(497)
At 30th June 2008	6,638	47,385	1,748	-	55,771
Net book value					
At 30th June 2008	26,455	18,694	499	600	46,248
At 30th June 2007	27 178	21,268	571	997	50,014

At 30th June 2008, properties with a net book value of £24 210 000 (2007 £25,100,000) were subject to a registered charge to secure the UK defined benefit pension scheme liabilities

Additions to assets in the course of construction of £892,000 (2007 £3,977,000) comprise £181,000 (2007 £2 100 000) for freehold land and buildings and £711,000 (2007 £1 877,000) for plant and equipment

29 INVESTMENTS IN SUBSIDIARIES

Movements during the year were	2008 £'000	2007 £'000
Balance at the beginning of the year	216	216
Investments made during the year	1,742	-
Deferred consideration	3,170	-
Balance at the end of the year	5,128	216

Investments made during the year represents the investment in D3 Technologies Limited and includes legal costs of £62 000 The deferred consideration is the balance of the total investment, expected to be incurred over a five-year period from the date of the initial investment

A list of subsidiary undertakings is shown in note 25

30 INVESTMENTS IN ASSOCIATES

Movements during the year were	2008 £'000	2007 £'000
Balance at the beginning of the year	6,714	604
Investments made during the year	-	6,110
Balance at the end of the year	6,714	6,714

31 DEFERRED TAX

The movement in deferred tax was	At the beginning of the year £'000	Movement in the year £'000	At the end of the year £'000
Deferred tax	(2,518)	3,492	974

31 DEFERRED TAX CONTINUED

The deferred tax asset/(liability) is represented by	2008 £'000	2007 £ 000
Difference between accumulated depreciation and capital allowances	(525)	(1,651)
Other timing differences	1,499	(867)
	974	(2,518)
Deferred tax on pension scheme (liability)/asset	2,941	(1 920)
	3,915	(4,438)

The movements in the deferred tax balance were	2008 £'000	2007 £ 000
Balance at the beginning of the year	(4,438)	(910)
Amount credited to the Profit and loss account	1,120	3,102
Amount reflected through the Statement of total recognised gains and losses	7,233	(6,630)
Balance at the end of the year	3,915	(4,438)

32 STOCK

An analysis of stock at the end of the year was	2008 £'000	2007 £'000
Raw materials	7,916	9,932
Work in progress	6,705	7,207
Finished goods	6,569	5,961
Balance at the end of the year	21,190	23,100

33 DEBTORS

An analysis of debtors at the end of the year was	2008 £'000	2007 £'000
Debtors due within one year		
Trade debtors	8,802	9,438
Amounts owed by group undertakings	67,145	36,529
Amounts owed by associated undertakings	479	259
Prepayments and other receivables	3,071	5,167
	79,497	51,393
Debtors due after more than one year		
Amounts owed by group undertakings	98,324	147,039
Balance at the end of the year	177,821	198,432

Amounts owed by group undertakings due after more than one year at 30th June 2008 are shown at their amortised cost calculated using the effective interest method The balance at 30th June 2008 of £98,324,000 (2007 £147,039,000) is based on an original amount of £125,180 000 (2007 £178 611 000)

34 CREDITORS

Amounts falling due within one year

An analysis of creditors due within one year at the end of the year was	2008 £'000	2007 £ 000
Trade creditors	9,633	8,818
Amounts owed to group undertakings	36,608	34,223
Amounts owed to associated undertakings	77	131
Corporation tax	1,279	241
Other taxes and social security	1,434	1 397
Other creditors	7,473	3,511
Balance at the end of the year	56,504	48 321

35 CREDITORS

Amounts falling due after more than one year

An analysis of creditors due after more than one year was	2008 £'000	2007 £'000
Deferred consideration	3,170	-
Fair value of forward exchange contracts	3,968	-
	7,138	-

The deferred consideration is in respect of the investment in D3 Technologies Limited, which is payable over a five-year period from the date of the initial investment

36 PROVISIONS FOR LIABILITIES AND CHARGES

An analysis of the provisions for liabilities and charges at the year end was	2008 £'000	2007 £'000
Warranty provision	686	559
Deferred tax (note 31)	-	2,518
Balance at the end of the year	686	3,077

Movements on the warranty provision were	At the beginning of the year £'000	Utilised and created in the year £'000	At the end of the year £'000
Warranty provision	559	127	686

The warranty provision has been calculated on the basis of historical return-in-warranty information and other quality reports It is expected that most of this expenditure will be incurred in the next financial year and all expenditure will be incurred within three years of the balance sheet date The increase for the year of £127,000 (2007 £58 000) comprises amounts created during the year of £594,000 (2007 £220,000) and amounts utilised of £467,000 (2007 £278,000)

37 PENSION SCHEME

The Company operated a pension scheme, which is of the defined benefit type In April 2007, this scheme ceased any future accrual for current members and was closed to new members Employees of the Company are now covered by a defined contribution scheme

The total pension cost of the Company for the year was £4,563,000 (2007 £5,485,000), of which £139 000 (2007 £126,000) related to directors

The latest full actuarial valuation of the scheme was carried out at September 2006 and updated to 30th June 2008 on an FRS 17 basis by a qualified independent actuary The major assumptions used by the actuary for the scheme were

	30th June 2008	30th June 2007	30th June 2006
Rate of increase in pensionable salaries	n/a	n/a	4 5%
Rate of increase in pension payments	3 8%	3 1%	3 0%
Discount rate	6 2%	5 7%	5 3%
Inflation rate	4 1%	3 4%	3 0%
Expected return on equities	9 1%	8 2%	8 5%
Expected return on cash	5 0%	4 75%	4 0%
Expected return on bonds	6 5%	5 3%	5 0%
Retirement age	64	64	64

The mortality assumption adopted for 2008 is PA92, year of birth, short cohort, which reflects the increasing life expectancy

The assets and liabilities in the scheme were	30th June 2008 £'000	30th June 2007 £'000	30th June 2006 £'000
Market value of assets			
Equities	79,143	84,906	67,722
Bonds and cash	1,243	1,740	565
	80,386	86,646	68 287
Actuarial value of liabilities	(90,889)	(79,796)	(86,119)
Deficit in the scheme	(10,503)	6,850	(17 832)
Deferred tax thereon	2,941	(1,920)	5 350
Pension (liability)/asset	(7,562)	4,930	(12,482)

37 PENSION SCHEME CONTINUED

The history of experience gains and losses is	Year ended 30th June 2008	Year ended 30th June 2007	Year ended 30th June 2006	Year ended 30th June 2005	Year ended 30th June 2004
Difference between the expected and actual return on scheme assets					
amount (£ 000)	(12,651)	6,738	6,288	4,395	2 426
percentage of scheme assets	(16%)	8%	9%	9%	6%
Experience gains and losses on scheme liabilities					
amount (£ 000)	-	(2,751)	(483)	1,069	225
percentage of present value of scheme liabilities	-	(3%)	(1%)	2%	-
Total amount recognised in the Statement of total recognised gains and losses					
amount (£ 000)	(19,842)	3,444	(866)	(8 036)	83
percentage of present value of scheme liabilities	(22%)	4%	(1%)	(12%)	-

The movements in the scheme were	2008 £'000	2007 £'000
Surplus/(deficit) in scheme at 1st July	6,850	(17 832)
Current service cost	-	(4,740)
Contributions paid	-	5,018
Other finance income	2,489	1,500
Actuarial (loss)/gain	(19,842)	3 444
Pension curtailment credit	-	19,460
(Deficit)/surplus in scheme at 30th June	(10,503)	6 850

The income recognised in the Profit and loss account was	2008 £'000	2007 £'000
Current service cost	-	(4 740)
Expected return on pension scheme s assets	7,019	6,270
Interest on pension scheme's liabilities	(4,530)	(4 770)
Pension curtailment credit	-	19,460
	2,489	16,220

The analysis of the amount recognised in the Statement of total recognised gains and losses was	2008 £'000	2007 £'000
Actual return less expected return on scheme assets	(12,651)	6,738
Experience loss arising on scheme liabilities	-	(3,341)
Changes in financial assumptions	(7,191)	47
	(19,842)	3,444

38 SHARE CAPITAL

	2008 £'000	2007 £ 000
Authorised		
75 000 000 ordinary shares of 20p each	15,000	15,000
Allotted, called-up and fully paid		
72,788,543 ordinary shares of 20p each	14,558	14,558

The ordinary shares are the only class of share in the Company Holders of ordinary shares are entitled to vote at general meetings of the Company and receive dividends as declared The Articles of Association of the Company do not contain any restrictions on the transfer of shares nor on voting rights

39 CURRENCY RESERVE

The unrealised currency (loss)/gain on foreign exchange forward contracts outstanding at the year end has been recognised net of deferred tax

Movements during the year were	2008 £'000	2007 £'000
Balance at the beginning of the year	1,845	2,007
Amounts recycled into the Profit and loss account in the year	(1,845)	(883)
Revaluations of outstanding amounts	(4,252)	721
Balance at the end of the year	(4,252)	1,845

40 PROFIT AND LOSS ACCOUNT

Movements in the Profit and loss account during the year were	2008 £'000	2007 £ 000
Balance at the beginning of the year	222,760	200,037
Profit for the year	7,409	36,703
Dividends paid in the year	(17,164)	(16,101)
Actuarial (loss)/gain in the pension scheme	(19,842)	3,444
Deferred tax thereon	5,558	(1,323)
	(14,284)	2 121
Balance at the end of the year	198,721	222,760

The profit and loss account reserve in the Company of £198,721,000 (2007 £222 760,000) includes £124,324 000 (2007 £147 039 000) which is currently non-distributable

41 RELATED PARTIES

During the year associates purchased goods and services from the Company to the value of £236 000 (2007 £129,000) and sold goods and services to the Company to the value of £1,184 000 (2007 £613,000)

At 30th June 2008, associates owed £479,000 (2007 £259,000) to the Company, including a loan of £287 000 (2007 £194,000) Associates were owed £77,000 (2007 £131,000) by the Company Dividends of £80,000 were received from associates during the year (2007 £nil)

Following approval at the extraordinary general meeting held in October 2007, land which was surplus to the requirements of the Group and with a net book value of £226,000, was sold to Swinhay Developments Limited, a company wholly-owned by Sir David McMurtry The sale proceeds were £1,165 000

All transactions were on an arm's length basis

42 PERSONNEL EXPENSES

	2008 £'000	2007 £'000
The aggregate payroll costs for the year were		
Wages and salaries (including annual performance bonus)	48,603	46,101
Compulsory social security contributions	5,222	4,164
Contributions to pension scheme	4,563	5,485
	58,388	55,750

	Number	Number
The average number of persons employed by the Company during the year was	1,465	1,493

43 CAPITAL COMMITMENTS

Capital commitments at the end of the year, for which no provision has been made in the financial statements, were

	2008 £'000	2007 £ 000
Authorised and committed	3,117	1 460

Number of shareholders in each shareholding range

Shareholdings	
1 – 5,000	2 252 (3 3%)
5 001 – 25,000	194 (3 1%)
25,001 – 50 000	40 (1 9%)
50,001 – 100,000	31 (3 1%)
100 001 – 500,000	54 (16 1%)
500,001 – 1,000,000	6 (5 2%)
1 000 001 – 3 000 000	7 (13 8%)
more than 3 000 000	2 directors (53 5%)

Categories of shareholders

Directors	53 5%
Institutions	44 0%
Individuals	2 5%

The above information was compiled from the register as at 13th July 2008

FINANCIAL CALENDAR

Annual general meeting
10th October 2008

Dividends
Final dividend

Payment date	13th October 2008
Record date	12th September 2008
Ex-div date	10th September 2008

Interim dividend (provisional)

Payment date	6th April 2009
Record date	6th March 2009
Ex-div date	4th March 2009

Announcement of results
Annual results – July
Half year results – January

The interim results and the preliminary announcement of the full year's results are published on our website, which is at www renishaw com no later than ten minutes after they have been released at the Financial Services Authority

Results	note 3 2008 £'000	note 3 2007 £'000	2006 £'000	note 2 2005 £'000	2004 £ 000	2003 £'000	2002 £'000	2001 £'000	note 1 2000 £ 000	1999 £ 000
Overseas revenue	**189,137**	169,094	164,322	144 438	118,881	100,969	94 769	113,133	94 106	85 958
UK and Ireland revenue	**12,020**	11 789	11,513	10,361	8,820	9,671	9,721	12,215	11,488	10,361
Total revenue	**201,157**	180,883	175,835	154 799	127,701	110,640	104,490	125,348	105,594	96,319
Operating profit	**37,335**	29,729	35,468	29,307	18,053	15,644	13,448	27,943	25,677	23 339
Profit before tax	**41,715**	32 672	38,102	31,733	20 146	17,799	16 062	30,795	28,261	25,829
Taxation	**8,309**	6,532	7,621	6,297	4 023	3,454	880	6,082	7,065	6,716
Profit for the year	**33,406**	26,140	30,481	25 436	16,123	14 345	15,182	24,713	21,196	19,113

Capital employed	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £ 000	2001 £'000	2000 £ 000	1999 £ 000
Share capital	**14,558**	14,558	14,558	14,558	14,558	14,558	14 558	14,558	14,558	14,558
Share premium	**42**	42	42	42	42	42	42	42	42	42
Reserves	**151,725**	153,400	128,136	110,857	93,110	90,626	93,085	94,722	82 498	70,443
Shareholders' funds	**166,325**	168 000	142,736	125,457	107,710	105,226	107,685	109,322	97,098	85,043

Statistics	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Overseas sales as a percentage of total sales	**94 0%**	93 5%	93 5%	93 3%	93 1%	91 3%	90 7%	90 3%	89 1%	89 2%
Basic earnings per share	**45 9p**	35 9p	41 9p	34 9p	22 1p	19 7p	20 9p	34 0p	29 1p	26 3p
Proposed dividend per share	**25 39p**	22 87p	21 78p	19 80p	18 00p	16 70p	15 90p	15 14p	13 16p	11 44p

Notes

1 The 2000 figures have been restated to reflect the impact of the adoption of IAS 19 - Employee benefits Figures for 1999 have not been restated

2 For the year 2005 and onwards, the financial statements have been prepared under adopted IFRS Financial statements for the years prior to 2005 were prepared under UK GAAP and have not been adjusted to adopted IFRS

3 The results and basic earnings per share for 2007 and 2008 exclude the pension curtailment credits

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Park Lane Press are certified to ISO 14001 for their environmental management programme

Renishaw plc
New Mills, Wotton-under-Edge
Gloucestershire GL12 8JR
United Kingdom

T +44 (0) 1453 524524
F +44 (0) 1453 524901
E uk@renishaw com
www renishaw com