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# Renishaw plc

## Annual report 2010

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### Company secretary and registered office

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Gloucestershire GL12 8JR, UK  
Registered number 1106260

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Facsimile (01453) 524401  
email [uk@renishaw.com](mailto:uk@renishaw.com)  
Website [www.renishaw.com](http://www.renishaw.com)

### Auditors

KPMG Audit Plc

### Solicitors

Norton Rose

### Stockbrokers

UBS

### Principal bankers

Lloyds TSB Bank Plc

### Registrars and transfer office

Equiniti Limited, Aspect House, Spencer Road, Lancing  
West Sussex BN99 6DA, UK

Telephone 0871 384 2169 (UK callers)  
+44 121 415047 (international callers)

Facsimile +44 (0)871 384 2100

Website [www.shareview.co.uk](http://www.shareview.co.uk)

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

## Financial calendar

### Annual general meeting

14th October 2010

### Dividends

#### Final dividend

Ex-div date 15th September 2010  
Record date 17th September 2010  
Payment date 18th October 2010

#### Interim dividend (provisional)

Ex-div date 9th March 2011  
Record date 11th March 2011  
Payment date 11th April 2011

### 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](http://www.renishaw.com) promptly after they have been released at the  
Financial Services Authority

	<b>2010</b>	2009	change
Revenue (£m)	<b>181.6</b>	171.2	+6%
Adjusted operating profit (£m)*	<b>28.1</b>	6.0	+368%
Adjusted profit before taxation (£m)*	<b>28.7</b>	8.8	+226%
Adjusted earnings per share (pence)*	<b>31.6</b>	9.3	+240%
Dividend per share (pence)	<b>17.6</b>	7.76	+127%

### **Statutory**

Profit before tax (£m)	<b>27.1</b>	4.7	+477%
Basic earnings per share (pence)	<b>29.3</b>	4.9	+498%

Adjusted figures are stated after excluding exceptional items, these being an impairment write down in 2010 and redundancy costs in 2009

# The board of directors

**John Deer**, Deputy Chairman, age 72, 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 is chairman of the overseas marketing subsidiaries.

**Ben Taylor, CEng, FIMechE**, Assistant Chief Executive, age 61, 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, human resources and group quality. Ben also reports to the board on corporate social responsibility matters. 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 61, 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.

**Geoff McFarland**, Group Engineering Director, age 42, has a degree in mechanical engineering, and is a visiting professor at Bath University and an honorary professor at Heriot-Watt University. After working in the medical device and electronic manufacturing sectors, Geoff joined Renishaw's research facility in Edinburgh in 1994, before moving to Renishaw's headquarters to become Director and General Manager of the CMM product line. 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.

**Sir David McMurtry, CBE, RDI, FREng, CEng, FIMechE**, Chairman and Chief Executive, age 70, 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. He has also been awarded an honorary fellowship at Cardiff University. 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 and is chair of the Nomination committee.

**Joe McGeehan, CBE, FIEE, FREng**, non-executive director, age 64, 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 63, 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 chair of the Audit committee.

**David Snowden, FCA**, non-executive director, age 73, 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 chair of the Remuneration committee.

**Bill Whiteley, FCMA**, the senior independent non-executive director, age 61, 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 chairman of Spirax-Sarco Engineering plc and Hill and Smith Holdings plc and a non-executive director of Brammer plc. He has been awarded an honorary degree of Doctor of Engineering at the University of Bath. Bill was appointed a director of the Company in June 2008.

**Audit committee**

Terry Garthwaite (Chair)  
Joe McGeehan  
David Snowden  
Bill Whiteley

**Remuneration committee**

(with effect from 26th July 2010)  
David Snowden (Chair)  
Terry Garthwaite  
Joe McGeehan  
Bill Whiteley

**Nomination committee**

(with effect from 26th July 2010)  
Sir David McMurry (Chair)  
Terry Garthwaite  
Joe McGeehan  
David Snowden  
Bill Whiteley

# Making a world of difference

I am very pleased to announce the results for the year to 30th June 2010.

This year has been characterised by a welcome return to growth, with an accelerating order intake culminating in record final quarter sales.

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## OPERATING RESULTS

Revenues continued to increase strongly during the second half of the year and amounted to a 57% increase over the comparable period in 2009 and 46% over revenues in the first half of the year. This was supported by a superb performance by our manufacturing teams. Total revenues for the year were £181.6m (2009 £171.2m), which includes a currency benefit of £8.1m when compared with the previous year's exchange rates.

Geographically, there was a comparative reduction in turnover in continental Europe and the UK, but modest growth in the Americas and particularly strong growth in the Far East, largely China, and other territories, including India.

After reporting a first half year operating profit of £6.9m (2009 £11.9m), Group operating profit for the year was £28.1m (2009 £6.0m) before an exceptional deduction of £1.7m for impairment costs of the investment in associates.

Profit before tax, including £6.8m currency benefit, amounted to £27.1m compared with £4.7m for the previous year and profit after tax was £21.3m (2009 £3.6m) resulting in earnings per share of 29.3p (2009 4.9p). Adjusted earnings per share, which excludes the exceptional impairment write-down this year and redundancy costs last year, were 31.6p, compared with 9.3p last year.

## SEGMENTAL ANALYSIS

As reported at the half year, the Group has divided its operating, research and development and reporting activities into two main segments: the traditional Metrology business, the cornerstone of Renishaw, and, more recently, the as yet smaller Healthcare activities into which parts of Renishaw have migrated or which have been established or acquired.

### Metrology

Metrology revenue grew to £162.1m from £152.9m in 2009, with operating profits, prior to exceptional items, of £31.5m compared with £10.3m in 2009. Particular growth was experienced in the Far East and, in terms of products, there was strong demand for our encoder and laser scale products.

This sector continues to invest heavily in development of new products. Research and Development, including associated engineering costs, was £22.0m (2009 £26.2m).

This year has seen the introduction of a number of new products including the QC20-W wireless Ballbar for checking the servo-ing performance of three-axis machine tools, the RMP40, RLP40 and OLP40 compact probes with radio and optical signal transmissions for multi-axis and mill-turn machine tools and lathes, and the PH20 probe head for co-ordinate measuring machines was successfully launched at the Control Show in Germany in May.

## GREEN ENERGY GIANT GRINDS WITH MICRON PRECISION

Wind turbines are a striking sight, some might say beautiful, some an eye-sore, but there is no escaping the fact that they are increasingly in demand to generate renewable power. Producing enormous components such as the bearings presents new engineering challenges, which KMT Lidköping have solved very successfully. Based in the town of Lidköping in the centre of Sweden, its new hard-turning VTG4000 (Vertical Turning Grinding) machine uses a combination of Renishaw SiGNUM™ optical linear and angle encoders to achieve the accuracy required, and robust Renishaw magnetic encoders on the exposed axes of the cutting heads.

Eve Johansson is Lidköping's VTG Chief Designer. "Our largest machine used to accommodate parts up to 600 mm diameter, but the VTG4000 can handle diameters in excess of 4000 mm, the size of the largest wind turbine bearings. This is hard turning and grinding which can be very demanding and the positioning accuracy is very important, with a direct effect on the quality of the finished bearings. A standard size machine, using ballscrews on the axes, will manage to maintain a 3 µm form deviation yet despite the considerable difference in relative size, the VTG4000 has been proven to achieve an exceptional form deviation of less than 1 µm, with feed resolution in 0.1 µm steps."

# Making a world of difference

The TONIC™ range of encoders and RESOLUTE™ absolute encoders have also been enthusiastically received by the market

On 23rd July 2010 the Group acquired a 29% shareholding in Measurement Devices Limited (MDL) for the sum of £2.3m. An agreement provides for the further purchase of the balance of the shares over a period of four years. MDL is a metrology company based in York, with offices in Aberdeen and USA (Houston). Its laser scanner products are primarily marketed in the areas of marine positioning and mine/quarry scanning. MDL's products will add to Renishaw's current range of laser-based products and the Group's investment in MDL will enable MDL to expand further on a global basis and benefit from Renishaw's technology, engineering and manufacturing expertise and worldwide distribution network.

## Healthcare

The healthcare segment comprises the neurosurgical, dental and spectroscopy products, which includes PulseTeq (head coils for the enhancement of MRI images), Renishaw Diagnostics (molecular diagnostics for the early identification of infectious diseases) and Renishaw Mayfield (neurosurgical robots).

Revenue in this sector for the year amounted to £19.5m (2009 £18.4m) which resulted in an operating loss of £3.4m, compared with a loss of £4.3m in the previous year.

Research and Development in this sector amounted to £6.6m (2009 £7.5m) and was focused on developing the expanding range of Healthcare offerings. Significant resource and expenditure has been directed to addressing very demanding regulatory compliance regulations associated with the global supply of healthcare and medical devices.

The Group has recently entered into an agreement with a world leading dental implant company, Biomet 3i LLC, for the development and marketing of comprehensive digital dental solutions to dental professionals and patients worldwide. The collaboration will see Biomet 3i marketing Renishaw dental scanners, in-lab milling machines and dental 3i incise CAD software to dental laboratories through its global marketing and sales organisation. Crown and bridge dental frameworks in zirconia and cobalt chrome (cobalt chrome initially available in Europe only) will be manufactured and supplied through a collaboration between both companies.

Spectroscopy product revenue, presently the largest part of our healthcare revenue, continued to show good growth, especially in the Far East.

## BALANCE SHEET

Capital expenditure for the year was £2.9m (2009 £11.0m). The Group is currently concluding the fitting out of production facilities at Pune in India, expected to be completed by December 2010 at a cost of around £3m. In addition, the refurbishment (estimated to cost £1.8m) of the recently acquired premises in Charfield,

close to New Mills in Gloucestershire, UK, has commenced. These will be occupied by our dental and medical activities early in 2011.

Further investment has been made in a number of new machine tools at our Stonehouse factory. At the Woodchester facility, investment that will double the capacity of automated surface-mount electronics assembly and automation of stylus assembly processes are currently being commissioned.

Working capital (accounts receivable plus inventories less creditors) has grown by a net £12m reflecting the significantly increased level of activity, particularly in the final quarter.

Year end net cash balances amounted to £31.1m (2009 £20.5m).

Despite an improving investment performance, the deficit in the pension fund (which has been closed to future accrual since 2007) has increased to £37.3m (£22.5m at 30th June 2009) reflecting changes in the actuarial assumptions used, in particular, a significant reduction in the discount rate and a change to the mortality assumption adopted (reflecting the increasing life expectancy). The Company has a recovery plan to fund the deficit no later than 30th September 2016 and is reviewing the recovery plan with the trustees following the 30th September 2009 triennial actuarial valuation.



## STAFF

I am very grateful to all our employees worldwide for their loyalty and commitment, especially after the unprecedented difficulties and challenges which were successfully overcome last year

I now look forward to a more stable business environment in which our employees will continue to play a full and important part in generating a prosperous future for the Company

## DIRECTORS

In line with the UK Corporate Governance Code, all the directors are standing for re-election at the annual general meeting, with the exception of Joe McGeehan. Joe has been a director since January 2001 and having completed nine years service, latterly as the senior independent director, will not be seeking re-election. Joe has contributed enormously to the activities of the Board during his period of appointment and his commitment has been valued greatly. On behalf of the Board, I should like to thank Joe for his efforts and contribution to Renishaw.

Bill Whiteley has been appointed the senior independent director with effect from 26th July 2010.

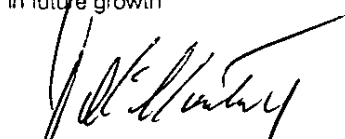
## DIVIDEND

Your directors are recommending a final dividend of 13.6p per share, giving a total dividend for the year of 17.6p, compared with 7.76p in 2009 (covered 1.8 times by adjusted earnings per share for the year) payable on 18th October 2010 to shareholders on the share register on 17th September 2010.

## PROSPECTS

It is clear from the strong second half performance that the Company is showing real momentum going into the new financial year, highlighted by our record order book for the start of a new year of £23.3m, compared with £9.7m at the start of the previous year.

Whilst economic uncertainties remain, we have a robust international business model that continues to spread its applications into new markets. Our particular optimism for further developments in the expanding range of healthcare offerings, together with our continued investment in new products in our traditional markets, underpins our confidence in future growth.



Sir David R. McMurtry, CBE, RDI, FEng, CEng, FIMechE  
Chairman & Chief Executive  
28th July 2010

## WORLD LEADING EPILEPSY SURGERY CENTRE USES THE neuro | mate® SYSTEM FOR THE IMPLANTATION OF INTRACEREBRAL ELECTRODES

**Epilepsy is a disorder characterised by uncontrolled electric discharges within the brain that affects up to 1% of the population and is the second most common cause of mental health disability (1). In children for whom medical management fails adequately to control the disease, the disabling symptoms of the disease, the severe side effects of the medication and the social stigma create considerable challenges to leading independent and satisfying lives.**

The neurosurgeons at the Claudio Munari Epilepsy and Parkinson Surgery Centre of the Niguarda Hospital in Milan, Italy, use the Renishaw neuro | mate stereotactic system in Stereoelectroencephalography (SEEG) procedures to define the epileptogenic zone, increasing accuracy and reducing surgery time, with a very low complication rate. The neuro | mate simplifies navigation and enables the choice of virtually any trajectory with a high level of safety.

Dr Francesco Cardinale is passionate about disseminating his robotic stereotactic technique, "Surgery has long been shown in controlled randomized clinical trials to be superior over medical therapy in clinical and psychosocial outcomes (1), not to mention the economic and social impact of a lifetime coping with severe impairment. Isn't it time that surgery became an early alternative, especially for young children who do not respond satisfactorily to one or two antiepileptic drugs?"

(1) Wuolo S, Blume WT, Garvin JP, Eliasziw MA. randomized controlled trial of surgery for temporal lobe epilepsy. The New England Journal of Medicine. 2001;345(5):311-8.

## 10 Financial review

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.

### 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. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP.

### 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.

In addition to developing the Group's traditional core metrology business, the Group has also been investing in the development of additional applications for new market sectors based upon its core metrology expertise. The additional investment has been focused on the healthcare sector and products for the dental and neurosurgical markets, together with our spectroscopy product offerings. The Group thus manages its business in two business segments, Metrology, being the traditional core business, and Healthcare.

The Group's main products within these segments comprise

**Metrology** - Co-ordinate measuring machine ("CMM") probes and accessories, which are used for accurate post-process inspection of components on CMMs, Machine tool probes and tool setting systems, used for automated component identification, workpiece and tool setting and component inspection, Laser calibration systems and the QC20-W Ballbar, used to determine the accuracy of CMMs, machine tools and other industrial and scientific equipment, Linear and angle encoder systems, for precise linear and rotary motion control, Versatile automated systems for part handling, inspection, and material processing, and a broad range of stylus for all probes.

**Healthcare** - Scanning and digitising systems applied to the dental sector, offering a complete CAD/CAM system for crown and bridge frameworks, Spectroscopy products, including a Raman microscope, used to identify the composition and structure of materials (including medicinal tablet mapping, molecular diagnostics and DNA analysis), and Neurosurgical products for use in neurosurgical procedures and for enhancing the images obtained from MRI scanners.

The Group principally manufactures its products in the UK, Ireland, India, Germany and France.

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 in addition to its traditional metal-cutting customer base.

In our metrology business, these relate to printing, scientific research, process control in chemical, semiconductor and material production, and motion feedback systems for equipment used in the production of electronic and semiconductor components.

In the healthcare sector, the Group is developing systems for precision functional neurosurgery, dental procedures and molecular diagnostics for the early identification of infectious diseases.

The Group continues 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, Ireland and in India.

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

### Worldwide economic situation

In response to the global economic downturn, the Group initiated a significant cost reduction programme at the start of the 2009 calendar year, with a targeted £10m reduction in annual overhead expenditure, a redundancy programme involving 437 personnel and the remaining staff accepting a voluntary 20% reduction in pay from February 2009.

Order intake has shown a significant improvement since the end of the Group's last financial year, with orders received exceeding sales for the current financial year. As profits returned during the first half of the current financial year, full pay was reinstated in stages, effectively for the full year.

The Board continues to maintain a tight control on costs and additional headcount is approved where vital to support the increasing order book.

Whilst the signs of an improving global economy are encouraging, the upturn may be slower than anticipated, highlighting that Group growth targets may be at risk.

### 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 restricts the Group's ability to forecast demand accurately and therefore requires maximum production flexibility and appropriate inventory levels.

### Research and development

The Group invests heavily in research and development in order 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 the area of healthcare, including 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, there are uncertainties whether new developments will perform as planned and in some cases, projects may need to be halted.

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

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.

### Defined benefit pension schemes

With the closure of the UK and Irish defined benefit schemes to new employees and future accruals for existing members, the major risk surrounding accounting for pension costs and future funding arise from investment performance within the portfolio and actuarial assumptions.

This year has seen the Consolidated statement of comprehensive income and expense bear an actuarial loss of £14.9m (2009 loss of £13.0m).

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, Ireland and India, there is an exposure to fluctuating currencies on export sales, largely in respect of the US Dollar, Euro and Japanese Yen. The Group managed the risk in respect of the year just ended by using forward contracts to hedge forecast income streams for its Euro and Japanese Yen exposures and for a proportion of its US Dollar income streams.

The hedging contracts outstanding at the end of the year were marked to market at the year end and the Consolidated statement of comprehensive income and expense shows a profit for the year of £5.6m (after tax) on these outstanding contracts, with the cash flow hedging reserve changing from a loss of £5.4m at the end of June 2009 to a profit of £0.2m at the end of June 2010.

The Group continues to be hedged against current levels of Euro and Japanese Yen receivables on a rolling three-and-a-half year basis, and against a proportion of forecast US Dollar receivables on a rolling fourteen-month basis. The Group monitors the effectiveness of its hedging policies regularly and any ineffective proportions may need to be accounted for in the Consolidated income statement. The policy relating to the Group's hedging practices is noted within the treasury policies on page 14.

## Tax

Significant judgement is required in determining the effective tax rate and in evaluating certain tax positions. Tax provisions are adjusted as a result of 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 assesses the appropriateness of tax provisions.

## 12 Financial review continued

### KEY PERFORMANCE INDICATORS

The Group's long-term aim is 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.

The main financial performance measures monitored by the Board are:

	2008	2009	2010
<b>Revenue growth</b>			
At actual exchange rates	+11%	-15%	+6%
At constant exchange rates	+9%	-23%	+1%

We are focused on growth in revenue, through increasing our market penetration and continually introducing new products. This year reflects an upturn in the global economic position, following the severe downturn experienced in the second half of the previous financial year.

	2008	2009	2010
<b>Total engineering costs including research and development</b>			
Gross expenditure	£35.4m	£35.9m	£30.9m
Included in Income statement	£32.6m	£33.7m	£28.6m

The growth of the business is fundamentally dependent on the continuing investment in engineering costs for the development of new products and processes, and the continuing development costs of existing products and processes. The Group continues to make significant investment in future products and accelerating our new product development, notwithstanding the fragility of the recovery from the recession, in order to maintain our leading market position.

	2008	2009	2010
<b>Adjusted earnings per share (pence)</b>	45.9p	9.3p	31.6p

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	2009	2010
<b>Dividend per share (pence)</b>	25.4p	7.8p	17.6p

We aim to achieve significant long-term returns to shareholders by maintaining a progressive dividend policy. The improved results this year have allowed the Group to recommence dividend payments, following the omission of a final dividend last year due to the impact on the results of the severe global recession.

## OPERATING REVIEW

In the year to 30th June 2010 group revenue increased by £10.4m, or 6% over the previous year, from £171.2m to £181.6m. Average exchange rates for the financial year have been favourable for the Group relative to the previous year, although the full benefit was not realised as a significant portion of revenue had been hedged by way of forward contracts at less favourable rates than the prevailing rates at the date of maturity (see note on treasury policies below).

Revenue in our metrology segment increased by 6%, from £152.9m in 2009 to £162.1m and, in our healthcare segment, increased also by 6%, from £18.4m to £19.5m.

Geographically, the following table shows the analysis of revenue by geographical market and the effect of exchange rate changes.

Geographical analysis	2010 sales at actual exchange rates £'000	Change from 2009 %	2010 sales at 2009 exchange rates £'000	Change from 2009 %	2009 sales at actual exchange rates £'000
Far East, including Japan and Australia	71,051	+37%	65,904	+27%	52,006
Continental Europe	52,147	-18%	51,297	-19%	63,222
North and South America	41,455	+3%	39,359	-2%	40,071
UK	10,650	-5%	10,650	-5%	11,259
Other regions	6,304	+34%	6,268	+34%	4,689
Total group revenue	181,607	+6%	173,478	+1%	171,247

The revenue for the year of £181.6m comprised a first half year revenue of £73.9m (2009 £102.7m), a decrease of 28%, and a second half year revenue of £107.7m (2009 £68.5m), an increase of 57%. The second half year revenue of £107.7m also showed an increase of 46% over the first half year.

Staff numbers started at 1,843 at 1st July 2009, following a reduction of 437 staff in the second half of the previous financial year as a result of a redundancy programme to mitigate the effects of the global recession during that period. However, as a response to increasing order intake this financial year, additional personnel have been recruited, especially during the second half, primarily to support the production process and to meet order delivery targets and as a result, headcount increased by 256, to 2,099 at 30th June 2010. Labour costs decreased by £1.5m, from £80.0m last year to £78.5m, a decrease of 2%. Redundancy and other one-off termination payments in the previous year amounted to £4.1m and were disclosed separately in the Consolidated income statement.

In July 2010, a special bonus is to be paid to employees to compensate them for the reduction in pay in the period July 2009 to late September 2009. The accounts therefore effectively contain a full year's pay for all employees.

In addition, the Group bonus programme, omitted last year, has been reinstated for the current financial year.

### 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 and processes relating to metrology and, within our healthcare business, Raman spectroscopy systems with an increasing emphasis on products for neurosurgical and dental procedures.

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 £30.9m (2009 £35.9m). The capitalisation of development costs (net of amortisation charges) amounted to £2.3m (2009 £2.2m), giving a net charge in the Consolidated income statement of £28.6m (2009 £33.7m).

Between the reportable segments, net of the capitalisation costs, £22.0m was spent in the metrology segment and £6.6m spent in our healthcare segment.

Included in engineering costs was £22.8m related to new product research and development, which compares with £23.6m spent last year.

### Profits

The reported operating profit for the year was £26.4m, compared with £1.9m in the previous year. This comprised a second half operating profit of £19.5m (2009 loss of £10.0m) having reported a first half year operating profit of £6.9m (2009 £11.9m).

The operating profit for the current financial year is after accounting for an exceptional impairment write-down of £1.7m in relation to the investment in an associate, which is listed on AIM at the London Stock Exchange. The write-down, included within the metrology reportable segment, accounted for the difference between the book value of the investment at 30th June 2010 and the published share price of the associate at that time. In the previous year there were exceptional redundancy costs of £4.1m.

Excluding exceptional items, the operating profit increased from £6.0m in 2009 to £28.1m in 2010.

Our metrology segment reported an operating profit of £31.5m (2009 £10.3m) with our healthcare segment showing a loss of £3.4m (2009 £4.3m).

The profit before tax, excluding exceptional items, increased from £8.8m in 2009 to £28.7m in 2010.

The half yearly split of the adjusted profit before tax of £28.7m was £7.1m for the first half year and £21.6m for the second half year. This compares with a 2009 first half year profit of £14.0m and a second half loss of £5.2m.

Reported (unadjusted) profit before tax was £27.1m, compared with £4.7m 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 21%. The comparable rate for the previous year was 24%.

Earnings per share, increased from 4.9p to 29.3p. Adjusted earnings per share, excluding the exceptional items, increased from 9.3p to 31.6p.

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%	£2.9m

#### 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.

The information below includes disclosures which are required by IFRS and are an integral part of the financial statements.

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 contracts 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 22 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 Group's Euro and Japanese Yen cash inflows and a portion of the Group's US Dollar cash inflows for the year. As a result of the subsequent weakening of Sterling against these currencies, there was a loss for the year of £9.1m on maturity of these contracts, relative to the exchange rates pertaining at the maturity dates and compared with a loss of £11.0m in the previous year.

Forward contracts are in place as a hedge against a substantial part of the Group's estimated Euro and Japanese Yen cash inflows on a rolling three-and-a-half-year basis and a lesser proportion of the Group's estimated US Dollar cash inflows on a rolling fourteen-month basis.

#### INVESTMENT FOR THE FUTURE

The Group has continued to invest heavily in innovative products and processes, with 17% of revenue being spent on engineering costs. The Group is committed to continuing this policy in order to develop new products to support its existing markets and to expand into new market areas, particularly the healthcare sector.

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.

A C G Roberts FCA  
Group Finance Director  
28th July 2010



#### CONSOLIDATED BALANCE SHEET

The Group spent £2.9m on property, plant and equipment during the year, mainly relating to the continuing development of our manufacturing facilities in the UK, Ireland and India. The net book value of the Group's total tangible fixed assets decreased by £3.1m during the year, from £73.6m to £70.5m, as the continuing cost control measures restrained new capital purchases.

Intangible fixed assets, comprising capitalised development costs, goodwill and intangible assets relating to acquisitions, and software licences, grew by £0.9m during the year from £27.7m to £28.6m. The principal increase was the capitalisation of development costs, which, net of amortisation charges, amounted to £2.3m.

Group inventories have increased during the year from £29.2m to £30.9m as a response to improving order intake.

Cash balances at 30th June 2010 of £31.1m increased by £10.6m from the £20.5m held at 30th June 2009. Cash flows from operating activities were £24.5m, compared with £31.5m last year.

Major components of the cash flows from operating activities were changes in working capital as the business declined rapidly up to the end of the previous financial year, but has similarly increased sharply during the course of this year, leading to growth in terms of inventory, debtors and payables. Especially significant is the change in the level of trade debtors during the two financial years, although debtor days at 30th June 2010 of 60 days were an improvement on the 69 days at 30th June 2009.

As noted above, cash balances at the end of the year have benefitted from the restrained level of capital expenditure during the year and the omission of a final dividend for the previous financial year.

At the end of the year, the Group's defined benefit pension funds, now closed for future accrual, showed a deficit of £37.3m, compared with a deficit of £22.5m at 30th June 2009. Defined benefit pension fund assets at 30th June 2010 increased to £83.2m from £70.2m at 30th June 2009 as equities values improved. Liabilities grew to £120.5m from £92.7m as a result of changes in assumptions, such as the discount rate falling by 0.9% and the use of different mortality assumptions.

Although the Renishaw Board has long recognised the need to manage effectively the social and environmental factors affecting the business and, in turn, their impact on its reputation and profitability, it is acknowledged that a formal CSR management structure would provide a better focus for the Group's activities in this respect

Therefore the Board has named Ben Taylor, Assistant Chief Executive, as the executive director with responsibility to manage all aspects of the Company's CSR activities. One of his first measures was to appoint a group of senior managers to co-ordinate CSR activities

This group's first action was to propose that a Renishaw Group Business Code be implemented to codify and consolidate standards of conduct within the Group. The Code has been approved by the Board and work is underway to implement processes to ensure compliance

## CUSTOMERS

We continue to build long-term relationships with our customers by offering expert local support through our direct presence in 31 countries and by supplying innovative products that significantly advance their operational performance - from improving manufacturing efficiencies and raising product quality, to maximising research capabilities and improving the efficacy of medical procedures

With an increasing focus within the manufacturing sector on its environmental impacts and the business need to reduce costs, our products are also helping customers to reduce energy consumption and minimise waste

One example is Lamborghini tractors, which has saved €150,000 per annum by installing Renishaw tool breakage detection systems, non-productive machine time taken to check tools has been reduced significantly, reducing the total energy consumption required by this Italian company to produce the same level of machined components. Further examples can be found in the news section of our website, [www.renishaw.com](http://www.renishaw.com)

Our products are also making a significant contribution to the manufacture and operation of alternative energy products, most notably our position encoders which are increasingly used to ensure the accuracy of machinery used in the manufacture of solar panels and also to give direct position feedback on electric motors for hybrid vehicles

In Sweden KMT Lidköping (see page 7) rely on our optical and magnetic encoders to control critical positional aspects of their huge vertical turning grinding machines, used by their customers around the world to produce bearings for wind turbines, some of which are over 4 metres in diameter. The accuracy of such bearings is critical to the safe and efficient operation of these green energy sources

## STAFF

Renishaw is an equal opportunities employer operating a strict policy of non-discriminatory behaviour, offering an environment that promotes innovation and progress within which individual talents can flourish. We have a diverse mix of age ranges, gender and ethnicity - at the end of June 2010 some 19.2% of UK staff are aged over 50 (2009 18.6%), with 12.9% below 25 (2009 9.2%) and some 22.5% of employees are female (2009 29.3%). Worldwide staff turnover (excluding redundancies) has remained stable compared to last year at around 7%, which compares favourably with the 2009 average in the UK manufacturing sector of 15.2% (source: CIPD)

Long service is rewarded at every five years of service and can include small gifts, extra holiday allowance and a cash sum, with almost 350 staff benefitting this calendar year. A group performance bonus programme rewards staff with an annual bonus based upon group results and individual performance

Variable working-time has been adopted as standard practice for all UK staff, allowing staff members to create a better work-life balance, whilst at the same time maintaining full support to Renishaw's worldwide customer base. Other benefits that staff receive include the use of gymnasiums at the New Mills, Stonehouse, Ireland and Woodchester sites and subsidised restaurants at the most populous UK locations. There are also discounts for sports and social activities, administered by a volunteer employee-run organisation

Close to their respective birthdays, staff members in the Gloucestershire locations are invited to attend a communications meeting at which Board members are present. These meetings provide staff with information about developments within the Company and give them the opportunity to ask any question of the Board in an open discussion forum. A copy of the presentation and responses to questions raised at these meetings are made available to all worldwide staff via the Group's intranet. Following the announcement of interim and annual financial results, all staff in Gloucestershire are also invited to attend a series of presentations, with all issues raised again made available to all worldwide staff

## LAMBORGHINI TOOL BREAKAGE DETECTION REDUCED BY 67%

**Lamborghini is a brand that symbolises Italian passion in the world of supercars, but it also has a strong following in the agricultural world, due to a range of high performance tractors produced by SAME DEUTZ-FAHR. At its headquarters and main factory in Treviglio, near Milan, Italy, visitors are struck by the same passion for producing high quality products in an advanced machining operation. Now the company has improved efficiency further by fitting cost-effective Renishaw probe equipment to multiple Mazak machining centres, giving a spectacular return on investment.**

As Luigi Galimberti, Manufacturing Engineering specialist for machining operations, explains, "We have used tool breakage detection for a long time on the Mazak machines, as machining cycles are fully automated and operators would have no idea if a tap or drill broke. Without detection a component could still have a broken tool embedded - subsequent operations would be incomplete and other components could be damaged."

Mr Galimberti explains that the decision to invest in the TRS2 tool recognition systems and the subsequent cycle time savings has been extremely successful. "After a detailed analysis, based on the cost to run machines, we know this equates to a saving of more than €150K in the first year. This is because most of the non-productive machine time taken to check tools has now been released to machine components. We have paid back the initial investment in the TRS2s in a matter of just 5 months."

## 16 Corporate social responsibility continued

Throughout the year other company updates and items felt to be of interest to employees are also regularly communicated via email, with hard copies circulated to staff without PC access. The Renishaw culture also encourages direct employee feedback either to immediate supervisors or Board members. In addition, a suggestion scheme exists with awards for the best ideas received.

Renishaw maintained its UK sponsored student scheme, apprenticeship scheme, and industrial placement programme throughout the difficulties of 2009. A number of sponsored students who have recently graduated will start during 2010, plus the Company currently has 50 students on work placement, all of whom are being reviewed for potential sponsorship for 2010/11. There are now 30 apprentices currently in training, and a record 20 new starters confirmed for September 2010, plus 10 industrial placement students.

A new 'Applications Academy' has also been created to meet the need for a larger number of engineers to become specialists in the application of Renishaw's metrology products. Whilst this structured training programme will last two years for novices, a modular format will allow other staff to benefit from training sessions, such as six sigma techniques and report writing, which are relevant to their job role.

### THE ENVIRONMENT

Renishaw takes its responsibilities for the environment seriously and has made further investments to improve its performance in relation to energy consumption, water usage, emissions and disposal of waste materials. The Company continues to optimise and control its energy consumption as previously reported with an additional emphasis upon cost control during the last 12-month period.

### Energy

In the UK, installation of half-hourly metering for electricity consumption is nearing completion. This will allow improved monitoring and the ability to clearly identify opportunities for reduced consumption. Further investments have been made in Renishaw's detailed monitoring equipment to identify specific peaks in electricity usage, quantify reductions and make continuous improvements across various sites. New investments have also been made in systems that will monitor gas and water usage at the four main UK sites allowing these energy streams to be similarly reduced.

Despite the difficult economic conditions that prevailed for much of the year and a close control of capital investment, the Company has continued to invest in upgrades to lighting systems in high energy-load areas of the New Mills and Woodchester sites. These include further introductions of passive infra-red detectors to switch off lighting when areas are not occupied and technology upgrades to lower wattage lighting systems. Evaluations of similar lighting schemes that will reduce electricity consumption and reduce costs are underway at other sites.

As Renishaw consumed more than 6 megawatts of electricity in 2008 it is bound by UK legislation to comply with the CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment) and has registered accordingly. To continue progress made in recent years by monitoring usage and continue to reduce CO<sub>2</sub> emissions, the Board has made a commitment to achieving the Carbon Trust Standard which will also benefit the Company in terms of its ranking within the CRC Energy Efficiency Scheme and any rebates due under the terms of the scheme.

### Emissions

The measurement of the overall impact of carbon emissions within the Group is very complex given the geography and scope of operations. A conservative estimate of the impact of changes made by reductions in electricity consumption rates and air-freight in the financial year 2009 was a 20% reduction over the previous year, with a best estimate of 15,000 tonnes of CO<sub>2</sub> being emitted through our activities.

For the 2010 financial year a far greater emphasis has been placed upon accurately measuring performance using the UK Government's guidance on how to measure and report upon carbon emissions.

Unless otherwise stated the following analysis (which will form the baseline data for all future emissions reporting) includes all the Group's global operations for the 12-month period 1st June 2009 to 31st May 2010.

GHG emissions 2010 in tonnes of CO <sub>2</sub> e	
<b>Scope 1</b>	
Gas consumption	685.0
Owned transport	1,842.4
Generator diesel	65.6
Heating oil	38.2
<b>Total scope 1</b>	<b>2,631.2</b>
<b>Scope 2</b>	
Purchased electricity	10,525.4
<b>Total scope 2</b>	<b>10,525.4</b>
<b>Significant scope 3</b>	
Business travel	1,264.7
Product distribution	1,919.8
Metal purchase	3,533.9*
Post/Communications	276.3*
<b>Total significant scope 3</b>	<b>6,994.7</b>

\* Only UK data included

Based upon this baseline data and as part of the process of achieving the Carbon Trust Standard, the Company will be setting targets for reduction of carbon emissions during the 2011 financial year.

Although not included within these standard Government measures, Renishaw recognises that there is a significant impact caused by staff driving to its Gloucestershire sites. There is very limited public transportation serving these sites, and therefore the Company actively encourages car sharing by hosting a specific area on the company intranet, through lift-share notices in communal areas and through the circulation of regular emails that remind staff of the benefits of car sharing.

### Waste Management

Renishaw has continued to analyse waste streams and as a result strives to increase recycling and reduce amounts sent to landfill, notably paper, cardboard, plastic cups, toner cartridges and batteries. Analysis of the waste streams at the main UK sites shows a marked reduction in landfill has been made in recent years.

Reduction of waste at source is also seen as a key contributor to overall waste reduction. Continuing efforts are being made to distribute both technical and sales documentation in electronic format and the encoder business line no longer distributes user guides to its customers, with up-to-date guides available through a special support website. Commercial documentation, such as invoices and acknowledgements, is also available through a 'paperless' facility, with customers encouraged to accept this form of transaction.



Although only one of the Company's products currently falls within the scope of the requirements of the European Directive 2002/95/EC on the Restriction of the use of Hazardous Substances (RoHS), all new position encoder products are now introduced as RoHS compliant, and the Company continues to develop and implement processes for other products wherever possible

### Charity

The Renishaw Charities Committee (RCC) was created over 20 years ago to distribute funds made available by the Company to support charitable institutions and to support the individual charitable efforts of staff through a match-funding scheme. A particular focus is to assist organisations that help enrich the lives of children and adults, from toddler groups and sports clubs, through to organisations that support the disabled and the bereaved. This year additional funds were also made available for a new disaster fund, which was created in the wake of the Haiti earthquake.

During the year the RCC donated funds to and supported a Christmas carol concert fundraising event for a multi-sensory hydrotherapy unit at St Rose's special needs school in Stroud, Gloucestershire. This inspirational school has an outstanding reputation for providing for the education, care and therapy of children with severe physical disabilities and complex health needs.

Gloucestershire Young Carers aims to create a network of support groups for young carers, the often forgotten section of our communities that are burdened at an early age with the responsibility of caring for their ill or disabled parents. The organisation works with these young carers to ensure that service providers understand their needs and through the existing 15 support groups allows them to take a break and share personal experiences. The RCC had no hesitation in providing funding to help develop the network.

In May six staff from the corporate marketing team also took part in the 'Helping Hands' volunteer scheme run by Well Child, a charity which helps seriously sick children and their families to manage the consequences of serious illness and complex health conditions, and also supports children with special educational needs. The team re-designed the existing library at Amberley Ridge School in Gloucestershire and in just one day transformed it into an inspiring room with new colours and graphics, all funded by Renishaw.

Renishaw has supported Children in Need (CIN) for many years, and any money raised by staff is matched by the RCC. Last Autumn a group of divisional directors decided to support fundraising efforts through an initiative titled 'Directors in Drag', which caused great amusement around the Gloucestershire sites and received significant media coverage. Together with support from the RCC this fun day raised £7,450 for CIN.

### THE COMMUNITY

Throughout its history the Company has forged close links with the local community and schools. It is especially keen to communicate a positive story about the role of engineering in enhancing the lives of the general populace and the attractions of a career within the manufacturing sector.

Renishaw therefore hosts tour groups of all ages throughout the year, which in the past 12 months has included business and engineering undergraduates from various UK universities, local secondary schools, and a group from the University of the Third Age (U3A).

The Company also actively supports the local business community, imparting its knowledge through roundtable discussions and business seminars, especially with regard to export activities. It is also an active member of Wotton Chamber of Trade and recently helped judge the Stroud Life Business Awards.

## 18 Corporate social responsibility continued

### Education

Nurturing the next generation of engineering excellence and a desire to present a positive image of engineering is a fundamental part of the Company's involvement with education

In June Renishaw made a significant contribution to a new Education & Training Zone that was set up within MACH 2010, the UK's largest manufacturing show, with the organisers aiming to 'inspire, prepare and motivate the next generation of British engineers through a rewarding experience'. Over the course of the five-day event Renishaw supplied 23 young apprentices to act as tour guides and mentors to groups of 14 to 16 year-old children, with exhibits including the BLOODHOUND Supersonic Car which aims to create a new 1,000 mph land speed record. The Company also funded a coach to take over 30 pupils from three Gloucestershire schools to the exhibition.

Engineering diploma students that attended the show were also given support materials which included a case study of Renishaw that arose from a week long visit to the Company in 2008, where the organisation DTEP was given full access to film staff during their normal working day at sites across Gloucestershire and to capture their thoughts about a career in engineering.

Renishaw has strong links with universities in many of its key markets. An example is a long-term partnership with Cardiff University's refurbished Trevithick Library, which includes the Renishaw Room, a group study facility that provides an inspirational learning environment for the next generation of high-class graduate engineers, physicists, computer scientists and manufacturing engineers.

Throughout the year the Company also continued to foster relationships with primary and secondary schools, providing support for work experience, school visits and careers evenings. During the year the Company has supported some 50 paid placements for university students and this summer gave one week work experience placements to 40 students under the age of 18.

Renishaw also supported numerous other organisations that aim to inspire young engineers, including hosting the regional launch of the Go4Set programme, speaking and exhibiting at an Engineering Education Scheme Wales event and sponsoring the regional heat of the Greenpower electric car racing championship which took place at the Castle Combe race track in Wiltshire, UK.

### CMM RETROFIT FOR GE OIL AND GAS FLORENCE

GE Oil and Gas Florence has transformed the performance of a DEA Global CMM with a retrofit system direct from Renishaw, allowing far higher data collection rates and thus form analysis, never before practically possible on the DEA CMM.

As Claudio Bartali (Manufacturing Technology Project Leader) explains, "The demonstration was spectacular – inspection time on a typical impeller reduced by 4 times. However, that is not the main reason we started the project and employed Renishaw to retrofit the CMM with REVO. The exciting part will start soon when we use the massive amount of accurate REVO measured data to compare the form of inspected surfaces with the 3D CAD models."

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 37th Annual report, together with the audited financial statements for the year ended 30th June 2010 as set out on pages 26 to 54

### 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, and products for the healthcare sector, including Raman spectroscopy and dental systems and neurosurgical products

A review of the business and likely future developments is given in the Chairman's statement and the Financial review. Segmental information 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 these requirements and those of the UK Listing Authority's Disclosure Rules and Transparency Rules, which require the Annual report to include a management report, can be found in the Financial review on pages 10 to 14 and the description of corporate social responsibility activities on pages 15 to 18, as well as in this Directors' report

For the purposes of the Disclosure Rules and Transparency Rules which require a corporate governance statement to be included in the Directors' report, the Company's corporate governance practices are set out in the Directors' corporate governance report set out on pages 21 and 22, which forms part of this Directors' report

For the purposes of the UK Listing Authority's Listing Rules, certain information required to be provided to the shareholders is also contained in the Directors' remuneration report set out on page 23

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](http://www.renishaw.com)

### DIVIDENDS

The directors propose a final dividend of £9,899,242 or 13 6p per share (2009 nil) which, together with the interim dividend of £2,911,542 (or 4 00p per share) (2009 £2,816,671 or 7 76p per share) makes a total amount of dividends for the year of £12 810 783 or 17 6p per share, compared with £2,816,671 or 7 76p per share for the previous year. Executive directors holding 36 491 232 shares waived their entitlement to receive the 2009 interim dividend

### 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	
	2010	2009
Sir David McMurtry	26,377,291	26,377,291
D J Deer	12,233,040	12,533,040
B R Taylor	10,147	10,147
A C G Roberts	5,165	5,165
G McFarland	2,000	-
J P McGeehan	900	900
T D Snowden	5,000	5,000
T B Garthwaite	3,000	3,000
W H Whiteley	3,765	1,690

All the above holdings were beneficially held with the exception of 2,434,411 shares (2009 2,434,411 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 2010 to 28th July 2010

In the spirit of best practice, and in accordance with the provisions of the UK Corporate Governance Code (formerly the Combined Code), all directors will retire and, being eligible, offer themselves for re-election at the annual general meeting ("AGM") to be held on 14th October 2010, except for Joe McGeehan who has been a director for over nine years and is no longer regarded as independent under the provisions of the UK Corporate Governance Code. Joe McGeehan will retire from the Board with effect from the AGM. Biographical details of the directors are shown on pages 4 and 5

Sir David McMurtry as one party and D J Deer and Mrs M E Deer as the other party have entered into an agreement relating to the way each party would vote his or her shares if requested by the other party to do so. This agreement continues until 25th May 2013

The rules on appointment, reappointment and retirement by rotation of the directors and their powers are set out in the Company's Articles of Association. There are no powers given to the directors that are regarded as unusual

### 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 21 to the financial statements. The Company is not a party to any significant agreements that might terminate upon a change of control of the Company. A shareholder's authority for the purchase of its own shares was in existence during the 2010 financial year. However, the Company did not purchase any of its own shares during that time

### 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 convening the AGM and an explanation of the resolutions sought are set out on pages 55 to 58. At the meeting, the Company will be seeking shareholder approval for, amongst other things

(i) the ability to make market purchases of its own ordinary shares, up to a total of 10% of the issued share capital, and

(ii) the amendment of the Company's Articles of Association, primarily to reflect the provisions of the Companies Act 2006 and the Shareholders' Rights Regulations. An explanation of the main changes between the proposed and the existing Articles of Association is set out on pages 57 to 58 (Appendix 2 of the notice of AGM)

The directors consider that all the resolutions proposed are in the best interests of the Company and its shareholders as a whole and unanimously recommend that shareholders vote in favour of the resolutions, as they intend to do in respect of their own holdings

## 20 Directors' report continued

### SUBSTANTIAL SHAREHOLDINGS

Apart from the shareholdings (and corresponding voting rights) of Sir David McMurtry and John Deer (36.2% and 16.8% respectively), the following voting rights have been notified to the directors, which represent 3% or more of the voting rights attached to issued shares in the Company as at 28th July 2010

	% of issued share capital	Number of shares
BlackRock Inc	5.01%	3,649,103
Capital Research and Management Company	4.76%	3,465,730
Standard Life Investments Limited	4.94%	3,593,580

### 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, encompassing computer aided design and manufacturing systems, and relating to healthcare products, encompassing Raman spectroscopy systems, dental systems 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. 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

Two payment runs are made each month. 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 2010 was approximately 30 days (2009 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. Proper consideration is given to applications for employment from disabled people who are employed whenever suitable vacancies arise. 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 based in Gloucestershire through monthly communications meetings and departmental channels. In addition, in February and August, the

Assistant Chief Executive presents the interim results and final results respectively, to all such 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.


Employee work forums were set up at each of its UK sites during the previous financial year and employee work forum representatives were elected to liaise with management on employee matters. Work forums continue to be active at some of the UK sites. Further information on employee matters is contained in the description of corporate social responsibility activities set out on pages 15 to 18.

### DONATIONS

During the year the Group made charitable donations of £47,000 (2009 £91,000). 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 15 to 18.

No political donations were made during the year (2009 £nil).

Signed on behalf of the Board



N Tang  
Secretary  
28th July 2010

Renishaw plc  
Registered number 1106260

The Board is committed to maintaining high standards of corporate governance. This report, together with the Directors' remuneration report on page 23 sets out how the Company has applied the principles of the Combined Code on Corporate Governance (the "Code") issued by the Financial Reporting Council and contains the information required by Section 7 of the UK Listing Authority's Disclosure Rules and Transparency Rules. The UK Corporate Governance Code issued in June 2010, which replaces the Code, applies for financial years commencing on or after 29th June 2010 and will therefore apply to the Company from 1st July 2010. The Company will report on compliance on the UK Corporate Governance Code in its next annual report.

## 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 4 and 5.

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 and interim management statements, company and business acquisitions and disposals, major capital expenditure, borrowings, material agreements, director and company secretary appointments and removals, 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 2010, the Board met ten 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 three formally constituted committees, the Audit committee, the Remuneration committee and the 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 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.

The Company amended its articles of association in October 2008 to deal with, amongst other things, the provisions on conflicts of interest in the Companies Act 2006 which came into force in October 2008. The Board adopted a conflict of interests policy, putting in place procedures for the disclosure and review of any conflicts and potential conflicts and authorisation by the Board if felt appropriate. Authorisations granted and the terms of such are reviewed on an annual basis. New disclosures are made where applicable.

### 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

Three of the non-executive directors are considered by the Board to be independent in character and judgement and there are no relationships or circumstances that are likely to affect the judgement of such non-executive directors. Joe McGeehan has served as a director since January 2001 and therefore has been a member of the Board for over 9 years and would not under the terms of the Code be considered independent. He will be retiring at the next Annual General Meeting (AGM) to be held on 14th October 2010.

The Code recommends that at least half the board, excluding the Chairman, should comprise independent non-executive directors. 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.

With effect from 26th July 2010 the senior independent director is Bill Whiteley 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

With effect from 26th July 2010, the Nomination committee has been instituted as the committee responsible for reviewing the structure and composition of the Board and nominating candidates for appointment to the Board. Previously, there was a combined Remuneration and nomination committee. A majority of 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 5. The terms of reference of this committee are published on the Company's website.

No new appointments have been made to the Board during the year but the committee will be considering how the Board structure and composition will be affected by the retirement of Joe McGeehan from the Board with effect from the next 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. Business presentations are given at Board meetings to provide updates on product and business strategy. 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 directors.

### 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. The requirement under the UK Corporate Governance Code that evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years has been noted and the implementation of this requirement will be considered by the Board.

### Re-election

In the spirit of best practice, the Board has decided that starting with this year's AGM all directors will retire from the Board annually and, other than in the case of any director who has decided to stand down from the Board, will offer themselves up for re-election at the AGM.

## B DIRECTORS' REMUNERATION

The Directors' remuneration report set out on page 23 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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Financial review on pages 10 to 14, where also given are details of the financial and liquidity positions. In addition, note 22 in the financial statements includes the Group's objectives and policies for managing its capital, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources at its disposal and the directors have considered the current financial projections. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

## 22 Directors' corporate governance report continued

### Going concern (continued)

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual report and accounts.

### 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 overseas subsidiaries. These reports are reviewed by the Board at each of its meetings.

The Board ensures that there are effective internal controls over the financial reporting and consolidation processes. Monthly accounts and forecasts are presented to the Board for review. The Group internal audit function undertakes a programme of review of subsidiaries' accounting processes and performance to provide assurance to the Board on the integrity of the information supplied by each company which forms part of the consolidated results of the Group.

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, 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 5. 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 reports are published 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 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.

## FSA DISCLOSURE RULE DTR 7 2 6 R

The information regarding share capital required to be disclosed by this rule is contained in the Directors' report.

## 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
Sir David Murtry	10 (10)	-	-
D J Deer	9 (10)	-	-
B R Taylor	10 (10)	-	-
A C G Roberts	10 (10)	-	-
G McFarland	10 (10)	-	-
J P McGeehan	9 (10)	2 (3)	1 (1)
T D Snowden	8 (10)	3 (3)	1 (1)
T B Garthwaite	10 (10)	3 (3)	1 (1)
W H Whiteley	9 (10)	2 (3)	0 (1)

### COMPLIANCE STATEMENT

The Board considers that it has complied with the requirements of the Code throughout the year 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

N Tang  
Secretary  
28th July 2010

*Norm Taylor*

**REMUNERATION POLICY**

The Remuneration 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 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 5. The terms of reference of this committee are published on the Company's website

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

No new appointments of directors were made during the year

**REMUNERATION****Salary**

The Remuneration 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

The voluntary salary reduction of 20%, implemented in February 2009, was restored to all staff for the year ended 30th June 2010 including directors, with the exception of three executive directors who elected to continue the reduction through to 30th June 2010

**Bonus**

The Company introduced a new bonus scheme for executive directors in 2008 based on an assumption of improving group profit shown by the Group's business plan

The relevant performance targets for the year have not been achieved and consequently there is no annual bonus for the executive directors for the current financial year

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 in note 7

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 underlying 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 7

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 7

**SERVICE CONTRACTS AND COMPENSATION**

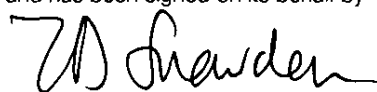
The executive directors have each entered into a service contract with the Company. The contracts do not contain any specific provisions governing the payment of compensation for loss of office or employment, whether as a result of a takeover bid or otherwise. The notice period for termination of the 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 28th July 2010 and has been signed on its behalf by -



T D Snowden FCA  
Chairman, Remuneration committee

## 24 Statement of directors' responsibilities in respect of the Annual report and the financial statements

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 they are required to prepare the group financial statements in accordance with IFRSs 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 Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. 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 IFRSs 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. 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 directors' corporate governance statement that complies with that law and those regulations.

The directors are 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 of the directors in respect of the Annual report and financial statements

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  
28th July 2010





We have audited the financial statements of Renishaw plc for the year ended 30th June 2010 set out on pages 26 to 54. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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**

As explained more fully in the Directors' responsibilities statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP).

#### **OPINION ON FINANCIAL STATEMENTS**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30th June 2010 and of the Group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation

#### **OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

#### **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 21, in relation to going concern, and
- the part of the corporate governance statement as contained in the Directors' corporate governance report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review

  
A C Campbell-Orde  
(Senior Statutory Auditor)

For and on behalf of

KPMG Audit Plc  
Statutory Auditor  
Chartered Accountants  
28th July 2010

100 Temple Street  
Bristol  
BS1 6AG

## 26 Consolidated income statement

for the year ended 30th June 2010

from continuing operations	Notes	2010 £'000	2009 £'000
<b>Revenue</b>	2	<b>181,607</b>	171,247
Cost of sales		(93,832)	(101,064)
<b>Gross profit</b>		<b>87,775</b>	70,183
Distribution costs		(39,742)	(41,559)
Administrative expenses including exceptional items		(21,606)	(26,754)
Operating profit excluding exceptional item		28,095	5 991
Exceptional items 2010 - Impairment write-down, 2009 - redundancy costs 11		(1,668)	(4 121)
<b>Operating profit</b>		<b>26,427</b>	1,870
Financial income	4	5,926	8,754
Financial expenses	4	(5,775)	(6,219)
Share of profits of associates	11	479	317
<b>Profit before tax</b>	5	<b>27,057</b>	4,722
Income tax expense	6	(5,745)	(1,124)
<b>Profit for the year from continuing operations</b>		<b>21,312</b>	3 598
<b>Profit attributable to</b>			
Equity shareholders of the parent company		<b>21,814</b>	3,871
Non-controlling interest	21	(502)	(273)
<b>Profit for the year from continuing operations</b>		<b>21,312</b>	3,598
		<b>pence</b>	pence
<b>Dividend per share arising in respect of the year</b>	21	<b>17 6</b>	7 76
<b>Dividend per share paid in the year</b>		<b>4 0</b>	25 39
<b>Earnings per share (basic and diluted)</b>	8	<b>29 3</b>	4 9

## Consolidated statement of comprehensive income and expense

for the year ended 30th June 2010

	Notes	2010 £'000	2009 £'000
<b>Profit for the year</b>		<b>21,312</b>	3,598
Foreign exchange translation differences		2,201	248
Actuarial loss in the pension schemes	15	(14,867)	(13,032)
Effective portion of changes in fair value of cash flow hedges net of recycling		7,760	(1,615)
Comprehensive income and expense of associates		(324)	-
Deferred tax on income and expense recognised in equity		1,820	3 614
<b>Expense recognised directly in equity</b>		<b>(3,410)</b>	(10,785)
<b>Total comprehensive income and expense for the year</b>		<b>17,902</b>	(7,187)
<b>Attributable to</b>			
Equity shareholders of the parent company		<b>18,404</b>	(6,914)
Non-controlling interest	21	(502)	(273)
<b>Total comprehensive income and expense for the year</b>		<b>17,902</b>	(7,187)

# Consolidated balance sheet

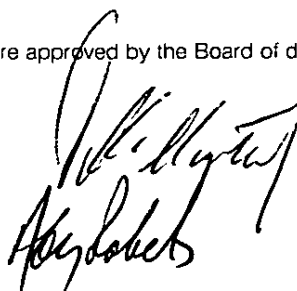
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at 30th June 2010

	Notes	2010 £'000	2009 £'000
<b>Assets</b>			
Property, plant and equipment	9	70,532	73,583
Intangible assets	10	28,613	27,683
Investments in associates	11	5,152	7,085
Deferred tax assets	13	20,056	14,165
Derivatives	14	4,002	4,020
<b>Total non-current assets</b>		<b>128,355</b>	<b>126,536</b>
<b>Current assets</b>			
Inventories	16	30,884	29,156
Trade receivables	22	45,873	24,057
Current tax		1,848	1,626
Other receivables		4,725	3,626
Derivatives	14	1,158	709
Cash and cash equivalents	17, 22	31,143	20,488
<b>Total current assets</b>		<b>115,631</b>	<b>79,662</b>
<b>Current liabilities</b>			
Trade payables		10,440	6,588
Current tax		532	910
Provisions	18	539	656
Derivatives	14	3,346	5,623
Other payables	19	15,027	7,716
<b>Total current liabilities</b>		<b>29,884</b>	<b>21,493</b>
<b>Net current assets</b>		<b>85,747</b>	<b>58,169</b>
<b>Non-current liabilities</b>			
Employee benefits	15	37,251	22,458
Deferred tax liabilities	13	15,433	10,618
Derivatives	14	1,575	6,627
Other payables	20	1,222	1,222
<b>Total non-current liabilities</b>		<b>55,481</b>	<b>40,925</b>
<b>Total assets less total liabilities</b>		<b>158,621</b>	<b>143,780</b>
<b>Equity</b>			
Share capital	21	14,558	14,558
Share premium		42	42
Currency translation reserve	21	4,023	1,822
Cash flow hedging reserve	21	172	(5,415)
Retained earnings		140,459	132,755
Other reserve	21	(201)	-
Non-controlling interest	21	(432)	18
<b>Total equity</b>		<b>158,621</b>	<b>143,780</b>

These financial statements were approved by the Board of directors on 28th July 2010 and were signed on its behalf by -

Sir David McMurtry  
A C G Roberts  
Directors



## 28 Consolidated statement of changes in equity

for the year ended 30th June 2010

Year ended 30th June 2009	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Other reserve £'000	Non-controlling interest £'000	Total £'000
Balance at 1st July 2008	14 558	42	1,574	(4,252)	154,403	-	320	166,645
Profit/(loss) for the year	-	-	-	-	3,871	-	(273)	3,598
<b>Other comprehensive income and expense</b>								
Actuarial loss in the pension schemes	-	-	-	-	(9,870)	-	-	(9,870)
Foreign exchange translation differences	-	-	248	-	-	-	-	248
Changes in fair value of cash flow hedges	-	-	-	(1,163)	-	-	-	(1,163)
<b>Total other comprehensive income</b>	-	-	248	(1,163)	(9,870)	-	-	(10,785)
<b>Total comprehensive income</b>	-	-	248	(1,163)	(5,999)	-	(273)	(7,187)
Acquisition of non-controlling interest	-	-	-	-	-	-	(29)	(29)
Dividends paid	-	-	-	-	(15,649)	-	-	(15,649)
Transactions with owners recorded directly in equity	-	-	-	-	(15,649)	-	(29)	(15 678)
<b>Balance at 30th June 2009</b>	<b>14 558</b>	<b>42</b>	<b>1,822</b>	<b>(5,415)</b>	<b>132,755</b>	<b>-</b>	<b>18</b>	<b>143,780</b>
<b>Year ended 30th June 2010</b>								
Profit/(loss) for the year	-	-	-	-	21,814	-	(502)	21,312
<b>Other comprehensive income and expense</b>								
Actuarial loss in the pension schemes	-	-	-	-	(10,874)	-	-	(10,874)
Foreign exchange translation differences	-	-	2,201	-	-	-	-	2 201
Changes in fair value of cash flow hedges	-	-	-	5,587	-	-	-	5,587
Relating to associates	-	-	-	-	(324)	-	-	(324)
<b>Total other comprehensive income</b>	-	-	2,201	5,587	(11,198)	-	-	(3,410)
<b>Total comprehensive income</b>	-	-	2,201	5,587	10,616	-	(502)	17 902
Acquisition of non-controlling interest	-	-	-	-	-	(201)	52	(149)
Dividends paid	-	-	-	-	(2,912)	-	-	(2,912)
Transactions with owners recorded directly in equity	-	-	-	-	(2,912)	(201)	52	(3 061)
<b>Balance at 30th June 2010</b>	<b>14,558</b>	<b>42</b>	<b>4,023</b>	<b>172</b>	<b>140,459</b>	<b>(201)</b>	<b>(432)</b>	<b>158,621</b>

More details of share capital and reserves are given in note 21

# Consolidated statement of cash flow

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for the year ended 30th June 2010

	Notes	2010 £'000	2009 £'000
<b>Cash flows from operating activities</b>			
Profit for the year		21,312	3,598
Adjustments for			
Amortisation of development costs	10	4,692	4,433
Amortisation of other intangibles	10, 11	1,871	1,441
Depreciation	9	7,907	8,890
(Profit)/loss on sale of property, plant and equipment		(31)	151
Share of profits from associates	11	(479)	(317)
Exceptional impairment write-down		1,668	-
Financial income	4	(5,926)	(8,754)
Financial expenses	4	5,775	6,219
Tax expense	6	5,745	1,124
		21,222	13,187
(Increase)/decrease in inventories	16	(1,728)	5,064
(Increase)/decrease in trade and other receivables		(21,252)	28,167
Increase/(decrease) in trade and other payables		10,711	(12,026)
(Decrease) in provisions	18	(117)	(168)
		(12,386)	21,037
Income taxes paid		(5,615)	(6,368)
<b>Cash flows from operating activities</b>		24,533	31,454
<b>Investing activities</b>			
Purchase of property, plant and equipment	9	(2,868)	(11,005)
Development costs capitalised	10	(6,968)	(6,618)
Purchase of other intangibles	10	(184)	(7,503)
Investment in subsidiaries and associates		(149)	(400)
Sale of property, plant and equipment		190	259
Interest received	4	255	1,161
Dividend received from associate	11	80	80
<b>Cash flows from investing activities</b>		(9,644)	(24,026)
<b>Financing activities</b>			
Interest paid	4	(178)	(255)
Dividends paid	21	(2,912)	(15,649)
<b>Cash flows from financing activities</b>		(3,090)	(15,904)
<b>Net increase/(decrease) in cash and cash equivalents</b>		11,799	(8,476)
Cash and cash equivalents at the beginning of the year		20,488	38,183
Effect of exchange rate fluctuations on cash held		(1,144)	(9,219)
<b>Cash and cash equivalents at the end of the year</b>	17	31,143	20,488

(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") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 48 to 54

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 a 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 2009 and 2010 financial statements

### 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 estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are listed below

#### (i) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of cash generating units (CGUs) to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates, which involves judgement, to calculate present values (see note 10)

#### (ii) Defined benefit pension scheme liabilities

Determining the value of the future defined benefit obligation requires judgement in respect of the assumptions used to calculate present values. These include future mortality, discount rate, inflation and salary increases. Management makes these judgements in consultation with an independent actuary. Details of the estimates and judgements in respect of the current year are given in note 15

#### (iii) Amortisation of intangibles and impairment

The periods of amortisation of intangible assets require judgements to be made on the estimated useful lives of the intangible assets to determine an appropriate rate of amortisation. Future assessments of impairment may lead to the writing off of certain amounts of intangible assets and the consequent charge in the Consolidated income statement for the accelerated amortisation

#### (iv) Capitalisation of development costs

Product development costs are capitalised once a project has reached a certain stage of development and these costs are subsequently amortised over a five year period. Judgements are

required to assess whether the new product development has reached the appropriate point for capitalisation of costs to begin. Should a product be subsequently obsolete'd, the accumulated capitalised development costs would need to be immediately written off in the Consolidated income statement

**New, revised or changes to existing accounting standards**  
IAS1 (revised) 'Presentation of financial statements' became effective 1st January 2009. The revision has resulted in minor changes to the presentation of the primary statements

IFRS 8 'Operating segments' became effective on 1st January 2009. This new standard has resulted in changes to segmental reporting from that reported in the 2009 Annual report. Reportable segments have been determined on the basis of the information supplied to the Board for the purposes of assessing performance and the allocation of resources

Amendments to IAS 32 'Presentation', IAS 39 'Financial instruments', IFRS 7 'Financial instruments: Disclosures' and IAS 27 'Consolidated and separate financial statements' became effective before the year end and have not had a material impact on the Group

IFRS 3 'Business combinations (revised)' became effective on 1st July 2009 and results in acquisition costs being expensed, rather than included within the cost of the investment. This change has not had a material impact on the financial statements

IAS 23 'Borrowing costs' amendment became effective on 1st January 2009 and requires borrowing costs which meet certain criteria to be capitalised. The Group does not currently have any material borrowing or interest costs

IFRIC 14 'IAS 19: The Limit on a Defined Benefit Asset Minimum Funding Requirements and their interaction' provides guidance on assessing the limit in IAS 19 on the amount of surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory minimum funding requirement. This interpretation became effective for this year, and it has not had a material impact on the financial statements

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' provides guidance on identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment in a foreign operation, where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting and how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. This interpretation became effective for this year, and it has not had a material impact on the financial statements

IAS 24 'Related party disclosures' clarifies the definition of related parties and becomes effective from 1st January 2011. This is not expected to have a material effect on the financial statement disclosures

## 1 ACCOUNTING POLICIES CONTINUED

### 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 the time of despatch. Where certain products require installation, part of the revenue may be deferred until the installation is complete.

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

### Foreign currencies

Foreign subsidiaries' results are translated into Sterling at weighted average exchange rates for the year, which is effected by translating each foreign subsidiary's monthly results at exchange rates applicable to each of the respective months. 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 comprehensive 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

The Group uses forward exchange contracts to hedge its exposure to foreign exchange risk arising from operational and financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, forward contracts that do not qualify for hedge accounting would be accounted for as trading instruments.

### Cash flow hedges

Forward exchange contracts are recognised initially at cost and then subsequently remeasured at fair value. Where a forward contract is designated as a hedge of the variability in future cash inflows, the effective part of any gain or loss on the forward contract is recognised directly in equity. Any effective cumulative gain or loss is removed from equity and recognised in the Consolidated income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the Consolidated income statement immediately.

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

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

### 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 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 or earlier if there are any indications of 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, trade marks, 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 is recognised in the Consolidated income statement as an expense as incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development. Future economic benefits are probable and the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the Consolidated income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

### 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.

## 1 ACCOUNTING POLICIES CONTINUED

### 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 and Irish employees, were of the defined benefit type up to 5th April 2007 and 31st December 2007 respectively, at which time they ceased any future accrual for existing members and were closed to new members.

The schemes are administered by trustees who are independent of the group finances.

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 comprehensive 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 under Employee benefits.

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 Directors' report.

### 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 comprehensive 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.

### Exceptional items

Exceptional items are items which due to their size, incidence and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the accounts and, in management's judgement, to show more accurately the underlying results of the Group. Such items are included within the Consolidated income statement caption to which they relate and are disclosed separately on the face of the Consolidated income statement.

### Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Financial review on pages 10 to 14, where also given are details of the financial and liquidity positions. In addition, note 22 in the financial statements includes the Group's objectives and policies for managing its capital, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources at its disposal and the directors have considered the current financial projections. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual report and accounts.



## 2 SEGMENTAL ANALYSIS

Renishaw manages its operations in two segments, comprising metrology and healthcare products. The results of these segments are regularly reviewed by the Board to allocate resources to segments and to assess their performance. The Group evaluates performance of the segments on the basis of revenue and profits. The revenue, depreciation and amortisation, and operating profit for each reportable segment was

<b>Year ended 30th June 2010</b>	<b>Metrology £'000</b>	<b>Healthcare £'000</b>	<b>Total £'000</b>
Revenue	162,118	19,489	181,607
Depreciation and amortisation	12,725	1,745	14,470
Operating profit before exceptional item	31,537	(3,442)	28,095
Exceptional item - Impairment write-down	(1,668)	-	(1,668)
Share of profits from associates	479	-	479
Net financial income			151
Profit before tax			27,057
<b>Year ended 30th June 2009</b>	<b>Metrology £'000</b>	<b>Healthcare £'000</b>	<b>Total £'000</b>
Revenue	152,894	18,353	171,247
Depreciation and amortisation	12,415	2,349	14,764
Operating profit before exceptional item	10,315	(4,324)	5,991
Exceptional item - Redundancy costs	(3,808)	(313)	(4,121)
Share of profits from associates	317	-	317
Net financial income			2,535
Profit before tax			4,722

There is no allocation of assets and liabilities to operating segments. Depreciation is included within certain other overhead expenditure which is allocated to segments on the basis of the level of activity.

The analysis of revenue by geographical market was

	<b>2010 £'000</b>	<b>2009 £'000</b>
Far East	71,051	52,006
Continental Europe	52,147	63,222
North & South America	41,455	40,071
United Kingdom	10,650	11,259
Other regions	6,304	4,689
Total group revenue	181,607	171,247

Revenue in the above table has been allocated to regions based on the geographical location of the customer. Individual countries which comprised more than 10% of group revenue were

	<b>2010 £'000</b>	<b>2009 £'000</b>
USA	35,381	34,795
China	34,211	19,458
Germany	23,042	28,385
Japan	19,552	20,946

There was no revenue from transactions with a single external customer amounting to 10% or more of the Group's total revenue.

## 34 Notes continued

### 2 SEGMENTAL ANALYSIS CONTINUED

The following table shows the analysis of non-current assets by geographical region

	2010 £'000	2009 £'000
United Kingdom	71,660	76,098
Overseas	36,639	36,273
<b>Total non-current assets</b>	<b>108,299</b>	<b>112,371</b>

No overseas country had non-current assets amounting to 10% or more of the Group's total non-current assets

### 3 PERSONNEL EXPENSES

	2010 £'000	2009 £'000
The aggregate payroll costs for the year were		
Wages and salaries	65,159	65,775
Compulsory social security contributions	8,402	8,330
Contributions to defined contribution plans	4,983	5,944
	<b>78,544</b>	<b>80,049</b>
Redundancy costs	-	4,121
<b>Total payroll costs</b>	<b>78,544</b>	<b>84,170</b>

The average number of persons employed by the Group during the year was

	2010 Number	2009 Number
Continental Europe	203	218
Far East	138	145
Americas	109	124
UK (including Ireland)	1,311	1,537
Other regions	140	130
<b>Average number of employees</b>	<b>1,901</b>	<b>2,154</b>

### 4 FINANCIAL INCOME AND EXPENSES

	2010 £'000	2009 £'000
<b>Financial income</b>		
Expected return on assets in the pension schemes (note 15)	5,671	7,593
Bank interest receivable	255	1,161
<b>Total financial income</b>	<b>5,926</b>	<b>8,754</b>
<b>Financial expenses</b>		
Interest on pension schemes liabilities (note 15)	5,597	5,964
Bank interest payable	178	255
<b>Total financial expenses</b>	<b>5,775</b>	<b>6,219</b>

The tax calculations do not account for the reduction in the UK corporation tax rate from 28% to 27%, to come into effect on 1st April 2011. Legislation to reduce the UK corporation tax rate to 24% over a period of years has yet to be substantively enacted. The change in the tax rate from 28% to 27% would have decreased the deferred tax charge in the Consolidated income statement by approximately £30,000.

## 36 Notes continued

### 7 DIRECTORS' REMUNERATION

	2010 £'000	2009 £'000
The total remuneration of the directors was		
Salaries and fees	1,793	1,946
Benefits	99	89
Pension contributions	125	140
Total remuneration of the directors	2,017	2,175

	2010				2009			
	Salary & fees £'000	Benefits £'000	Pension contributions* £'000	Total £'000	Salary and fees £'000	Benefits £'000	Pension contributions* £'000	Total £'000
Chairman								
Sir David McMurtry	470	2	-	472	572	-	-	572
Other executive directors								
D J Deer	307	32	-	339	353	31	-	384
B R Taylor	352	25	53	430	405	21	63	489
A C G Roberts	272	25	38	335	251	22	39	312
G McFarland	272	15	34	321	253	15	38	306
Non-executive								
J P McGeehan	30	-	-	30	28	-	-	28
T D Snowden	30	-	-	30	28	-	-	28
T B Garthwaite	30	-	-	30	28	-	-	28
W H Whiteley	30	-	-	30	28	-	-	28
	1,793	99	125	2,017	1,946	89	140	2,175

\* As noted in the Directors' remuneration report on page 23 certain directors are entitled to a contribution of 15% of salary for retirement provision. This can either be taken as a contribution to a pension scheme or as cash.

The voluntary salary reduction of 20%, implemented in February 2009, was restored to all staff for the year ended 30th June 2010, including directors, with the exception of three executive directors who elected to continue the reduction through to 30th June 2010.

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.

For the pension contributions above not taken as cash, the contributions have been 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 2010

AB* at 30th June 2010	Increase in AB excluding inflation	Increase in AB including inflation	Transfer value of (A) less director's contribution	Transfer value of AB at 30th June 2009	Transfer value of AB at 30th June 2010	Increase in transfer value less director's contribution
£ p a	£	£	£	£	£	£
24,849	-	-	-	300,113	380,489	80,376

#### Year ended 30th June 2009

AB at 30th June 2009	Increase in AB excluding inflation	Increase in AB including inflation	Transfer value of (A) less director's contribution	Transfer value of AB at 30th June 2008	Transfer value of AB at 30th June 2009	Decrease in transfer value less director's contribution
£ p a	£	£	£	£	£	£
25,178	-	1,200	-	361,887	300,113	(61,774)

\* AB = Accrued benefits

## 8 EARNINGS PER SHARE

Basic and diluted earnings per share are calculated on earnings of £21 312,000 (2009 £3,598 000) and on 72 788,543 shares, being the number of shares in issue during both years. There is no difference between the weighted average earnings per share and the basic and diluted earnings per share.

## 9 PROPERTY, PLANT AND EQUIPMENT

Year ended 30th June 2010	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
<b>Cost</b>					
At 1st July 2009	65,066	76,133	5,129	480	146,808
Additions	512	1,431	496	429	2,868
Transfers	-	460	-	(460)	-
Disposals	-	(882)	(729)	-	(1,611)
Currency adjustment	2,411	265	163	-	2,839
At 30th June 2010	67,989	77,407	5,059	449	150,904
<b>Depreciation</b>					
At 1st July 2009	13,541	56,226	3,458	-	73,225
Charge for the year	1,417	5,766	724	-	7,907
Released on disposals	-	(805)	(647)	-	(1,452)
Currency adjustment	333	273	86	-	692
At 30th June 2010	15,291	61,460	3,621	-	80,372
<b>Net book value</b>					
At 30th June 2010	52,698	15,947	1,438	449	70,532
At 30th June 2009	51,525	19,907	1,671	480	73,583

At 30th June 2010, properties with a net book value of £23,393,000 (2009 £23,815,000) were subject to a registered charge to secure the UK defined benefit pension scheme liabilities.

Additions to assets in the course of construction of £429,000 (2009 £862,000) comprise £95,000 (2009 £136,000) for freehold land and buildings and £334,000 (2009 £726,000) for plant and equipment.

Year ended 30th June 2009	Freehold land and buildings £ 000	Plant and equipment £'000	Motor vehicles £ 000	Assets in the course of construction £'000	Total £ 000
<b>Cost</b>					
At 1st July 2008	57 415	70 088	4,760	565	132,828
Additions	3,679	5,473	991	862	11,005
Transfers	381	566	-	(947)	-
Disposals	-	(974)	(810)	-	(1,784)
Currency adjustment	3,591	980	188	-	4 759
At 30th June 2009	65,066	76,133	5,129	480	146,808
<b>Depreciation</b>					
At 1st July 2008	11 292	49,650	3,120	-	64,062
Charge for the year	1,548	6,430	912	-	8,890
Released on disposals	-	(681)	(693)	-	(1,374)
Currency adjustment	701	827	119	-	1,647
At 30th June 2009	13 541	56 226	3,458	-	73,225
<b>Net book value</b>					
At 30th June 2009	51,525	19,907	1,671	480	73 583
At 30th June 2008	46,123	20,438	1,640	565	68,766

## 10 INTANGIBLE ASSETS

Year ended 30th June 2010	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences		Total £'000
				In use £'000	In the course of acquisition £'000	
<b>Cost</b>						
At 1st July 2009	5,569	5,416	28,973	11,252	-	51,210
Additions	-	50	6,968	19	117	7,154
At 30th June 2010	5,569	5,466	35,941	11,271	117	58,364
<b>Amortisation</b>						
At 1st July 2009	-	1,150	15,829	6,548	-	23,527
Charge for the year	-	653	4,692	879	-	6,224
At 30th June 2010	-	1,803	20,521	7,427	-	29,751
<b>Net book value</b>						
At 30th June 2010	5,569	3,663	15,420	3,844	117	28,613
At 30th June 2009	5,569	4,266	13,144	4,704	-	27,683

Goodwill acquired has arisen on the acquisition of a number of businesses and has an indeterminate 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. Goodwill is allocated to the Group's cash generating units (CGUs), which are currently the statutory entities acquired. This is the lowest level in the Group at which goodwill is monitored for impairment and is at a lower level than the Group's operating segments.

The analysis of acquired goodwill on consolidation is	2010 £'000	2009 £'000
Acquisition of itp GmbH	2,372	2,372
Acquisition of Renishaw Diagnostics Limited (84.8%) (2009 75%) (formerly D3 Technologies Limited)	1,784	1,784
Acquisition of Renishaw Mayfield S.A. (75%)	1,215	1,215
Acquisition of PulseTeq Limited (75%)	198	198
Total acquired goodwill	5,569	5,569

The recoverable amounts of acquired goodwill are based on value in use calculations. These calculations use cash flow projections with assumptions as follows:

itp GmbH (part of the metrology reportable segment) - actual operating results and an average growth rate of 5% for 5 years with a nil terminal growth rate (2009 same basis). Renishaw Diagnostics Limited, PulseTeq Limited and Renishaw Mayfield S.A. (all in the healthcare reportable segment) - 5 year business plans with a nil terminal growth rate (2009 same basis).

A pre-tax discount rate of 12% has been used in discounting the projected cash flows of itp GmbH (2009 13%) and 15% for Renishaw Diagnostics Limited (2009 13%), PulseTeq Limited (2009 13%) and Renishaw Mayfield S.A. (2009 13%). These have been set on the basis of these being appropriate rates for a market participant. On this basis, no impairment write downs are required. There is significant headroom in all the above and for an impairment to arise, there would need to be a significant material deterioration in business, this is considered to be remote. An increase in 5% in the discount rate would not result in an impairment.

Year ended 30th June 2009	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences		Total £'000
				In use £'000	In the course of acquisition £'000	
<b>Cost</b>						
At 1st July 2008	4,156	2,829	22,355	7,660	34	37,034
Additions	1,413	2,587	6,618	3,462	41	14,121
Transfers	-	-	-	75	(75)	-
Currency adjustment	-	-	-	55	-	55
At 30th June 2009	5,569	5,416	28,973	11,252	-	51,210
<b>Amortisation</b>						
At 1st July 2008	-	573	11,396	5,980	-	17,949
Charge for the year	-	577	4,433	524	-	5,534
Currency adjustment	-	-	-	44	-	44
At 30th June 2009	-	1,150	15,829	6,548	-	23,527
<b>Net book value</b>						
At 30th June 2009	5,569	4,266	13,144	4,704	-	27,683
At 30th June 2008	4,156	2,256	10,959	1,680	34	19,085

## 11 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 2010 %	Ownership 2009 %
RLS merilna tehnika d o o	Slovenia	50	50
Metrology Software Products Limited	England & Wales	50	50
Delcam plc (31st December)	England & Wales	20	20

Delcam plc is listed on AIM at the London Stock Exchange. Its share price on 30th June 2010 was £2.40 (2009 £2.40). The Company holds 1,524,052 shares.

Movements during the year were	2010 £'000	2009 £'000
Balance at the beginning of the year	7,085	6,788
Investments made during the year	-	400
Dividends received	(80)	(80)
Share of profits of associates	479	317
Amortisation of intangibles	(340)	(340)
Other comprehensive income and expense	(324)	-
Impairment of investment in Delcam plc	(1,668)	-
Balance at the end of the year	5,152	7,085

During the year, the Board decided to write down its investment of Delcam plc, originally purchased at a price of £4.00 per share (whose results are reported as part of the metrology reporting segment), to reflect the prevailing share price of £2.40 as at 30th June 2010. An impairment charge of £1,668,000 is shown as an exceptional item in the Consolidated income statement.

Summarised aggregated financial information for associates	2010 £'000	2009 £'000
Revenue	8,185	7,922
Share of profits for the year	479	317
Assets	7,344	7,011
Liabilities	3,432	2,934

## 12 ACQUISITIONS

The Group made no new acquisitions during the year.

### Year ended 30th June 2009

#### Renishaw Mayfield S A

On 20th November 2008, the Group acquired a 75% shareholding in Schaefer Mayfield Neuromate AG (since renamed Renishaw Mayfield S A), based in Switzerland, a leading manufacturer of surgical robots for neurosurgery. The initial consideration was £1,145,000 (including legal costs of £107,000) and there is an option to purchase the remaining 25% shareholding, calculated at 7 times the operating profit of the company for the year ending 31st December 2012 (with also the option for the minority shareholders to purchase such number of shares from the Group as would give the minority a majority shareholding, at the original purchase price, should the Group not exercise its option). The fair values of assets acquired were:

	Book value £'000	Adjustments £'000	Fair value £'000
Tangible fixed assets	5	-	5
Intangible fixed assets	1,415	486	1,901
Inventories	91	-	91
Debtors, cash and prepayments	264	-	264
Creditors	(2,355)	-	(2,355)
Fair value of liabilities acquired	(580)	486	(94)
Non-controlling interest			24
Goodwill on consolidation			1,215
Consideration paid, including costs of £107,000			1,145

The fair value adjustment is in respect of the valuation of acquired intangible assets, which comprise patents and licences. Goodwill exists due to the potential opportunities possible in the future from combining this business with other research and development projects being undertaken in other Group companies.

**12 ACQUISITIONS CONTINUED****PulseTeq Limited**

On 1st July 2008 the Group acquired a further 25% shareholding in PulseTeq Limited by additional investment in the share capital of the company, which was formerly accounted for as an associate and is now accounted for as a subsidiary undertaking. PulseTeq Limited manufactures and sells coils for the enhancement of images from MRI scanners. The fair values of assets acquired were

	Book value £'000	Adjustments £'000	Fair value £'000
Tangible fixed assets	48	-	48
Intangible assets	-	198	198
Inventories	48	-	48
Debtors, cash and prepayments	205	-	205
Creditors	(157)	-	(157)
Fair value of assets acquired	144	198	342
Non-controlling interest			(86)
Goodwill on consolidation			198
Consideration paid			454

No adjustment was deemed necessary to the valuation of intangible assets from the valuation at the time of the initial investment.

Renishaw Mayfield S A's and PulseTeq Limited's contribution to the consolidated profit before tax since acquisition and their historical results for their previous full year were

	Renishaw Mayfield S A		PulseTeq Limited	
	21st November 2008 to 30th June 2009 £'000	Year to 31st December 2008 £'000	Year to 30th June 2009 £'000	Year to 30th June 2008 £'000
Revenue	296	341	298	202
Expenses	707	931	398	366
Loss before tax	(411)	(590)	(100)	(164)
Non-controlling interest	(103)	n/a	(25)	(82)
Group share of retained reserves	(308)	n/a	(75)	(82)

**13 DEFERRED TAX ASSETS AND LIABILITIES**

Balances at the end of the year were

	2010			2009		
	Assets £'000	Liabilities £'000	Net £'000	Assets £'000	Liabilities £'000	Net £'000
Property, plant and equipment	-	(3,760)	(3,760)	-	(2,817)	(2,817)
Intangible assets	860	(4,879)	(4,019)	-	(4,241)	(4,241)
Intragroup trading (inventory)	5,309	-	5,309	3,952	-	3,952
Pension schemes	9,694	-	9,694	5,701	-	5,701
Other	4,193	(6,794)	(2,601)	4,512	(3,560)	952
Balance at the end of the year	20,056	(15,433)	4,623	14,165	(10,618)	3,547

	2010 £'000	2009 £'000
The movements in the deferred tax balance during the year were		
Balance at the beginning of the year	3,547	(2,357)
Movements in the Consolidated income statement	(744)	2,291
Movement in relation to the cash flow hedging reserve	(2,173)	452
Movement in relation to the pension schemes	3,993	3,161
Total movement in the Consolidated statement of comprehensive income and expense	1,820	3,613
Balance at the end of the year	4,623	3,547

No deferred tax asset has been recognised in respect of tax losses carried forward of £5,513,000 (2009 £3,518,000) due to the uncertainty over their recoverability.



#### 14 DERIVATIVES

Derivatives (non-current assets) of £4,002 000 (2009 £4,020,000) comprise the fair value of outstanding forward contracts with positive fair values which mature after more than one year. Derivatives (current assets) of £1,158,000 (2009 £709 000) comprise the fair value of outstanding forward contracts with positive fair values, which mature within one year.

Derivatives (non-current liabilities) of £1,575,000 (2009 £6,627,000) comprise the fair value of outstanding forward contracts with negative fair values, which mature after more than one year. Derivatives (current liabilities) of £3,346,000 (2009 £5,623,000) comprise the fair value of outstanding forward contracts with negative fair values, which mature within one year.

#### 15 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 2007 this scheme, along with the Irish defined benefit scheme, ceased any future accrual for current members and both were closed to new members. UK and Irish employees are now covered by defined contribution schemes.

The total pension cost of the Group for the year was £4,983 000 (2009 £5 944 000) of which £125,000 (2009 £140,000) related to directors and £1 516 000 (2009 £1,657 000) 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 2010 by a qualified independent actuary. The major assumptions used by the actuary for the UK and Irish schemes were:

	30th June 2010		30th June 2009		30th June 2008	
	UK scheme	Irish scheme	UK scheme	Irish scheme	UK scheme	Irish scheme
Rate of increase in pension payments	3.3%	2.4%	3.3%	2.5%	3.8%	2.7%
Discount rate	5.3%	4.4%	6.2%	5.5%	6.2%	6.5%
Inflation rate	3.4%	2.4%	3.4%	2.5%	4.1%	2.7%
Expected return on equities	8.1%	7.1%	8.3%	7.4%	9.1%	8.2%
Retirement age	64	65	64	65	64	65

The mortality assumption used for 2010 is PCA00, year of birth, medium cohort (2009 short cohort), which reflects increasing life expectancy.

The assets and liabilities in the defined benefit schemes were:

	30th June 2010	% of total assets	30th June 2009	% of total assets	30th June 2008	% of total assets	30th June 2007	% of total assets	30th June 2006	% of total assets
	£'000		£'000		£'000		£'000		£'000	
Market value of assets										
Equities	81,737	98	68,538	98	82,576	97	89,924	98	70,836	98
Bonds and cash	1,447	2	1,630	2	2,574	3	1,575	2	1,377	2
Actuarial value of liabilities	83,184 (120,435)	100	70,168 (92,626)	100	85,150 (96,205)	100	91,499 (85,937)	100	72,213 (91,051)	100
(Deficit)/surplus in the schemes	(37,251)		(22,458)		(11,055)		5,562		(18,838)	
Deferred tax thereon	9,694		5,701		2,996		(1,791)		5,451	

Note 39 gives the analysis of the UK defined benefit scheme. For the Irish defined benefit scheme, being the other scheme included here, the market value of assets at the end of the year was £4,780,000 (2009 £4,177,000) and the actuarial value of liabilities was £8,866,000 (2009 £7,434,000). The expected rates of return are based on market conditions at 30th June 2010 and represent the best estimate of future returns, allowing for risk premiums where appropriate.

For a sensitivity analysis of certain elements of the pension fund, see the note in the Financial review on page 14.

The movements in the schemes' assets and liabilities were:

Year ended 30th June 2010	Assets £'000	Liabilities £'000	Total £'000
Balance at the beginning of the year	70,168	(92,626)	(22,458)
Expected return on pension schemes' assets	5,671	-	5,671
Interest on pension schemes' liabilities	-	(5,597)	(5,597)
Actuarial gain/(loss)	7,345	(22,212)	(14,867)
Balance at the end of the year	83,184	(120,435)	(37,251)
Year ended 30th June 2009	Assets £'000	Liabilities £'000	Total £'000
Balance at the beginning of the year	85,150	(96,205)	(11,055)
Expected return on pension schemes' assets	7,593	-	7,593
Interest on pension schemes' liabilities	-	(5,964)	(5,964)
Actuarial (loss)/gain	(22,575)	9,543	(13,032)
Balance at the end of the year	70,168	(92,626)	(22,458)

**15 EMPLOYEE BENEFITS CONTINUED**

The income/(expense) recognised in the Consolidated income statement was	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£ 000</b>
Expected return on pension schemes' assets	<b>5,671</b>	7,593
Interest on pension schemes' liabilities	<b>(5,597)</b>	(5,964)
Total income recognised in the Consolidated income statement	<b>74</b>	1,629

The expected return on pension schemes' assets and the interest on pension schemes' liabilities are recognised within financial income and financial expenses respectively

The analysis of the amount recognised in the Consolidated statement of comprehensive income and expense was	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Actual return less expected return on scheme assets	<b>9,920</b>	(21,601)
Experience loss arising on scheme liabilities	<b>915</b>	(3,954)
Changes in financial assumptions	<b>(25,702)</b>	12,523
Total amount recognised in the Consolidated statement of comprehensive income and expense	<b>(14,867)</b>	(13,032)

The history of experience gains and losses is

	<b>Year ended</b> <b>30th June 2010</b>	<b>Year ended</b> <b>30th June 2009</b>	<b>Year ended</b> <b>30th June 2008</b>	<b>Year ended</b> <b>30th June 2007</b>	<b>Year ended</b> <b>30th June 2006</b>
<b>Difference between the expected and actual return on scheme assets</b>					
amount (£'000)	<b>9,920</b>	(21,601)	(14,591)	7,147	6,492
percentage of scheme assets	<b>12%</b>	(31%)	(17%)	8%	9%
<b>Experience gains and losses on scheme liabilities</b>					
amount (£ 000)	<b>915</b>	(3,954)	-	(3,421)	(180)
percentage of present value of scheme liabilities	<b>1%</b>	(4%)	-	(4%)	-
<b>Total amount recognised in the Consolidated statement of recognised income and expense</b>					
amount (£'000)	<b>(14,867)</b>	(13,032)	(20,541)	3,144	(147)
percentage of present value of scheme liabilities	<b>(12%)</b>	(14%)	(21%)	4%	-

The assumptions used for mortality rates for members, medium cohort (2009 short cohort) at the expected retirement age of 65 years are	<b>2010</b> <b>years</b>	<b>2009</b> <b>years</b>
Male currently aged 65	<b>21.7</b>	21.7
Female currently aged 65	<b>24.0</b>	24.0
Male currently aged 45	<b>22.9</b>	22.8
Female currently aged 45	<b>25.0</b>	24.9

Under the defined benefit deficit funding plan, there are no contributions expected to be made in the year ending 30th June 2011. There are certain UK properties, owned by Renishaw plc, which are subject to a registered charge to secure the UK defined benefit pension scheme liabilities. The trustees have the right to enforce the charge to recover any deficit if an insolvency event occurs in relation to the Company before 30th September 2016 or if the Company has not made good any deficit by midnight on 30th September 2016. No scheme assets are invested in the Group's own equity. The valuation of the liability applying IFRIC 14 does not give a higher value to the liability than that accounted for.

**Defined contribution pension liabilities**

The Group makes contributions to a number of defined contribution plans around the world to provide benefits for employees upon retirement. The total expense relating to these plans in the year was £4,983,000 (2009 £5,944,000).

**16 INVENTORIES**

	2010 £'000	2009 £'000
An analysis of inventories at the end of the year was		
Raw materials	13,409	12,335
Work in progress	7,107	5,606
Finished goods	10,368	11,215
Balance at the end of the year	30,884	29,156

During the year the amount of inventories recognised as an expense in the Consolidated income statement was £59,310,000 (2009 £61,386,000) and the amount of write-down of inventories recognised as an expense in the Consolidated income statement was £434,000 (2009 £1,335,000)

**17 CASH AND CASH EQUIVALENTS**

	2010 £'000	2009 £'000
An analysis of cash and cash equivalents at the end of the year was		
Bank balances and cash in hand	17,355	10,468
Short-term deposits	13,788	10,020
Balance at the end of the year	31,143	20,488

**18 PROVISIONS****Warranty provision**

	2010 £'000	2009 £'000
Movements during the year were		
Balance at the beginning of the year	656	824
Utilised during the year	(599)	(769)
Created in the year	482	601
	(117)	(168)
Balance at the end of the year	539	656

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

**19 OTHER PAYABLES**

	2010 £'000	2009 £'000
Balances at the end of the year were		
Payroll taxes and social security	3,081	3,955
Other creditors and accruals	11,946	3,761
Total other payables	15,027	7,716

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22

**20 OTHER PAYABLES (NON-CURRENT)**

The deferred consideration of £1,222,000 (2009 £1,222,000) is in respect of the investment in Renishaw Diagnostics Limited, which is payable over a five-year period from the date of the initial investment

**21 CAPITAL AND RESERVES**

	2010 £'000	2009 £'000
<b>Share capital</b>		
<b>Allotted, called-up and fully paid</b>		
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

**21 CAPITAL AND RESERVES CONTINUED****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, are accounted for directly in equity and are recycled through the Consolidated income statement when the hedged item affects the Consolidated income statement. The forward contracts mature over the next three and a half years

	2010 £'000	2009 £'000
Movements during the year were		
Balance at the beginning of the year	(5,415)	(4,252)
Amounts transferred to the Consolidated income statement	3,538	1,395
Revaluations during the year	2,049	(2,558)
Balance at the end of the year	172	(5,415)

**Dividends paid**

	2010 £'000	2009 £'000
Dividends paid comprised		
2008 final dividend paid of 17.63p per share	-	12,833
Interim dividend paid of 4.00p per share (2009 7.76p, net of waivers)	2,912	2,816
Total dividends paid	2,912	15,649

A final dividend in respect of the current financial year of 13.6p per share is proposed, to be paid on 18th October 2010 to shareholders on the register on 17th September 2010, with an ex-dividend date of 15th September 2010

**Other reserve**

The other reserve is in relation to an additional investment in Renishaw Diagnostics Limited, increasing the Group's interest in its shareholding from 80% to 84.8%

**Non-controlling interest**

	2010 £'000	2009 £'000
Movements during the year were		
Balance at the beginning of the year	18	320
Share of investments	52	(29)
Share of loss for the year	(502)	(273)
Balance at the end of the year	(432)	18

The non-controlling interest represents the minority shareholdings in Renishaw Diagnostics Limited (15.2%) (2009 25%) PulseTeq Limited (25%) and Renishaw Mayfield S.A. (25%)

**22 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 or in any one geographical area. 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		Cash	
Currency	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Pounds Sterling	3,466	2,373	8,009	6,615	11,637	15,535
US Dollar	19,358	8,283	217	177	6,764	3,068
Japanese Yen	6,240	2,796	610	426	1,765	320
Euro	12,263	7,706	525	735	3,721	(3,520)
Other	4,546	2,899	524	402	7,256	5,085
	45,873	24,057	9,885	8,355	31,143	20,488

## 22 FINANCIAL INSTRUMENTS CONTINUED

	2010 £'000	2009 £'000
The ageing of trade receivables past due, but not impaired at the end of the year was		
Past due 0 - 1 month	8,308	3,838
Past due 1 - 2 months	2,483	2,301
Past due more than 2 months	445	303
Balance at the end of the year	11,236	6,442

	2010 £'000	2009 £'000
Movements in the provision for impairment of trade receivables during the year were		
Balance at the beginning of the year	3,906	1,696
Changes in amounts provided	504	2,574
Amounts utilised	(421)	(364)
Balance at the end of the year	3,989	3,906

**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 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, which can change over time, affecting the Group's interest income. An increase of 1% in interest rates would result in an increase in interest income of approximately £140,000. The market value of forward exchange contracts is determined by reference to market data.

The contractual maturities of financial liabilities at the year end were

Year ended 30th June 2010	Carrying amount £'000	Up to 1 year £'000	1 - 2 years £'000	2 - 5 years £'000
Trade payables	10,440	10,440	-	-
Other payables	16,249	15,027	611	611
Provisions	539	539	-	-
Forward exchange contracts	4,921	3,346	1,115	460
	32,149	29,352	1,726	1,071

Year ended 30th June 2009	Carrying amount £'000	Up to 1 year £'000	1 - 2 years £'000	2 - 5 years £'000
Trade payables	6,588	6,588	-	-
Other payables	8,938	8,938	-	-
Provisions	656	656	-	-
Forward exchange contracts	12,250	5,623	4,313	2,314
	28,432	21,805	4,313	2,314

For non-current other receivables of £4,002,000 (2009 £4,020,000), £723,000 (2009 £1,484,000) is receivable between 1 and 2 years and £3,279,000 (2009 £2,536,000) is receivable between 2 and 5 years.

The contracted cash flows for the financial liabilities are the same as the carrying values. There is no significant difference between the fair value of financial assets and financial liabilities and their carrying value in the Consolidated balance sheet.

Under the disclosure requirements of IFRS 7, all fair value measurements of financial assets and liabilities are considered to be categorised as Level 1.

**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 rate which may have a significant effect on the Group's results is the US Dollar. The Group has hedged its forecasted Euro and Japanese Yen cash flows and hence there is not expected to be a significant impact on the Group's results resulting from fluctuations in these exchange rates against Sterling.

**22 FINANCIAL INSTRUMENTS CONTINUED****Exchange rates and sensitivity analysis (continued)**

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 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 this currency on the Group's transactions assuming all other variables are unchanged.

Currency	2010		2009		Increase in group profit of one cent movement £'000
	Year end exchange rate	Average exchange rate	Year end exchange rate	Average exchange rate	
US Dollar	1.50	1.58	1.65	1.60	240
Japanese Yen	132	143	159	159	-
Euro	1.22	1.14	1.17	1.17	-
Average US Dollar forward contract rates	-	1.69	-	1.70	-
Average Japanese Yen forward contract rates	-	155	-	170	-
Average Euro forward contract rates	-	1.31	-	1.33	-

The Company has US Dollar, Japanese Yen and Euro forward contracts which mature after the balance sheet date. The fair value of these contracts at the year end resulted in a profit of £172,000 (2009 loss £5,415,000) (see note 21).

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 14.

**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	23,750	20,654	0.25%
Japanese Yen	14,836	13,632	0.25%
Euro	21,824	21,293	1.00%

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, so that at the year end the currency borrowings are not in existence but forward contracts are in place to re-establish the currency borrowing shortly after the year end. These currency swaps are not reflected in the table above.

For the net assets of the overseas subsidiaries not hedged, a 5% change in exchange rates will affect reserves by approximately £400,000.

**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.

**23 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:

	2010 £'000	2009 £'000
Expiring within one year	1,346	1,021
Expiring between two and five years	2,121	1,174
Total future minimum lease payments	3,467	2,195

Lease payments recognised as an expense during the year were:

	2010 £'000	2009 £'000
Total lease payments for the financial year	1,185	1,321

**24 CAPITAL COMMITMENTS**

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

	2010 £'000	2009 £'000
Authorised and committed	2,991	803

## 25 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.

## 26 SUBSIDIARY UNDERTAKINGS

The following are the subsidiary undertakings of Renishaw plc, all of which are wholly-owned, unless otherwise stated, and all of which are consolidated into the results of the Group. 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 Holdings Limited	Holding and investment company
Renishaw Finance Limited*	Group 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
Renishaw Diagnostics Limited (formerly D3 Technologies Limited) (84.8%) (Scotland)	Design and sale of molecular diagnostics and surface-enhanced Raman spectroscopy products
Renishaw Mayfield S A (Switzerland)	Manufacture and sale of surgical robots for neurosurgical applications
PulseTeq Limited (75%)	Manufacture and sale of coils for the enhancement of images from MRI scanners
Renishaw Metrology Systems Private Limited (India) (31st March)	Manufacture and sale of advanced precision metrology and inspection equipment
<b>Company – principal activity is the service and distribution of group products</b>	
Renishaw Inc (USA)	Renishaw Sp z o o (Poland)
Renishaw KK (Japan)	OOO Renishaw (Russia) (31st December)
Renishaw GmbH (Germany)	Renishaw AB (Sweden)
Renishaw S p A (Italy)	Renishaw (Austria) GmbH (Austria)
Renishaw Iberica S A U (Spain)	Renishaw (Korea) Limited (South Korea)
Renishaw AG (Switzerland)	Renishaw (Canada) Limited (Canada)
Renishaw (Hong Kong) Limited (Hong Kong)	Renishaw (Israel) Limited (Israel)
Renishaw Latino Americana Ltda (Brazil) (31st December)	Renishaw (Shanghai) Trading Company Limited (The People's Republic of China) (31st December)
Renishaw Benelux BV (The Netherlands)	Renishaw (Singapore) Pte Limited (Singapore)
Renishaw Oceania Pty Limited (Australia)	Renishaw (Taiwan) Inc (Taiwan)
Renishaw s r o (Czech Republic)	

\* equity held by a subsidiary undertaking

During the year, Renishaw Finance and (Insurance) Limited ceased operation and was put into liquidation. The Group also increased its investment in Renishaw Diagnostics Limited from 75% to 84.8%.

## 27 RELATED PARTIES

During the year, associates (RLS merina tehnika d o o Metrology Software Products Limited and Delcam plc) purchased goods and services from the Group to the value of £199,000 (2009 £168,000) and sold goods and services to the Group to the value of £2,329,000 (2009 £1,990,000). At 30th June 2010, associates owed £169,000 to the Group (2009 £132,000). Associates were owed £144,000 by the Group (2009 £77,000). Dividends of £80,000 were received from associates during the year (2009 £80,000).

No bad debts were incurred during the year. All transactions were on an arm's length basis.

## 28 POST-BALANCE SHEET EVENT

In July 2010, the Group acquired a shareholding of 29% in Measurement Devices Limited, a company incorporated in Scotland and operating in the metrology business. The consideration was £2.3m. An agreement provides for the further purchase of the balance of majority shareholder shares over a period of four years with the price payable based on the earnings of MDL during the relevant period. It is also intended that the shares held by minority shareholders (14%) will be acquired by a court-approved scheme of arrangement.

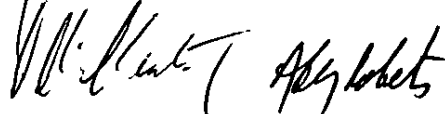
## 48 Company balance sheet

at 30th June 2010

	Notes	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Tangible assets	30	44,395	49,260
Investments in subsidiaries	31	7,161	6 034
Investments in associates	32	4,363	6 814
		<b>55,919</b>	<b>62,108</b>
<b>Current assets</b>			
Deferred tax	33	3,118	7,909
Stock	34	19,073	18,288
Debtors	35	173,133	144 458
Cash at bank		17,630	10,044
		<b>212,954</b>	<b>180,699</b>
<b>Creditors</b>			
Amounts falling due within one year	36	(50,093)	(40,653)
<b>Net current assets</b>			
Due within one year		<b>75,440</b>	<b>45 323</b>
Due after more than one year		<b>87,421</b>	<b>94,723</b>
		<b>162,861</b>	<b>140,046</b>
<b>Total assets less current liabilities</b>		<b>218,780</b>	<b>202,154</b>
<b>Creditors</b>			
Amounts falling due after more than one year	37	(4,425)	(9,477)
<b>Provisions for liabilities</b>	38	(416)	(543)
Net assets excluding pension liability		<b>213,939</b>	<b>192,134</b>
Pension liability	39	(23,879)	(13,825)
<b>Net assets including pension liability</b>		<b>190,060</b>	<b>178,309</b>
<b>Capital and reserves</b>			
Called up share capital	40	14,558	14,558
Share premium account		42	42
Currency reserve	41	172	(5,415)
Profit and loss account	42	175,288	169 124
<b>Shareholders' funds – equity</b>		<b>190,060</b>	<b>178,309</b>

These financial statements were approved by the Board of directors on 28th July 2010 and were signed on its behalf by

Sir David McMurtry  
A C G Roberts  
Directors



### Reconciliation of movements in shareholders' funds

for the year ended 30th June 2010	2010 £'000	2009 £'000
Profit/(loss) for the financial year	19,253	(6,547)
Dividends paid	(2,912)	(15,649)
Fair value of forward exchange contracts, net of deferred tax	5,587	(1,163)
Actuarial loss in the pension scheme, net of deferred tax	(10,177)	(7,401)
<b>Increase/(decrease) in shareholders' funds</b>	<b>11,751</b>	<b>(30,760)</b>
Shareholders' funds at 1st July	178,309	209,069
<b>Shareholders' funds at 30th June</b>	<b>190,060</b>	<b>178,309</b>



**29 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 408 of the Companies Act 2006 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

Advantage has been taken of FRS 8 'Related party disclosures' not to disclose transactions with subsidiaries on the basis that all transactions were with members of the Group, 100% of whose voting rights were controlled

The Company has adopted FRS 29 Financial Instruments Disclosures which came into effect from 1st January 2007. However, the Company has taken the exemption available to parent companies not to present financial instrument disclosures as the Group financial statements contain disclosures that comply with the standard

**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 Directors' report

**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 remeasurement 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

**Foreign currencies**

Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary 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. Foreign exchange differences arising on such translation are recognised in the profit and loss account

**Going concern**

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Financial review on pages 10 to 14, where also given are details of the financial and liquidity positions. In addition, note 22 in the financial statements includes the Group's objectives and policies for managing its capital, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk

The Group has considerable financial resources at its disposal and the directors have considered the current financial projections. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual report and accounts

## 50 Notes to the Company financial statements continued

### 30 TANGIBLE FIXED ASSETS

Year ended 30th June 2010	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
<b>Cost</b>					
At 1st July 2009	35,743	72,534	2,275	480	111,032
Additions	-	729	165	546	1,440
Transfers	-	460	-	(460)	-
Disposals	-	(631)	(285)	-	(916)
At 30th June 2010	35,743	73,092	2,155	566	111,556
<b>Depreciation</b>					
At 1st July 2009	7,397	52,724	1,651	-	61,772
Charge for the year	815	5,209	251	-	6,275
Released on disposals	-	(629)	(257)	-	(886)
At 30th June 2010	8,212	57,304	1,645	-	67,161
<b>Net book value</b>					
At 30th June 2010	27,531	15,788	510	566	44,395
At 30th June 2009	28,346	19,810	624	480	49,260

At 30th June 2010 properties with a net book value of £23,393,000 (2009 £23,815,000) were subject to a registered charge to secure the UK defined benefit pension scheme liabilities. The trustees have the right to enforce the charge to recover any deficit if an insolvency event occurs in relation to the Company before 30th September 2016 or if the Company has not made good any deficit by midnight on 30th September 2016.

Additions to assets in the course of construction of £546,000 (2009 £903,000) comprise £95,000 (2009 £136,000) for freehold land and buildings and £451,000 (2009 £767,000) for plant and equipment.

### 31 INVESTMENTS IN SUBSIDIARIES

	2010 £'000	2009 £'000
Movements during the year were		
Balance at the beginning of the year	6,034	5,128
Investments made during the year	1,127	152
Transfer from investments in associates	-	754
Balance at the end of the year	7,161	6,034

A list of subsidiary undertakings is shown in note 26.

### 32 INVESTMENTS IN ASSOCIATES

	2010 £'000	2009 £'000
Movements during the year were		
Balance at the beginning of the year	6,814	6,714
Investments made during the year	-	854
Impairment of investment	(2,451)	-
Transfer to investments in subsidiaries	-	(754)
Balance at the end of the year	4,363	6,814

The impairment of investment is in respect of the revaluation of the investment in Delcam plc, based on its share price of £2.40 at 30th June 2010.

### 33 DEFERRED TAX

	2010 £'000	2009 £'000
Movements during the year were		
Balance at the beginning of the year	7,909	974
Movements during the year	(4,791)	6,935
Balance at the end of the year	3,118	7,909

**33 DEFERRED TAX CONTINUED**

	2010 £'000	2009 £'000
The deferred tax asset is represented by		
Difference between accumulated depreciation and capital allowances	(282)	913
Other timing differences	3,400	6,996
	<b>3,118</b>	7,909
Deferred tax on pension scheme liability	<b>9,286</b>	5,376
Balance at the end of the year	<b>12,404</b>	13,285
<hr/>		
The movements in the deferred tax balance were	2010 £'000	2009 £'000
Balance at the beginning of the year	13,285	3,915
Amount (charged)/credited to the Profit and loss account	(2,618)	6,483
Amount reflected through the Statement of total recognised gains and losses	1,737	2,887
Balance at the end of the year	<b>12,404</b>	13,285

**34 STOCK**

	2010 £'000	2009 £'000
An analysis of stock at the end of the year was		
Raw materials	8,695	8,511
Work in progress	6,613	5,575
Finished goods	3,765	4,202
Balance at the end of the year	<b>19,073</b>	18,288

**35 DEBTORS**

	2010 £'000	2009 £'000
An analysis of debtors at the end of the year was		
<b>Debtors due within one year</b>		
Trade debtors	6,667	5,632
Amounts owed by group undertakings	76,200	48,719
Amounts owed by associated undertakings	132	132
Corporation tax	428	599
Prepayments and other receivables	2,670	1,853
Fair value of forward exchange contracts	1,158	709
	<b>87,255</b>	57,644
<b>Debtors due after more than one year</b>		
Amounts owed by group undertakings	81,876	82,794
Fair value of forward exchange contracts	4,002	4,020
Balance at the end of the year	<b>173,133</b>	144,458

Amounts owed by group undertakings due after more than one year at 30th June 2010 are shown at their amortised cost, calculated using the effective interest method. The balance at 30th June 2010 of £81,876,000 (2009 £82,794,000) is based on an original amount of £95,029,000 (2009 £102,029,000).

**36 CREDITORS****Amounts falling due within one year**

	2010 £'000	2009 £'000
An analysis of creditors due within one year at the end of the year was		
Trade creditors	6,844	4,082
Amounts owed to group undertakings	33,117	28,156
Amounts owed to associated undertakings	89	52
Other taxes and social security	1,402	1,110
Other creditors	5,295	1,630
Fair value of forward exchange contracts	3,346	5,623
Balance at the end of the year	<b>50,093</b>	40,653

## 52 Notes to the Company financial statements continued

### 37 CREDITORS

#### Amounts falling due after more than one year

	2010 £'000	2009 £'000
An analysis of creditors due after more than one year was		
Deferred consideration	2,850	2 850
Fair value of forward exchange contracts	1,575	6,627
Total creditors due after more than one year	4,425	9,477

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

### 38 PROVISIONS FOR LIABILITIES AND CHARGES

#### Warranty provision

	2010 £'000	2009 £'000
Movements during the year were		
Balance at the beginning of the year	543	686
Utilised during the year	(619)	(647)
Created in the year	492	504
	(127)	(143)
Balance at the end of the year	416	543

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.

### 39 PENSION SCHEME

The Company operated a defined benefit pension scheme, which in April 2007, 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 £3,422,000 (2009 £4,262,000), of which £125,000 (2009 £140,000) related to directors.

The latest full actuarial valuation of the scheme was carried out at September 2006 and updated to 30th June 2010 on an FRS 17 basis by a qualified independent actuary. The major assumptions used by the actuary for the scheme were:

	30th June 2010	30th June 2009	30th June 2008
Rate of increase in pension payments	3.3%	3.3%	3.8%
Discount rate	5.3%	6.2%	6.2%
Inflation rate	3.4%	3.4%	4.1%
Expected return on equities	8.1%	8.3%	9.1%
Retirement age	64	64	64

The mortality assumption adopted for 2010 is PCA00, year of birth medium cohort (2009 short cohort) which reflects the increasing life expectancy.

The assets and liabilities in the scheme were:

	30th June 2010 £'000	% of total assets	30th June 2009 £'000	% of total assets	30th June 2008 £'000	% of total assets	30th June 2007 £'000	% of total assets	30th June 2006 £'000	% of total assets
Market value of assets										
Equities	78,248	100	65,550	99	79,143	98	84,906	98	67,722	99
Bonds and cash	156	0	441	1	1,243	2	1,740	2	565	1
Actuarial value of liabilities	78,404 (111,569)	100	65,991 (85,192)	100	80,386 (90,889)	100	86,646 (79,796)	100	68,287 (86,119)	100
Deficit in the scheme	(33,165)		(19,201)		(10,503)		6,850		(17,832)	
Deferred tax thereon	9,286		5,376		2,941		(1,920)		5,350	
Pension (liability)/asset	(23,879)		(13,825)		(7,562)		4,930		(12,482)	

**39 PENSION SCHEME CONTINUED**

The history of experience gains and losses is	Year ended 30th June 2010	Year ended 30th June 2009	Year ended 30th June 2008	Year ended 30th June 2007	Year ended 30th June 2006
<b>Difference between the expected and actual return on scheme assets</b>					
amount (£'000)	<b>9,357</b>	(20,244)	(12,651)	6,738	6,288
percentage of scheme assets	<b>12%</b>	(31%)	(16%)	8%	9%
<b>Experience gains and losses on scheme liabilities</b>					
amount (£'000)	-	(3,954)	-	(2,751)	(483)
percentage of present value of scheme liabilities	-	(5%)	-	(3%)	(1%)
<b>Total amount recognised in the Statement of total recognised gains and losses</b>					
amount (£'000)	<b>(14,135)</b>	(10,279)	(19,842)	3,444	(866)
percentage of present value of scheme liabilities	<b>(13%)</b>	(12%)	(22%)	4%	(1%)

The movements in the scheme were	2010 £'000	2009 £'000
Deficit in scheme at 1st July	<b>(19,201)</b>	(10,503)
Other finance income	<b>171</b>	1,581
Actuarial loss	<b>(14,135)</b>	(10,279)
Deficit in scheme at 30th June	<b>(33,165)</b>	(19,201)

The income recognised in the Profit and loss account was	2010 £'000	2009 £'000
Expected return on pension scheme's assets	<b>5,381</b>	7,175
Interest on pension scheme's liabilities	<b>(5,210)</b>	(5,594)
Total income recognised in the Profit and loss account	<b>171</b>	1,581

The analysis of the amount recognised in the Statement of total recognised gains and losses was	2010 £'000	2009 £'000
Actual return less expected return on scheme assets	<b>9,357</b>	(20,244)
Experience loss arising on scheme liabilities	-	(3,954)
Changes in financial assumptions	<b>(23,492)</b>	13,919
Total recognised in the Statement of total recognised gains and losses	<b>(14,135)</b>	(10,279)

<b>40 SHARE CAPITAL</b>	2010 £'000	2009 £'000
<b>Allotted, called-up and fully paid</b>		
72 788 543 ordinary shares of 20p each	<b>14,558</b>	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.

## 54 Notes to the Company financial statements continued

### 41 CURRENCY RESERVE

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

	2010 £'000	2009 £'000
Movements during the year were		
Balance at the beginning of the year	(5,415)	(4,252)
Amounts recycled into the Profit and loss account in the year	3,538	1,395
Revaluations during the year	2,049	(2,558)
Balance at the end of the year	172	(5,415)

### 42 PROFIT AND LOSS ACCOUNT

	2010 £'000	2009 £'000
Movements in the Profit and loss account during the year were		
Balance at the beginning of the year	169,124	198,721
Profit/(loss) for the year	19,253	(6,547)
Dividends paid in the year	(2,912)	(15,649)
Actuarial loss in the pension scheme	(14,135)	(10,279)
Deferred tax thereon	3,958	2,878
	(10,177)	(7,401)
Balance at the end of the year	175,288	169,124

The profit and loss account reserve in the Company of £175,288,000 (2009 £169,124,000) includes £101,294,000 (2009 £95,175,000) which is currently non-distributable

### 43 RELATED PARTIES

During the year, related parties (these being the Group's associates (see note 11), Renishaw Diagnostics Limited and PulseTeq Limited) purchased goods and services from the Company to the value of £465,000 (2009 £168,000) and sold goods and services to the Company to the value of £926,000 (2009 £1,352,000)

At 30th June 2010 related parties owed £699,000 (2009 £325,000) to the Company. Related parties were owed £89,000 (2009 £52,000) by the Company. Dividends of £80,000 were received from related parties during the year (2009 £80,000)

All transactions were on an arm's length basis. There were no bad debts written off during the year (2009 £nil)

### 44 PERSONNEL EXPENSES

	2010 £'000	2009 £'000
The aggregate payroll costs for the year were		
Wages and salaries	41,021	43,336
Compulsory social security contributions	4,347	4,529
Contributions to pension scheme	3,422	4,262
Redundancy costs	-	2,934
Total payroll costs	48,790	55,061

	Number	Number
The average number of persons employed by the Company during the year was	1,209	1,410

### 45 CAPITAL COMMITMENTS

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

	2010 £'000	2009 £'000
Authorised and committed	1,281	221

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION** If you are in any doubt as to the action you should take, you are recommended immediately to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000

If you have sold or otherwise transferred all of your shares in Renishaw plc, you should pass this document and the accompanying form of proxy without delay to the stockbroker, bank or other person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares

Notice is hereby given that the 37th annual general meeting of the Company will be held at New Mills Wotton under Edge, Gloucestershire GL12 8JR on Thursday 14th October 2010 at noon. You will be asked to consider and, if thought fit, pass the resolutions below. Resolutions 13 and 14 will be proposed as special resolutions. This means that for each of these resolutions to be passed, at least three quarters of the votes cast must be in favour of the resolution. All other resolutions will be proposed as ordinary resolutions. This means that for each of these resolutions to be passed more than half of the votes cast must be in favour of the resolution.

## Ordinary resolutions

- 1 To receive and adopt the reports of the directors and auditors and the financial statements for the year ended 30th June 2010,
- 2 To declare a final dividend for the year ended 30th June 2010,
- 3 To re-elect as a director, Sir David McMurtry, a director retiring voluntarily and who being eligible, offers himself for re-election
- 4 To re-elect as director John Deer a director retiring voluntarily and who being eligible, offers himself for re-election,
- 5 To re-elect as director Ben Taylor, a director retiring voluntarily and who, being eligible, offers himself for re-election
- 6 To re-elect as director Allen Roberts, a director retiring voluntarily and who being eligible, offers himself for re-election
- 7 To re-elect as a director Geoff McFarland a director retiring voluntarily and who, being eligible, offers himself for re-election
- 8 To re-elect as a director Terry Garthwaite a director retiring voluntarily and who, being eligible, offers himself for re-election,
- 9 To re-elect as a director David Snowden, a director retiring voluntarily and who being eligible offers himself for re-election,
- 10 To re-elect as a director Bill Whiteley, a director retiring voluntarily and who, being eligible, offers himself for re-election,
- 11 To approve the Directors' Remuneration Report for the year ended 30th June 2010 contained in the Annual Report 2010
- 12 To re-appoint KPMG Audit Plc as auditor of the Company, to hold office from the conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the meeting, and to authorise the directors to determine the remuneration of the auditor,

## Special resolutions

- 13 To consider and, if thought fit, to pass the following resolution  
That the Company be and is hereby unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the "2006 Act") to make one or more market purchases (within the meaning of section 693(4) of the 2006 Act) 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 the higher of (i) 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 5 business days immediately preceding the day on which the ordinary share is purchased and (ii) the amount stipulated by Article 5(1) of the Buy-Back and Stabilisation Regulation 2003,
  - (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 2011 and

31st December 2011 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

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

That the Articles of Association produced to the meeting and initiated 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 (including those provisions of the Company's Memorandum of Association which, by virtue of section 28 Companies Act 2006, are treated as provisions of the Company's Articles of Association)

By order of the Board

*Normie Tang*

N Tang  
Secretary

New Mills  
Wotton-under Edge  
Gloucestershire  
GL12 8JR

20th August 2010

## NOTES

- 1 A form of proxy is provided with this Notice for members. A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend and to speak and vote at the meeting. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. If a member wishes to appoint more than one proxy and so requires additional proxy forms, the member should contact Equiniti Limited on 0871 384 2169. Calls to this number cost 8p per minute from a BT landline, other providers costs may vary. Lines are open from 8.30am to 5.30pm Monday to Friday. Overseas shareholders should call +44 121 415 7047.
- 2 A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
- 3 To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZL or the Proxy appointment must be lodged using the CREST Proxy Voting Service, in accordance with Note 7 below, no later than 48 hours (excluding non-working days) before the time appointed for holding the meeting. Amended instructions must also be received by the Company's registrars by the deadline for receipt of proxy forms.
- 4 The return of a completed proxy form or other such instrument will not prevent a member from attending the meeting and voting in person if he/she wishes to do so.
- 5 Pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001 (as amended) and for the purposes of section 360B Companies Act 2006, the Company has specified that to be entitled to attend and vote at the meeting or any adjournment (and for the purpose of the determination by the Company of the votes they may cast), members must be registered in the Register of Members of the Company as at 6pm on 12th October 2010 or for any adjourned meeting, 48 hours before the time appointed for holding the adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 6 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

## 56 Notice of meeting continued

- 7 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- 8 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s) to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The CREST Manual can be reviewed at [www.euroclear.com/CREST](http://www.euroclear.com/CREST).
- 9 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 10 You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.
- 11 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that if it is appointing more than one corporate representative, it does not do so in relation to the same shares.
- 12 Any person receiving a copy of this notice as a person nominated by a member under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") should note the provisions in this notice concerning the appointment of a proxy or proxies to attend the meeting in place of a member do not apply to a Nominated Person as only shareholders have the right to appoint a proxy. However a Nominated Person may, under an agreement between him/her and the member 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 member as to the exercise of voting rights.
- 13 Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting, or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
- 14 Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- 15 A copy of this notice, and other information required by s311A of the Companies Act 2006, can be found in the copy of the Annual report and accounts 2010 at [www.renishaw.com](http://www.renishaw.com).
- 16 Under section 338 and section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than Wednesday 1st September 2010, being the date 6 clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
- 17 As at 19th August 2010 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 72,788,543 ordinary shares carrying one vote each. Therefore, the total voting rights in the Company as at 19th August 2010 are 72,788,543. There are no other classes of shares or any shares held in treasury.
- 18 Copies of the following documents are available for inspection at the registered office of the Company during normal business hours (8.00am to 4.15pm, excluding weekends and public holidays):
- (a) service contracts of the executive directors,
  - (b) letters of appointment of the non-executive directors and
  - (c) a copy of the proposed new articles of association of the Company.
- The new articles of association will also be available for inspection at the offices of Norton Rose LLP, 3 More London Riverside, London SE1 2AQ during normal business hours (9.00am until 5.30pm, excluding weekends and public holidays).
- All documents will be available for inspection at the above locations from the date of this notice until the conclusion of the AGM, and will also be available for inspection at the place of the AGM from 15 minutes before it is held until its conclusion.
- ### APPENDIX 1
- #### EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING
- Resolution 1 – Reports of Directors and Financial statements
- The Directors must present the report of the Directors and the auditors and the accounts of the Company for the year ended 30th June 2010 to the shareholders at the AGM.
- Resolution 2 – Final dividend
- The Directors recommend that a final dividend of 13.6p per share be paid to each shareholder on the register of members as at the close of business on the day 48 hours prior to the payment of such dividend.
- Resolutions 3 to 10 inclusive – Re-election of directors
- In the spirit of best practice, and in accordance with the provisions of the UK Corporate Governance Code (formerly the Combined Code), all Directors apart from Joe McGeehan will retire and, being eligible, offer themselves for re-election at the AGM. Joe McGeehan will retire from the board with effect from the AGM. Biographical details of the directors are shown on pages 4 and 5.
- Resolution 11 – Remuneration report
- Listed companies are required to prepare a Directors' remuneration report and put a resolution to approve the report to the shareholders at the AGM. The Directors' remuneration report is set out on page 23.



#### Resolution 12 – Re appointment and remuneration of auditors

The Company is required to appoint auditors at each general meeting at which accounts are laid before shareholders, to hold office until the end of the next such meeting. KPMG Audit Plc has expressed its willingness to continue as auditors and resolution 12 proposes its re appointment as the Company's auditors and also seeks authority for the Directors to decide the auditors' remuneration.

#### Resolution 13 – Market purchase of own shares by the Company

This resolution renews the previous authority granted on 15th October 2009 which expires on the date of the forthcoming Annual General Meeting. The resolution authorises the Company to make market purchases of its own ordinary shares. The authority limits the number of shares that could be purchased to a maximum of 7,278,854 (representing 10% of the issued share capital of the Company) and sets minimum and maximum prices. This authority will expire at the conclusion of the Company's next AGM.

The Directors have no present intention of exercising the authority to purchase the Company's ordinary shares but will keep the matter under review, taking into account market conditions, the cash reserves of the Company, the Company's share price, appropriate gearing levels, other investment opportunities and the overall financial position of the Company. The authority will be exercised only if to do so would be likely to promote the success of the Company for the benefit of its shareholders as a whole.

Any purchases of ordinary shares would most likely be by means of market purchases through the London Stock Exchange. The authority will only be valid until the conclusion of the Company's next AGM or, if earlier, 18 months from the date of this resolution.

#### Resolution 14 – Adoption of new articles of association

It is proposed in resolution 14 to adopt new articles of association in order to update the Company's current articles of association, primarily to take account of the provisions of the Companies Act 2006 and the Companies (Shareholders' Rights) Regulations 2009.

The principal changes are summarised in Appendix 2 of this notice. A copy of the proposed new Articles of Association will be available for inspection at the Company's registered office and at the offices of Norton Rose LLP, 3 More London Riverside, London SE1 2AQ during normal business hours (9.00am until 5.30pm, excluding weekends and public holidays) until the conclusion of the AGM.

#### APPENDIX 2

##### EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

Set out below is a summary of the principal changes in the New Articles. References to article numbers are those used in the New Articles (except where reference is made to a provision which has been deleted).

##### 1 The Company's objects

The provisions regulating the operations of the Company were until 1st October 2009 set out in the Company's memorandum and articles of association.

The Companies Act 2006 (CA 2006) significantly reduces the constitutional significance of a company's memorandum. The CA 2006 provides that the memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the CA 2006 the majority of the previous provisions of the memorandum, most notably the objects clause, are deemed to be part of the Company's articles of association with effect from 1st October 2009.

Further, the CA 2006 states that, unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause (together with all other provisions of its memorandum which, by virtue of the CA 2006, are treated as forming part of the Company's articles of association as of 1st October 2009). This will be achieved by the adoption of New Articles which contain no such provisions other than a statement regarding the limited liability of shareholders.

##### 2 Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the CA 2006 are in the main to be removed in the New Articles or amended to bring them into line with the CA 2006.

##### 3 Change of name (Article 3)

Under the Companies Act 1985 (CA 1985), a company could only change its name by special resolution. Under the CA 2006 a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the directors to pass a resolution to change the Company's name.

##### 4 Authorised share capital and unissued shares (former Article 5)

The CA 2006 removes the concept of authorised share capital. As with the objects clause (see paragraph 1), the statement of authorised share capital previously contained in a company's memorandum of association is deemed with effect from 1st October 2009 to be a provision of the company's articles of association (and takes effect as setting out the maximum number of shares that may be allotted by the company). The adoption of the New Articles will have the effect of removing this provision.

Directors will still be limited as to the number of shares they can at any time allot because an allotment authority continues to be required under the CA 2006, save in respect of employee share schemes.

##### 5 Redeemable shares (Article 7)

Under the CA 1985, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The CA 2006 enables directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares, but if it did so the directors would need shareholders' authority to issue new shares in the usual way.

##### 6 Share warrants (Article 8)

The New Articles permit the directors to issue share warrants in respect of any fully paid shares. The directors have no current intention of exercising this authority.

##### 7 Shares in uncertificated form (Article 11)

The Uncertificated Securities Regulations 2001 (the Regulations) replaced the Uncertificated Securities Regulations 1995, which established the legal framework for the CREST settlement system. The Regulations allow shares in companies to be issued, held, registered, converted to, transferred or otherwise dealt with in uncertificated form and allow shares to be converted from uncertificated form to certificated form in accordance with the Regulations and practices instituted by the operator of the relevant system. The fact that the Current Articles do not contain provisions in relation to uncertificated shares does not prevent the Company's shares being dealt with through CREST pursuant to the Regulations. However, the New Articles contain specific provisions in this regard intended to reflect the legislation described above and to clarify how certificated and uncertificated shares may be dealt with in certain circumstances.

##### 8 Suspension of registration of share transfers (former Article 35)

The Current Articles permit the directors to suspend the registration of transfers for up to 30 days in any year, reflecting a provision of the CA 1985. Under the CA 2006 share transfers must be registered as soon as practicable. Accordingly, the provision which allowed the Company to suspend the registration of transfers has been removed in the New Articles.

##### 9 Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital (former Articles 42, 44 and 45)

Under the CA 1985, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The Current Articles include these enabling provisions. Under the CA 2006 a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly, the relevant enabling provisions have been removed in the New Articles.

##### 10 Notice of general meetings (former Article 52)

Under the CA 2006 as amended by the Shareholders' Rights Regulations, general meetings cannot be held on shorter notice than the statutory minimum (21 days or 14 days) period. The New Articles therefore remove this provision.

##### 11 Postponement of meetings (Article 52)

The New Articles include provisions to allow the directors to postpone a general meeting if they consider that it would be impractical or unreasonable to hold such meeting on the intended date, time and/or place.

## 58 Notice of meeting continued

### 12 - Special Business (former Article 54)

As the Listing Rules of the UK Listing Authority no longer refer to a distinction between ordinary business and special business, we do not consider it to be appropriate that the Current Articles continue to make such a distinction in addition to the distinction between ordinary and special resolutions. Article 54 in the Current Articles regarding special business has therefore been removed in the New Articles.

### 13 - Adjournments for lack of quorum (Article 54)

Under the CA 2006 as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The New Articles reflect this requirement.

### 14 - Electronic conduct of meetings (Article 60)

Amendments made to the CA 2006 by the Shareholders' Rights Regulations specifically provide for the holding and conducting of electronic meetings. The Current Articles have been amended to reflect more closely the relevant provisions.

### 15 - Chairman's casting vote (Former Article 68)

The New Articles remove the provision giving the chairman a casting vote in the event of an equality of votes as this is no longer permitted under the CA 2006.

### 16 - Voting by proxies on a show of hands (Article 70)

Under the CA 2006 as amended by the Shareholders' Rights Regulations, each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles reflect these changes and contain a provision clarifying how the provision of the CA 2006 giving a proxy a second vote on a show of hands should apply to discretionary authorities.

### 17 - Timing for submission of proxy appointments (Article 72)

Article 72 has been amended to permit the directors to specify, in a notice of meeting, that in determining the time for delivery of proxy appointments, no account shall be taken of non-working days. This brings the provisions relating to timing for proxy appointments into line with the provisions of Article 145 (see paragraph 26) regarding determining which persons may attend and vote at a general meeting.

### 18 - Validity of votes by proxies and corporate representatives (Article 75)

Under the CA 2006 as amended by the Shareholders' Rights Regulations, proxies have an obligation to vote in accordance with the instructions given to them by the member appointing them. The New Articles contain a provision stating that the Company is not required to enquire whether a proxy or corporate representative has voted in accordance with instructions given to him and that votes cast by a proxy or corporate representative will be valid even if he has not voted in accordance with these instructions.

The New Articles also provide that any objection to the qualification of a person voting must be made at the meeting at which the vote objected to is tendered or at the time any poll is taken and that the chairman's decision is final and binding. The New Articles require a member to provide reasonable evidence of his and his proxy's identity and also specify what a member must provide by way of evidence if a proxy is appointed by a person acting in behalf of a member.

### 19 - Number of Directors (Article 76)

Institutional investor guidelines recommend that companies include a limit on the number of directors that may be on the Board at a particular time. The New Articles include a limit of fifteen directors as the maximum number of directors that may be on the Company's Board.

### 20 - Vacation of Office by Directors (Article 86)

The Current Articles specify the circumstances in which a director must vacate office. The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Innovation and Skills.

### 21 - No shareholding qualification for Directors (former Article 87)

There is no longer any requirement for a company's articles to contain a negative statement if the directors do not need to own shares in the company. This negative statement (contained in the Current Articles) has therefore been removed from the New Articles.

### 22 - Directors' interests (Articles 120-127)

The articles dealing with directors' conflicts of interest have been amended in line with market practice. Under the New Articles certain conflicts of interest do not need to be authorised, for example an interest as a director of a group company.

Generally the nature and extent of any conflict of interest must be disclosed before it can be authorised or before it is permitted without being authorised but the New Articles provide for some situations in which disclosure is not required where knowledge can be presumed and disclosure is unlikely to be necessary. The New Articles also allow the board to exercise voting rights in group companies without restriction, e.g., so as to appoint a director to the board of a group company without this counting as a conflict requiring authorisation.

### 23 - Execution of documents (Article 131)

The New Articles contain provisions in relation to the Company's ability to execute documents and, in particular, reflect the ability of companies (under the CA 2006) to execute deeds by the signature of a single Director, provided that signature is appropriately witnessed.

### 24 - Use of seals (former Article 136)

Under the CA 1985 a company required authority in its articles to have an official seal for use abroad. Under the CA 2006, such authority is no longer required. Accordingly, the relevant authorisation has been removed in the New Articles.

### 25 - Scrip dividends (Article 142)

The New Articles permit the directors, with the prior authority of an ordinary resolution, to offer shareholders the right to elect to receive shares instead of any dividend. The directors have no current intention of exercising this authority.

### 26 - Record date for right to attend and vote at meetings (Article 145)

The New Articles include a new provision, not in the Current Articles, dealing with the method for determining which persons are allowed to attend or vote at a general meeting of the Company and how many votes each person may cast. Under this new provision, when convening a meeting the Company must specify a time, not more than 48 hours before the time of the meeting (excluding any part of a day that is not a working day) by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting. This reflects a new provision introduced by the Shareholders' Rights Regulations.

### 27 - Indemnity (Article 156 2)

The New Articles include a provision allowing the Company to indemnify a director to meet expenditure incurred in defending himself in relation to criminal and civil proceedings or against actions by regulatory authorities.

### 28 - Distribution of assets otherwise than in cash (former Article 161)

The Current Articles contain provisions dealing with the distribution of assets in kind in the event of the Company going into liquidation. These provisions have been removed in the New Articles on the grounds that in the situation in which a distribution in kind is being contemplated it is likely to be done only with unanimity or as part of a scheme and can therefore be better dealt with at the time than legislated for in advance.

<b>Shareholdings</b>			
1 – 5 000	2,005 (3.0%)		
5 001 – 25 000	185 (2.9%)	Directors	53.2%
25 001 – 50,000	34 (1.6%)	Institutions	44.0%
50 001 – 100 000	26 (2.6%)	Individuals	2.8%
100 001 – 500,000	44 (13.6%)		
500 001 – 1,000 000	8 (7.1%)		
1 000 001 – 3 000,000	8 (16.2%)		
more than 3,000 000	2 directors (53.0%)		

The above information was compiled from the register as at 6th July 2010

## 10 year financial record

<b>Results</b>	<b>note 2 2010 £'000</b>	<b>note 2 2009 £'000</b>	<b>note 2 2008 £'000</b>	<b>note 2 2007 £'000</b>	<b>2006 £'000</b>	<b>note 1 2005 £'000</b>	<b>2004 £'000</b>	<b>2003 £'000</b>	<b>2002 £'000</b>	<b>2001 £'000</b>
Overseas revenue	<b>170,957</b>	159,988	189,137	169,094	164,322	144,438	118,881	100,969	94,769	113,133
UK and Ireland revenue	<b>10,650</b>	11,259	12,020	11,789	11,513	10,361	8,820	9,671	9,721	12,215
Total revenue	<b>181,607</b>	171,247	201,157	180,883	175,835	154,799	127,701	110,640	104,490	125,348
Operating profit	<b>28,095</b>	5,991	37,335	29,729	35,468	29,307	18,053	15,644	13,448	27,943
Profit before tax	<b>28,725</b>	8,843	41,715	32,672	38,102	31,733	20,146	17,799	16,062	30,795
Taxation	<b>5,745</b>	2,105	8,309	6,532	7,621	6,297	4,023	3,454	880	6,082
Profit for the year	<b>22,980</b>	6,738	33,406	26,140	30,481	25,436	16,123	14,345	15,182	24,713
<b>Capital employed</b>	<b>2010 £'000</b>	<b>2009 £'000</b>	<b>2008 £'000</b>	<b>2007 £'000</b>	<b>2006 £'000</b>	<b>2005 £'000</b>	<b>2004 £'000</b>	<b>2003 £'000</b>	<b>2002 £'000</b>	<b>2001 £'000</b>
Share capital	<b>14,558</b>	14,558	14,558	14,558	14,558	14,558	14,558	14,558	14,558	14,558
Share premium	<b>42</b>	42	42	42	42	42	42	42	42	42
Reserves	<b>144,021</b>	129,162	151,725	153,400	128,136	110,857	93,110	90,626	93,085	94,722
Shareholders' funds	<b>158,621</b>	143,762	166,325	168,000	142,736	125,457	107,710	105,226	107,685	109,322
<b>Statistics</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Overseas sales as a percentage of total sales	<b>94.1%</b>	93.4%	94.0%	93.5%	93.5%	93.3%	93.1%	91.3%	90.7%	90.3%
Basic earnings per share	<b>31.6p</b>	9.3p	45.9p	35.9p	41.9p	34.9p	22.1p	19.7p	20.9p	34.0p
Proposed dividend per share	<b>17.6p</b>	7.76p	25.39p	22.87p	21.78p	19.80p	18.00p	16.70p	15.90p	15.14p

### Notes

- 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.
- The results and basic earnings per share for the years 2007 to 2010 exclude the exceptional items. These were: 2007 and 2008 - pension curtailment credits (£19.5m, 2008 £1.3m), 2009 - redundancy costs (£4.1m), and 2010 - impairment write-down (£1.7m).

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