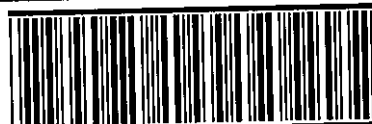


Co. No. 1106260

Annual Report 1997



A29 *AV3682UI* 386
COMPANIES HOUSE 14/01/98



1106260

Contents

Results at a glance	3
Notice of meeting	4
Directors and advisers	5
Chairman's statement	6
Financial review	10
Report of the remuneration committee	13
Directors' report	14
Statement of directors' responsibilities	18
Financial calendar	18
Reports of the auditors	19
Consolidated profit and loss account	20
Balance sheets	21
Consolidated cash flow statement	22
Consolidated statement of total recognised gains and losses	23
Reconciliations of movements in shareholders' funds	23
Notes	24
Shareholders' profile	33
10 year financial record	34
Bar chart - 10 year financial record	35

A Group Profile is not being produced this year as 1998 is the Company's twenty fifth anniversary, when a special Group Profile will be produced and distributed with the 1998 Interim Report.

A copy of the most recent Group Profile may be obtained from the Company's registered office.

Cover photographs:

Left - (top to bottom):

PHS1 new motorised probe head for CMMs

PCMT process control system for CNC machining centres, enabling fast probing

HS10 laser scale positioning system, used on large machines

Right - (top to bottom):

RG22 series of linear encoder systems, used with Renishaw's "off the reel" flexible scale for measurement of positional movement

TRACECUT Version 21 enhanced scanning software for use with Cyclone and retrofit scanning systems

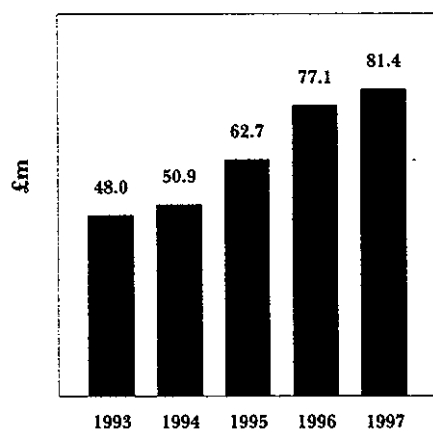
Raman system for 2D spectral analysis and identification of substances



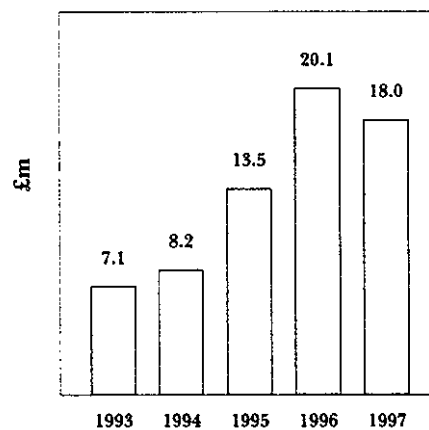
Results at a glance

	1997 £'000	1996 £'000	Change %
Turnover	81,401	77,077	+6%
Operating profit plus interest	16,119	20,115	-20%
Profit on sale of property	1,915	—	—
Profit before taxation	18,034	20,115	-10%
Taxation	4,653	4,207	+11%
Profit after taxation	13,381	15,908	-16%
Earnings per share	18.4p	21.9p	-16%
Adjusted earnings per share	16.3p	19.5p	-16%
Dividend per share	8.65p	7.21p	+20%

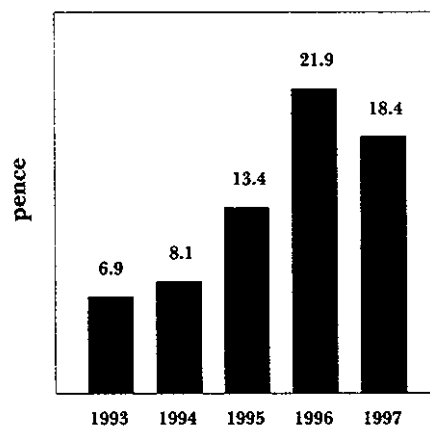
Turnover



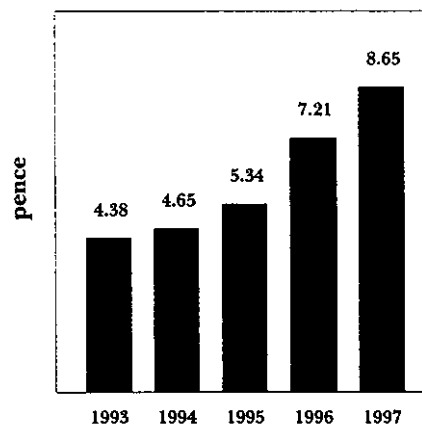
Profit before taxation



Earnings per share



Dividend per share





Notice of meeting

NOTICE IS HEREBY GIVEN that the 24th annual general meeting of the Company will be held at The Gables Inn, Falfield, Gloucestershire, GL12 8DL on Friday 21st November 1997 at noon to transact the following business:-

1. To receive and adopt the reports of the directors and auditors and the financial statements for the year ended 30th June 1997.
2. To declare a final dividend.
3. To re-elect as a director of the Company B R Taylor, who is retiring by rotation.
4. To re-elect L Brook as a director of the Company.
5. To re-appoint KPMG Audit Plc as auditors of the Company and to authorise the directors to determine their remuneration.

To consider as special business and, if thought fit, to pass the following resolution, which will be proposed as an ordinary resolution:-

6. THAT, the Company be and is hereby unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 20p each in the capital of the Company ("ordinary shares") provided that:
 - (i) the maximum number of ordinary shares hereby authorised to be purchased is 7,274,233;
 - (ii) the maximum price that may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the 10 business days immediately preceding the day on which the ordinary share is purchased;
 - (iii) the minimum price which may be paid for an ordinary share shall be 20p;
 - (iv) the authority hereby conferred shall expire at the earlier of the conclusion of the annual general meeting to be held in 1998 and 31st December 1998 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.
7. To transact any other business of an annual general meeting.

By order of the Board
A C G Roberts
Secretary

17th October 1997

New Mills
Wotton-under-Edge
Gloucestershire
GL12 8JR

Notes:

The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the Company as at 6 pm on 19th November 1997 shall be entitled to attend or vote at the aforesaid annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6 pm on 19th November 1997 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company and the appointment of a proxy will not preclude a member from attending and voting at the meeting. A form of proxy is enclosed for this purpose.

The register of directors' shareholdings will be available for inspection at the registered office of the Company during normal business hours until the date of the meeting and at the place of the meeting for 15 minutes prior to, and during, the meeting. No director has a service contract.



Directors and advisers



David McMurtry



John Deer



Ben Taylor



Allen Roberts



Leo Brook

DAVID McMURTRY, CBE, RDI, Chairman and Chief Executive, age 57, 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 the Filton, Bristol, works. After inventing the original probe in the early 1970s, David McMurtry founded Renishaw in 1973 with John Deer and joined Renishaw full time in 1976. In 1987 he was a member of a four-man team of Renishaw engineers awarded the MacRobert Award. 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 was awarded an honorary Doctorate of Engineering of the University of Birmingham. He is a Fellow of the American Society of Manufacturing Engineers, he sits on the US Standards Committee for Co-ordinate Measuring Machines and is a member of the U.K. Patents Office Steering Board. In addition to his role as Chairman and Chief Executive, he also has responsibility for group technology.

JOHN DEER, Deputy Chairman, age 59, trained as a mechanical engineer and worked for Rolls-Royce plc, Bristol, from 1960 until 1974. He was Managing Director of Renishaw from 1974 until 1989, primarily involved in the commercial direction of the Group, with particular emphasis in marketing and the establishment of the Group's wholly owned subsidiaries in USA, Ireland, Japan, Germany, France and Italy. In 1987 he was a member of a four-man team of Renishaw engineers awarded the MacRobert Award. He is responsible for group manufacturing, group quality and patents, and is Chairman of the overseas marketing subsidiaries.

BEN TAYLOR, Assistant Chief Executive, age 48, has been involved in the field of metrology all his working life, after graduating in mechanical engineering and design from Pennsylvania State University. Prior to joining Renishaw Inc as President in 1985, he was the Director of Engineering at Sheffield Measurement, USA. Ben Taylor was appointed to the Board of Renishaw plc in 1987 and is responsible for group marketing, international operations, strategy and planning and human resources. He chairs a US national metrology committee and also serves on various ISO metrology committees and other professional associations.

ALLEN ROBERTS, Finance Director, age 48, is a Fellow of the Institute of Chartered Accountants in England and Wales. Prior to joining the Company in 1979, he was employed for 11 years by Peat, Marwick, Mitchell & Co. He was appointed a director in 1980. Allen Roberts heads group finance, business systems and Wotton Travel and is the company secretary.

LEO BROOK, a non-executive director, age 85, joined Renishaw in 1980. He is an engineer of long experience and has held many directorships and senior appointments in the engineering industry. He was Chairman of Simon Engineering plc from 1970 to 1977 and Chairman of Associated Nuclear Services from 1977 to 1990.

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

Telephone: (01453) 524524
Telex: 437120 RENMET G
Facsimile: (01453) 524001
email: genenq@renishaw.co.uk
Internet: <http://www.renishaw.com>

Principal bankers
Lloyds Bank Plc

Auditors
KPMG Audit Plc

Solicitors
Norton Rose

Stockbrokers
SBC Warburg

Registrars and transfer office
Lloyds Bank Registrars
The Causeway, Worthing
West Sussex. BN99 6DA
Telephone: (01903) 502541



Chairman's statement

Trading results

I am pleased to report a group profit before tax for the year ended 30th June 1997 of £18.0m (including £1.9m profit on the sale of property) which compares with £20.1m in 1996.

Profit after tax was £13.4m (1996 £15.9m) giving earnings per share of 18.4p (1996 21.9p after adjustment for the one for five capitalisation issue).

Turnover rose to £81.4m from the previous year's £77.1m, although the marked appreciation of Sterling during the year reduced turnover in Sterling terms by £6.7m, when compared with 1996 exchange rates. Significant turnover growth was achieved in the USA and Japan, despite these exchange rate movements, and in the U.K. where turnover rose 25%.

Operating profit was £14.2m (1996 £17.6m) after taking account of increased research and development expenditures. At exchange rates comparable to the previous year, operating profit would have been over £4.5m higher. Net interest receivable reduced to £1.9m from £2.5m due to lower interest rates.

Dividend

A final dividend per ordinary share of 5.76p is proposed giving a total dividend for the year of 8.65p, an increase of 20% for the year over the dividend for 1996, after adjustment for the one for five capitalisation issue.

Marketing

We have continued to reinforce our presence overseas and to develop existing and new markets. A representative office has been opened in Shanghai. In addition, we are currently seeking to develop further opportunities in Korea and Eastern Europe. The Group's product range, emanating from the research and development programmes, continues to grow, not only for our traditional machine tool and co-ordinate measuring machine markets, but also for the encoder, scanning and spectroscopy markets where we believe there will be particular growth.

Manufacturing

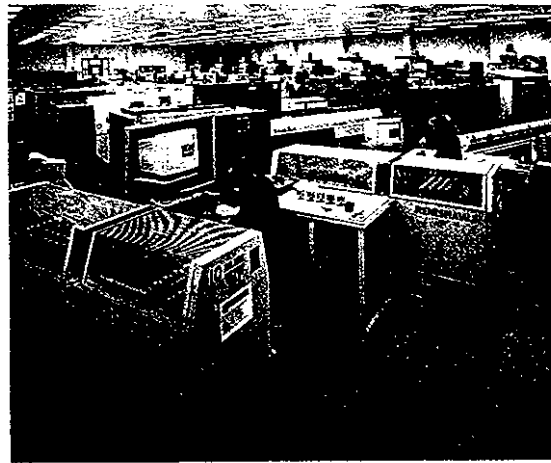
Manufacturing efficiencies have been improved further during the year and substantial additional investment in manufacturing techniques and processes has been made, all with the aim of minimising production costs and maintaining Renishaw's position at the forefront of its manufacturing technologies.



New surface mount equipment at New Mills



New assembly area at New Mills



New Mills machine shop

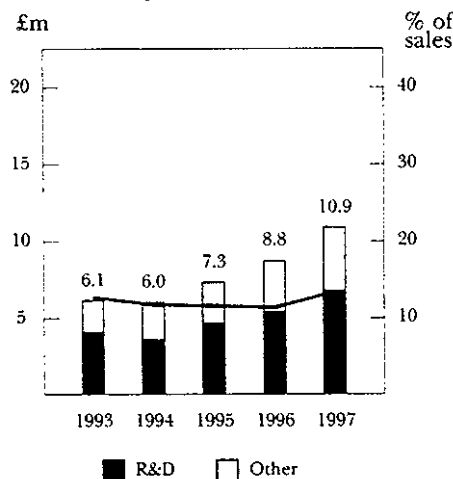
Research and development

In accordance with the Board's decision to step up the rate of research and development, referred to in my statement last year, research and development expenditure during the year grew to £10.9m (including related engineering costs of £4.2m) compared with a total of £8.8m in 1996.

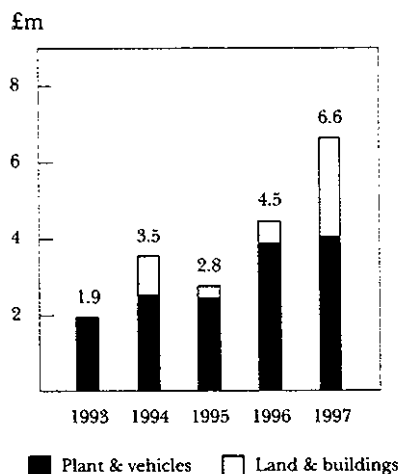
Capital expenditure

Good progress has been made during the year on the Group's capital programme. The new offices in France have been completed and are now occupied and contracts have been exchanged to purchase land for the construction of new manufacturing facilities in Ireland. Construction of a new head office near Chicago, USA, for our subsidiary Renishaw Inc has been approved.

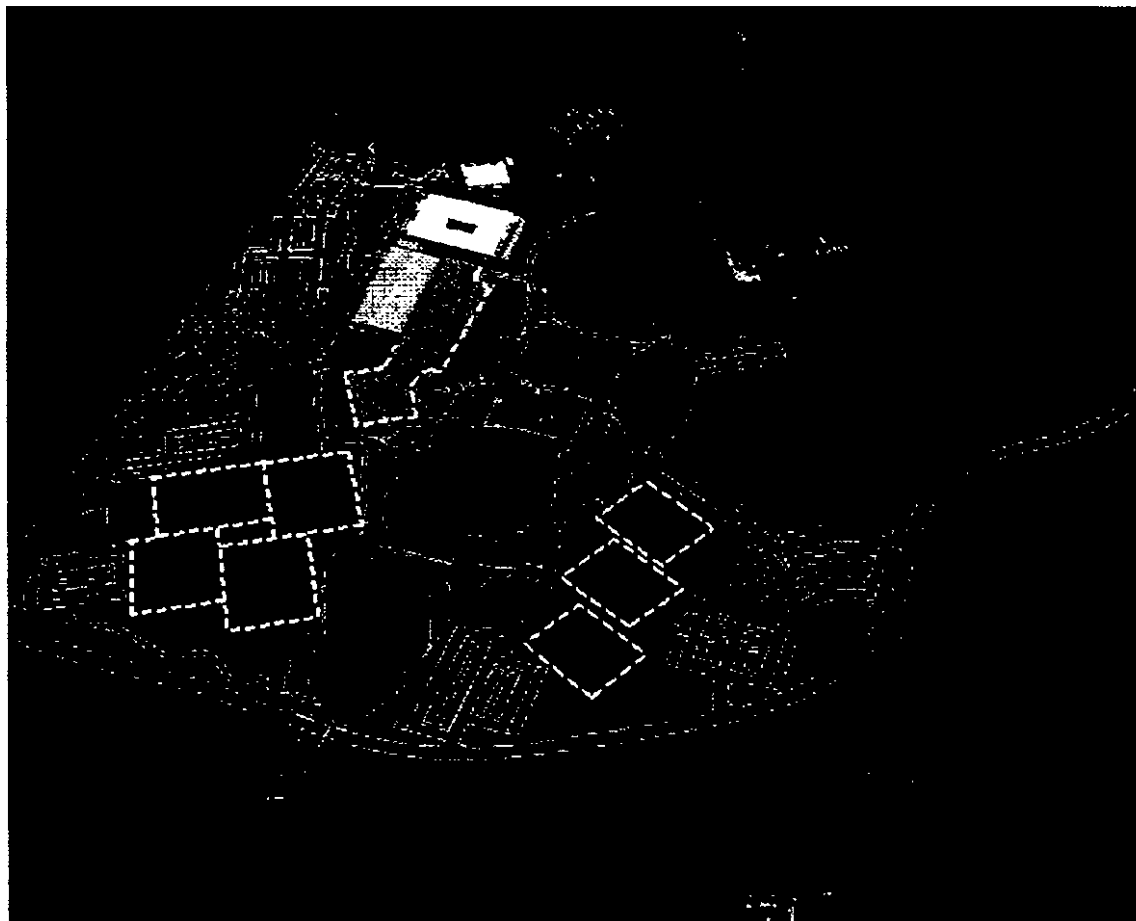
Engineering costs



Capital expenditure



In the U.K. at New Mills, the assembly facilities have been enlarged and planning permission has been obtained for the construction of additional research and manufacturing premises. Plans are also well advanced for the expansion of research facilities in Scotland. Total capital expenditure during the year was £6.6m compared with £4.5m in the previous year.



Long term development options at New Mills, with phase 1 (highlighted) under construction



Phase 1 development - additional research and manufacturing facilities



New premises at Renishaw S.A., France

Patent litigation

Continuing legal costs of £732,000 (1996 £936,000) have been incurred during the year in connection with patent infringement actions.

The United States District Court of Michigan has handed down recently its decision that Marposs' probes, subject to litigation, do not infringe Renishaw's patents. We believe that there should be no adverse commercial effect from this court decision insofar as they have already been in the market with the probe we believed infringed our existing patents for the past five years and the present decision does not change this situation. In a previous litigation, Renishaw had an unfavourable District Court ruling reversed on appeal, due to errors in the District Court's judgement. We have been advised by our Attorneys that it is their belief that errors were made in the present ruling. The Group has accordingly lodged an appeal.

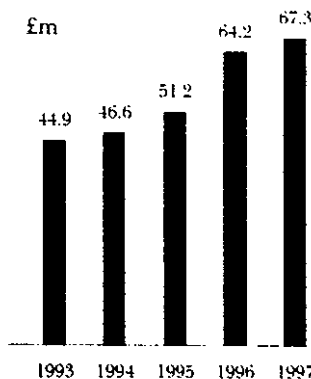
Personnel

On behalf of the Board, I thank all employees in the Group for their support and contribution in achieving these results which are the second highest in the Group's history.

Outlook

Although the appreciation of Sterling has caused extra pressures, the Group is in a very strong position, both in terms of the growing product range and its resources, with net cash balances in excess of £30m in spite of increased capital and research expenditures and we remain confident of the longer term growth. It is too soon to predict the outcome for the current year with any certainty, particularly due to exchange rate fluctuations and market conditions, but the Board believes that, at current exchange rates, the Group will show an improvement in trading profits over last year.

Shareholders' funds



David R McMurtry
Chairman and Chief Executive
25th September 1997



Financial review

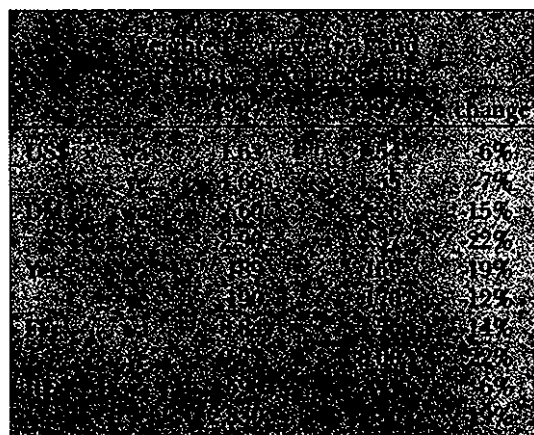
Accounting policies

There have been no changes in accounting policies during the year. The formats of the profit and loss account and balance sheet are also unchanged.

Trading results

The strength of Sterling during the year ended 30th June 1997 has had a significant adverse effect on the results of the Group.

Reported sales of £81.4m were 6% higher than the previous year. If exchange rates had remained similar to the previous year, group sales would have amounted to £88.1m, an increase of 14%.

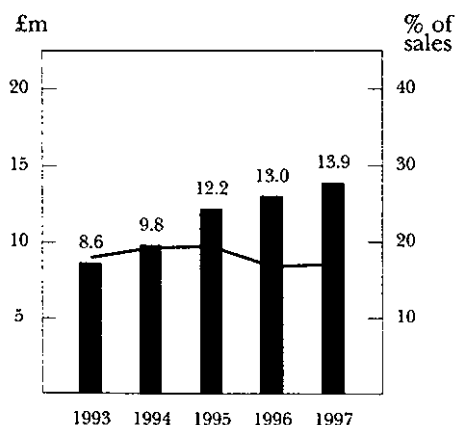


The spread of this currency impact on group sales is shown in the following table:

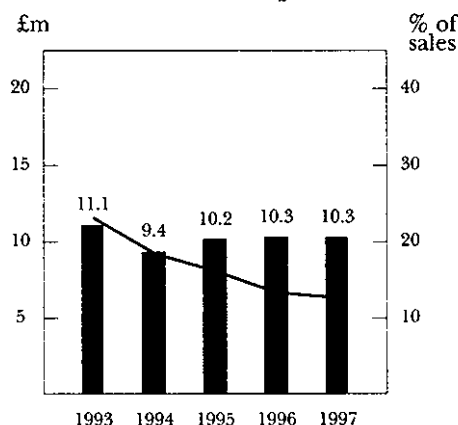
Country	1997 at actual exchange rates	1997 at 1996 exchange rates	1996 at actual exchange rates
	£'000	£'000	£'000
USA	27,660	29,277	25,385
Germany	11,263	12,933	11,969
Japan	9,286	10,906	8,304
Italy	6,562	6,984	6,753
France	4,333	4,942	4,854
Other overseas countries	12,959	13,707	12,368
United Kingdom	9,338	9,338	7,444
Group sales	81,401	88,087	77,077

The translational impact of exchange rates has had an opposite but smaller effect on overhead costs for the year. Group overhead costs, stated in Sterling, were reduced by approximately £2.2m due to currency effects. Accordingly, net operating results were £4.5m lower due to the strength of Sterling.

Distribution costs



Administrative expenses





During the year, the average number of employees increased from 904 to 1,027. The labour cost increased by £3.0m, or 12%, from £24.5m to £27.5m.

Tight control has been maintained on overhead costs in the year, with the result that this year there was no increase in administrative expenses which reduced from 13.4% to 12.7% as a percentage of sales.

Distribution costs remained constant as a percentage of sales.

Profit before tax

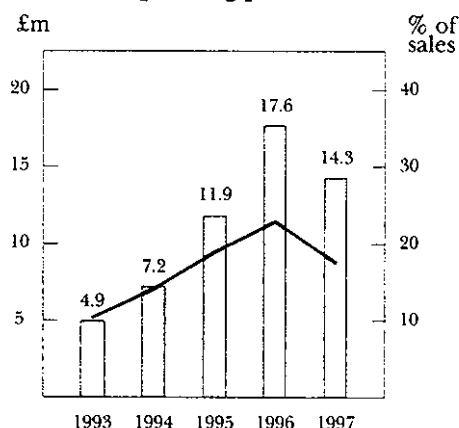
Operating profit, at £14.3m, was 19% lower than the previous year of £17.6m.

Net interest receivable was also lower than the previous year, at £1.9m compared with £2.5m for 1996.

There was an exceptional profit of £1.9m on the sale of our premises in Cwmbran, U.K.

As a result, profit before tax was 10% down on the previous year, at £18.0m compared with £20.1m.

Operating profit



Taxation

The tax charge for the year of £4.6m represents an effective tax rate of 26%, compared with 21% for 1996. The effective tax rate is the result of the differing rates prevailing throughout the Group.

In the U.K., the tax rate for 1997 has been reduced by roll-over relief on the tax on the profit on sale of property. The tax charge of £361,000, represents 19% on the profit on sale of £1.9m. Also, deferred tax is provided at the current rate of 31%.

For 1996, the group tax charge was reduced by the release of a provision from deferred tax that was no longer required.

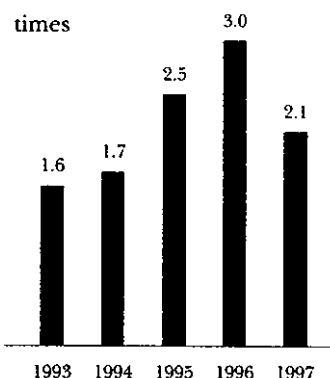
Dividends and retained reserves

The directors are proposing a final dividend of 5.76p for the year, which, with the interim dividend paid of 2.89p, gives a total for the year of 8.65p, compared with 7.21p for 1996, after adjusting for the one for five capitalisation issue during the year.

This represents a 20% increase over the previous year, with a dividend cover of 2.1 times.

After dividends, the retained profit is £7.1m. Shareholders' funds increased by £3.2m, after allowing for adverse currency reserve translation differences of £3.9m.

Dividend cover





Earnings per share

Both earnings per share and adjusted earnings per share reduced by 16% from the previous year.

For 1997, the adjusted earnings per share exclude the profit on sale of property. For the previous year, there was a release of a deferred tax provision that was no longer required. The adjusted earnings per share for 1996 were calculated on the basis of a normal tax charge.

Cash flow

Net cash inflow from operating activities was £13.7m, compared with £15.8m for the previous year.

Capital investment for the year was significantly higher at £6.6m against £4.5m in 1996. Investment in plant and machinery was at a similar level but property additions accounted for the majority of the increase. Net investment in capital, however, was at a similar level after accounting for the proceeds of the disposal of the Cwmbran property.

Tax paid during the year increased by £3m over the previous year from £3.9m to £6.9m and dividends paid increased from £4.3m to £5.6m. Overall, there was a net cash outflow of £0.3m for the year, before exchange rate effects.

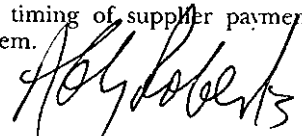
With an adverse currency translation difference of £1.8m, net funds at June 1997 were £32.3m, a reduction of £2.2m over the balance of £34.5m at June 1996.

Working capital

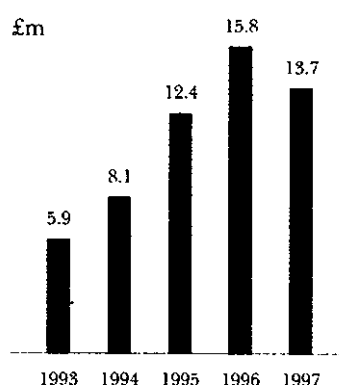
Working capital, including cash, increased during the year from £47.5m to £49.2m.

There was a 5% increase in stock levels from £12.8m to £13.4m. Trade debtors reduced from £16.1m to £15.7m, partly due to exchange rate changes giving lower Sterling amounts, but also due to tighter credit control procedures.

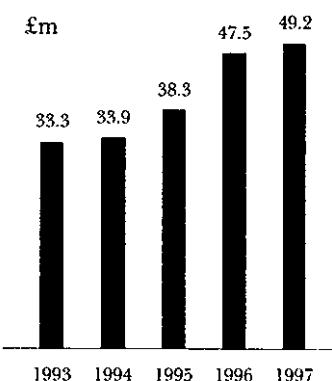
There has also been a decrease in creditors. The corporation tax creditor is lower, partly due to advance corporation tax paid during the year, and trade creditors have reduced, mainly as a result of the timing of supplier payments via the BACs system.


A C G Roberts
Group Finance Director
25th September 1997

Cash inflow from operating activities



Working capital





Report of the remuneration committee

Compliance with best practice

The Company considers that it has complied throughout the financial year with Section A of the best practice provisions annexed to the Listing Rules, except that the committee includes two executive directors as the Company only has one non-executive director. The Board considers that three non-executive directors is excessive for a company of our size, but will continue to review the situation regularly. In setting the remuneration policies for the executive directors, this committee has given full consideration to the best practice provisions set out in Section B of the annex to the Listing Rules.

Committee members

The committee is chaired by Leo Brook, the non-executive director, the other members being David McMurtry, Chairman and Chief Executive and John Deer, the Deputy Chairman. However, the Chairman and Deputy Chairman do not participate in matters relating to their own remuneration. Remuneration of the non-executive director is determined by the executive directors. The committee has access to external advisers when required.

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

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

Basic salary

Basic salaries are reviewed by the committee 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 U.K. companies within the electrical and engineering sectors.

Appreciation award

The Company operates an annual appreciation award scheme for all group employees and directors on which no pension contributions are made. The award is based upon group profit performance and the achievement of a number of strategic objectives to maintain the long term development of the Group. The non-executive director does not participate in the appreciation award scheme.

Directors' pension arrangements

The Company makes annual contributions to individual pension policies for each executive director, based upon a percentage of basic salary as follows:

D R McMurtry	41% of previous year's salary
D J Deer	41% of previous year's salary
B R Taylor	15% of current year's salary
A C G Roberts	15% of current year's salary

There has been no change in the year.

Directors' service contracts

No director has a service contract.

Benefits

Company car and other benefits provided to directors are subject to income tax and no benefits are pensionable. The benefits are included in the remuneration table at their taxable value.

Long term incentive schemes

Apart from the outstanding share options of B R Taylor, granted under the 1984 employee share option scheme, there are no long term incentive schemes in operation for the directors.

Details of directors' remuneration and share options are shown in note 4 on page 26.



Directors' report

The directors have pleasure in presenting their 24th Annual Report, together with the audited financial statements for the year ended 30th June 1997 as set out on pages 20 to 32.

Trading results

The group results for the year were:-

	1997 £'000	1996 £'000
Profit on ordinary activities before taxation	18,034	20,115
Taxation on profit on ordinary activities	4,653	4,207
Profit for the financial year	13,381	15,908
Dividends	6,292	5,242
Retained profit for the year	7,089	10,666

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 computer aided design and manufacturing systems.

An analysis of turnover by geographical market is given in note 2 to the financial statements.

Dividends

The directors propose a final dividend of 5.76p per share net and together with the interim dividend of 2.89p makes a total of 8.65p for the year, compared to 7.21p for the previous year, after adjusting for the one for five capitalisation issue during the year. The dividend will be paid on 24th November 1997 to shareholders on the register on 24th October 1997.

Share capital

In November 1996, there was a one for five capitalisation issue of new shares.

Under the terms of the 1984 employee share option scheme, options have been granted to employees of the Group. Details of options exercised during the year and outstanding at the end of the year are given in note 17 to the financial statements.

There has been no change in share capital between 1st July 1997 and 25th September 1997.

Directors and their interests

The directors who served during the year and their interests in the share capital of the Company, at the beginning and end of the year, were:-

	Ordinary shares of 20p each	
	30th June 1997	30th June 1996
D R McMurtry	26,368,803	26,368,803
D J Deer	12,374,607	12,374,607
B R Taylor	147	147
A C G Roberts	17,164	17,164
L Brook	17,011	17,011

The shareholdings at 30th June 1996 have been adjusted to reflect the one for five capitalisation issue in November 1996. All the above holdings were beneficially held with the exception of 2,320,311 shares which were non-beneficially held by D J Deer but in respect of which he has voting rights.

There has been no change in the above holdings in the period 1st July 1997 to 25th September 1997.

In accordance with the Articles of Association, B R Taylor, who does not have a service contract, retires by rotation and being eligible, offers himself for re-election. In addition, L Brook, aged 85, has been a non-executive director for 17 years and offers himself for re-election. He has considerable experience in the engineering sector and takes an active role in Board proceedings, making a positive contribution to the strategic function of the Board.



Fixed assets

In the opinion of the directors, the current market value of the Group's land and buildings is in excess of the current net book value. During the year ended 30th June 1991, the Group's land and buildings were revalued by professional valuers and the market value at that time exceeded the net book value by approximately £2 million. The revaluation was not incorporated in the financial statements.

On 24th July 1996, Western Corrugated Limited of Cwmbran, Gwent, exercised its option to purchase the Company's freehold premises at Springvale Industrial Estate, Cwmbran, Gwent. The profit on the sale of approximately £1,915,000 is accounted for as an exceptional item in the financial statements of the Group for the year ended 30th June 1997.

Auditors

A resolution to re-appoint KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming annual general meeting.

Special business

The Notice of annual general meeting on page 4 sets out a resolution which the directors have resolved should be proposed as special business during the course of the meeting.

Purchase of own shares - The directors consider that the Company should have the flexibility to be able to make market purchases of its own ordinary shares, up to a total of 10% of the issued share capital. Shareholders are being asked to pass the necessary special resolution No. 6 at the annual general meeting to give the required authority until the earlier of the conclusion of the 1998 annual general meeting and 31st December 1998. There is at present no intention to purchase shares and, if granted, the authority would only be exercised if an improvement in earnings per share were expected to result.

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 it is their policy to ensure that continued employment is offered to employees who become temporarily or permanently disabled. The Company always considers carefully an application for employment by any registered disabled person.

Regular contact is maintained with all employees through departmental channels and the bi-monthly in-house journal ensures staff are kept well informed on the progress of the Group.

Environmental policy

The Group operates in an environmentally conscious and responsible manner. All manufacturing processes are closely monitored and have Environmental Agency approval, where required. The Group has continued to fund investment during the year in improved, ecologically friendly and cost effective cleaning and finishing processes.

Renishaw plc is not required to register with the Environment Agency under the provisions of the new Packaging Waste Regulations. Nevertheless, the Company recognises the environmental importance of the regulations and makes every attempt to recycle packaging and minimise waste. As a result, the volumes of waste disposal have remained constant over the last two years, despite the increase in business activity. On-site recycling facilities are available for employees.

In the U.K., plans are well advanced for the new development of the site at New Mills. The proposals have been extensively discussed with the Environment Agency and with other local wildlife groups. The plans involve low-profile buildings with wide expanses of parkland for harmonious integration into the surrounding landscape. A number of features will be included to support the local wildlife.

Other features aimed at supporting the environment are the reduction of light pollution and the provision of cycling facilities to encourage employees to switch to "greener" means of transport.

Substantial shareholdings

Apart from the shareholdings of Messrs McMurtry and Deer (53.3%), the directors are not aware of any shareholding which represents 3% or more of the issued share capital of the Company, as at 17th September 1997.

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.

Crest

CREST is the new computerised system for settling sales and purchases of shares in U.K., which began last year. In February 1997, the ordinary shares of the Company became eligible for transfer through CREST.



Creditor payment policy

The Company has a variety of payment terms:-

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

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

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 1997 was 30 days.

Donations

During the year the Group made charitable donations of £40,022 (1996 £55,322). No political donations were made.

Corporate governance

The directors support best practice in corporate governance and confirm that they have reviewed the Company's compliance with the Code of Best Practice ("the Code") during the year. The report by the auditors concerning corporate governance is presented on page 19.

The Board of directors

The Board meets monthly, retains control over the Company and its subsidiary undertakings and monitors the executive management. There is a formal schedule of matters specifically reserved to it for decision and it has delegated authority to committees of directors on other specific matters. There is an agreed procedure for directors in the furtherance of their duties to take independent professional advice if necessary, at the Company's expense. All directors have access to the advice and services of the company secretary, who is responsible to the Board for ensuring that Board procedures are followed and applicable rules and regulations are complied with.

The Company confirms that it has complied with the provisions of the Code save as outlined below:-

Non-executive directors

The Board currently only has one non-executive director who has been in office for a number of years and does not have a service contract. He is subject to re-election by rotation as are Messrs Taylor and Roberts. The Board considers that the Code's recommendation of three non-executive directors is excessive for a company of our size, but will continue to review the situation regularly.

Chairman and Chief Executive

The roles of Chairman and Chief Executive are currently combined. The Board considers that there is a clearly defined division of responsibilities at the head of the Company, which ensures an appropriate balance of power and authority, such that no one individual has unfettered powers of decision.

Board committees

The Company has a remuneration committee, chaired by the non-executive director and comprising, in addition, the Chairman and Deputy Chairman.

In November 1996, an audit committee was established as a formally constituted sub-committee of the Board. It is chaired by the non-executive director and also comprises the Deputy Chairman and Assistant Chief Executive. The committee has formal terms of reference and will meet at least twice a year with the Finance Director, Group Internal Audit Manager and the external auditors in attendance. The Board ensures that an objective and professional relationship is maintained with the external auditors.

Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.



Internal control

The Board acknowledges that it is responsible for the Company's system of internal financial control and that it has ultimate responsibility for ensuring that the Group has in place a system of controls, financial and otherwise, that is appropriate to the business environment in which it operates.

The Board has reviewed the effectiveness of the system of internal financial control for the current financial year. However, any system can provide only reasonable and not absolute assurance against material misstatement or loss.

The key procedures that the directors have established and which are designed to provide effective internal financial control are set out below:-

Control environment

There is an appropriate organisational structure with clearly defined areas of responsibility and delegation of authority from the Board to the operating companies. Appropriate reporting lines are established, including a comprehensive set of procedures for reporting to the Board monthly the results of each subsidiary company. There is a commitment to competence and integrity and this is achieved through appropriate recruitment procedures and employment policy.

Identification and evaluation of risks and control objectives

The Board has identified the key business risks, from both internal and external sources, for the Company and its subsidiaries. The Board continues to develop appropriate policies to manage these risks, together with determining key control objectives and defining minimum control standards.

Information systems

An annual budget is approved by the Board. In addition, reliable and up to date internal financial reports, including monthly management accounts and forecasts are prepared. Sales and orders are reported daily, cash balances are reported weekly and there is periodic reporting to the Board on the Group's tax and treasury position.

Control procedures

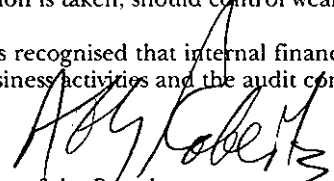
Control procedures are established that are considered appropriate to the size of the organisation. They are designed to cover the key business risks identified by the Board. In particular, controls are designed to prevent the unauthorised use or disposition of the Group's assets, to ensure proper accounting records are maintained and that financial information used within the business or for publication is reliable.

Key procedures and controls are defined in the Group Finance Manual, which has been completely revised in the year and approved by the Board. Authorisation limits have been reviewed, documented and formally approved at Board level for all key procedures and transactions. All items of capital expenditure and all employee recruitment require authorisation by the Board of directors of the relevant group company. The Group's treasury activities are centralised and, apart from small working capital requirements in the overseas subsidiaries, all holdings of foreign currency are remitted to Renishaw plc. Significant foreign currency transactions are decided by the Board of directors, which determines when and how foreign currency is converted into Sterling. The Group does not use any open ended financial derivative instruments.

Monitoring and corrective action

The audit committee reviews the accounting policies and procedures of the Group and its compliance with statutory requirements. It reviews the scope and reports of the external auditors, internal audit reports and internal control self-assessment declarations made by the senior management of all group companies. The internal financial control system is monitored and supported by the Group Internal Audit Manager. This monitoring process is continual. It is a principal function of the Group's finance managers to ensure established control procedures are adhered to and that appropriate corrective action is taken, should control weaknesses be identified.

It is recognised that internal financial controls must evolve over time, given the growth in the Group's business activities and the audit committee reviews them formally on an annual basis.


By order of the Board
A C G Roberts
Secretary
25th September 1997



Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In preparing those 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;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- * prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

Financial calendar

Annual general meeting
21st November 1997

Dividends
Interim - paid April
Final - paid November

Announcement of results
Annual results - September
Half year results - March



Reports of the auditors

Report of the auditors to the members of Renishaw plc

We have audited the financial statements on pages 20 to 32.

Respective responsibilities of directors and auditors

As described on page 18, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th June 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
Marlborough House
Fitzalan Court
Cardiff CF2 1TE
25th September 1997

KPMG Audit Plc

Review report by KPMG Audit Plc to Renishaw plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 16 and 17 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. This guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control on page 17 and going concern on page 16, in our opinion the directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company and examination of relevant documents, in our opinion the directors' statements on pages 16 and 17 appropriately reflect the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc

Chartered Accountants
Cardiff
25th September 1997

KPMG Audit Plc



Consolidated profit and loss account

for the year ended 30th June 1997

	Notes	1997 £'000	1996 £'000
Turnover	2	81,401	77,077
Cost of sales		42,938	36,136
Gross profit		38,463	40,941
Distribution costs		13,896	12,978
Administrative expenses		10,320	10,327
		24,216	23,305
Operating profit	3	14,247	17,636
Profit on sale of property	5	1,915	—
Profit before interest		16,162	17,636
Interest receivable less payable	6	1,872	2,479
Profit on ordinary activities before taxation		18,034	20,115
Tax on profit on ordinary activities	7	4,653	4,207
Profit for the financial year	8	13,381	15,908
Dividends	9	6,292	5,242
Retained profit for the financial year	18	7,089	10,666
		pence	pence
Earnings per share	10	18.4	21.9
Profit on sale of property		(2.1)	—
Deferred tax provision no longer required		—	(2.4)
Adjusted earnings per share		16.3	19.5

The current and the previous years' results derive from continuing operations.

There is no difference between the profit for the current and previous financial year stated above and its historical cost equivalent.



Balance sheets

at 30th June 1997

	Notes	The Group		The Company	
		1997 £'000	1996 £'000	1997 £'000	1996 £'000
Fixed assets					
Tangible assets	11	21,176	18,954	15,705	14,097
Investments	12	-	-	25	25
		<u>21,176</u>	<u>18,954</u>	<u>15,730</u>	<u>14,122</u>
Current assets					
Stocks	13	13,442	12,755	8,359	7,530
Debtors	14	18,513	19,328	36,326	36,977
Cash at bank		34,197	34,462	1,262	3,098
		<u>66,152</u>	<u>66,545</u>	<u>45,947</u>	<u>47,605</u>
Creditors					
Amounts falling due within one year	15	16,976	19,057	40,209	39,281
Net current assets		<u>49,176</u>	<u>47,488</u>	<u>5,738</u>	<u>8,324</u>
Total assets less current liabilities		<u>70,352</u>	<u>66,442</u>	<u>21,468</u>	<u>22,446</u>
Provision for liabilities and charges					
Deferred taxation	16	3,003	2,209	2,454	1,789
Net assets		<u>67,349</u>	<u>64,233</u>	<u>19,014</u>	<u>20,657</u>
Capital and reserves					
Called up share capital	17	14,548	12,123	14,548	12,123
Share premium account	17	4	66	4	66
Profit and loss account	18	52,797	52,044	4,462	8,468
Shareholders' funds - equity		<u>67,349</u>	<u>64,233</u>	<u>19,014</u>	<u>20,657</u>

The financial statements on pages 20 to 32 were approved by the Board of directors on 25th September 1997 and were signed on its behalf by:-

D R McMurtry
A C G Roberts

Directors



Consolidated cash flow statement

for the year ended 30th June 1997

	Notes	1997 £'000	1996 £'000
Net cash inflow from operating activities	19(a)	13,708	15,847
Returns on investments and servicing of finance			
Interest received		2,617	2,844
Interest paid		(334)	(690)
		2,283	2,154
Tax paid		(6,876)	(3,910)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(6,623)	(4,484)
Sale of tangible fixed assets		2,801	314
		(3,822)	(4,170)
Equity dividends paid		(5,593)	(4,286)
Cash (outflow)/inflow before management of liquid resources and financing		(300)	5,635
Management of liquid resources			
Increase in bank deposits		(529)	(15,174)
Financing			
Issue of ordinary share capital under employee share option scheme		5	78
Decrease in cash in the year		(824)	(9,461)

Reconciliation of net cash flow to movement in net funds

for the year ended 30th June 1997		1997 £'000	1996 £'000
Decrease in cash in the year		(824)	(9,461)
Cash outflow from increase in liquid resources		529	15,174
Translation differences		(1,887)	2,779
Movement in net funds in the year		(2,182)	8,492
Net funds at 1st July 1996		34,462	25,970
Net funds at 30th June 1997	19(b)	32,280	34,462



Consolidated statement of total recognised gains and losses

for the year ended 30th June 1997

	1997 £'000	1996 £'000
Profit for the financial year	13,381	15,908
Currency translation differences on foreign currency net investments	(3,978)	2,306
Total gains recognised relating to the year	<u>9,403</u>	<u>18,214</u>

Reconciliations of movements in shareholders' funds

for the year ended 30th June 1997

	The Group		The Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Profit for the financial year	13,381	15,908	4,644	8,448
Dividends	(6,292)	(5,242)	(6,292)	(5,242)
Retained profit/(loss) for the year	<u>7,089</u>	<u>10,666</u>	<u>(1,648)</u>	<u>3,206</u>
Other recognised gains and losses	(3,978)	2,306	—	—
New share capital issued	1	12	1	12
Premium on new share capital issued	4	66	4	66
Net addition/(reduction) to shareholders' funds	<u>3,116</u>	<u>13,050</u>	<u>(1,643)</u>	<u>3,284</u>
Shareholders' funds at 1st July 1996	64,233	51,183	20,657	17,373
Shareholders' funds at 30th June 1997	<u>67,349</u>	<u>64,233</u>	<u>19,014</u>	<u>20,657</u>



Notes

Notes (forming part of the financial statements)

1.

Accounting policies

The following principal accounting policies have been applied consistently in the preparation of the financial statements of the Group. The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary undertakings.

Turnover

Turnover represents the value of group sales to third parties invoiced during the year, including royalty income, less returns, allowances and value added tax.

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 machinery - 5 to 10 years

Motor vehicles - 3 to 4 years

No depreciation is provided on freehold land.

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.

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 group profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax, using the liability method, where it is probable that an actual liability will crystallise. Provision is made at the rate expected to be applicable when the liability crystallises. ACT irrecoverable by deduction from future corporation tax is carried forward within deferred tax or as ACT recoverable within debtors, as appropriate.

Foreign currency

Overseas results are translated into sterling at weighted average exchange rates for the year. Overseas assets and liabilities included in the consolidated balance sheet are translated into sterling at the rates of exchange ruling at the end of the accounting year. The resultant currency exchange differences, net of exchange differences arising on related foreign currency net borrowings, are treated as movements on reserves and are reported in the consolidated statement of total recognised gains and losses.

Government grants

Government grants relating to the purchase of tangible assets are released to profit and loss account over the estimated useful lives of the relevant assets. Grants relating to revenue expenditure are credited to profit and loss account as receivable.

Pension costs

The Group operates a contributory pension scheme, of the defined benefit type, for U.K. based employees. The scheme is administered by trustees and is independent of the group finances. Contributions are paid to the scheme in accordance with the recommendations of an independent actuary to enable the trustees to meet from the scheme the benefits accruing in respect of current and future service. The Group's contributions are charged to profit and loss account in accordance with SSAP 24.

Foreign based employees are covered by state, defined benefit and private pension schemes in their countries of residence. Actuarial valuations of foreign pension schemes, in accordance with SSAP 24, were not obtained because of the costs involved and the smaller number of foreign employees.

Goodwill

Goodwill relating to acquisitions by the Group is written off against reserves in the year of acquisition.



2. Turnover is defined under the accounting policies in note 1 and relates to the principal trade. An analysis by geographical market is:-

Turnover

	1997 £'000	1996 £'000
USA	27,660	25,385
Germany	11,263	11,969
Japan	9,286	8,304
Italy	6,562	6,753
France	4,333	4,854
Other overseas countries	12,959	12,368
Total sales to overseas customers	72,063	69,633
United Kingdom	9,338	7,444
Total group sales	81,401	77,077

A geographical analysis by origin of turnover, profit before taxation and net assets is not shown because, in the opinion of the directors, disclosure of such information would be seriously prejudicial to the interests of the Group.

3. a) Operating profit is stated after charging/(crediting):-

Operating profit

	1997 £'000	1996 £'000
Research and development	6,671	5,364
Depreciation	2,872	2,651
Foreign exchange (gains)/losses	14	(65)
Auditors' remuneration - audit	104	128
Other fees paid to the auditors and their associates	192	121

b) Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year was:-

	1997 Number	1996 Number
United Kingdom	730	643
Overseas	297	261
	1,027	904

The aggregate payroll costs of the above were:-

	1997 £'000	1996 £'000
Wages and salaries	23,339	20,708
Social security costs	2,387	2,441
Other pension costs	1,804	1,393
	27,530	24,542



4.

The total emoluments of the directors were:-

**Directors'
remuneration and
share options**

	1997 £'000	1996 £'000
Salaries and fees	615	569
Benefits	69	52
Appreciation award	199	184
Pension contributions	165	154
	<u>1,048</u>	<u>959</u>

	Salary & fees £'000	Benefits £'000	Apprec. award £'000	Total 1997 £'000	Total 1996 £'000	Pension contributions 1997 £'000	Pension contributions 1996 £'000
Chairman							
D R McMurtry	211	13	76	300	276	80	75
Other executive directors							
D J Deer	116	16	42	174	154	44	41
B R Taylor	179	24	53	256	232	27	25
A C G Roberts	95	13	28	136	127	14	13
Non-executive							
L Brook	14	3	—	17	16	—	—
	<u>615</u>	<u>69</u>	<u>199</u>	<u>883</u>	<u>805</u>	<u>165</u>	<u>154</u>

The amounts in respect of pension contributions are the amounts paid by the Company for the relevant periods.

Under the terms of the 1984 employee share option scheme, directors' options, as amended for the capitalisation issues, which are exercisable between 3 and 10 years after the date the options were granted, were:-

Date options granted	Number of options at 1st July 1996	Option price	Number of options exercised	Number of options at 30th June 1997
B R Taylor				
23rd September 1988	17,402	£0.78	—	17,402
6th September 1989	13,922	£1.28	—	13,922

There has been no change in directors' share options between 1st July 1997 and 25th September 1997.

The middle market price of the shares at 30th June 1997 was £3.425. The range during the year then ended was £3.38 to £4.475, after adjustment for the one for five capitalisation issue.

There are no performance criteria conditional upon which the directors' options are exercisable.



5. On 24th July 1996, the Company sold its freehold premises, located at Springvale Industrial Estate, Cwmbran, Gwent, U.K.

Profit on sale of property

The proceeds were £2,750,000, which resulted in a profit on sale of £1,915,000 and an estimated tax charge of £361,000, after allowing for roll-over relief.

6.		1997 £'000	1996 £'000
Interest receivable less payable	Bank interest receivable	2,203	3,103
	Bank interest payable	(331)	(624)
		<u>1,872</u>	<u>2,479</u>

7.		1997 £'000	1996 £'000
Tax on profit on ordinary activities	U.K. corporation tax charge at 32.5% (1996 33%)	760	4,305
	Deferred tax charge/(credit) at 31% (1996 33%)	794	(2,463)
	Overseas tax	3,099	2,365
		<u>4,653</u>	<u>4,207</u>

A further liability to taxation would arise if the retained profits of certain overseas subsidiaries were distributed.

8. As provided by section 230(3) of the Companies Act 1985, a separate profit and loss account dealing with the results of the Company alone has not been presented. The profit for the financial year, including dividends receivable, dealt with in the financial statements of the Company is £4,644,000 (1996 £8,448,000).

Profit for the financial year

9.		1997 £'000	1996 £'000
Dividends	Interim dividend paid of 2.89p (1996 2.41p)	2,102	1,751
	Final dividend proposed of 5.76p (1996 4.8p)	4,190	3,491
		<u>6,292</u>	<u>5,242</u>

Dividends per share for the previous year have been restated for the one for five capitalisation issue in November 1996.

10. Earnings per share are calculated on earnings of £13,381,000 (1996 £15,908,000) and on 72,740,473 shares (1996 72,697,066), being the weighted average number of shares in issue, after taking account of the one for five capitalisation issue during the year. Adjusted earnings per share for the current year are calculated after excluding the profit on sale of the property at Cwmbran. Adjusted earnings per share for the previous year are calculated on the basis of a normal tax charge. These figures are shown as the directors believe that they are more meaningful measures of the performance of the Group.

Earnings per share

A fully diluted earnings per share figure, based on share options outstanding, is not provided as the effect on earnings per share is not material.

11.

Tangible assets

a) The Group

	Freehold land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
At 1st July 1996	12,965	21,228	2,119	36,312
Additions	2,598	3,311	714	6,623
Disposals	(1,054)	(779)	(323)	(2,156)
Currency adjustment	(709)	(622)	(117)	(1,448)
At 30th June 1997	13,800	23,138	2,393	39,331
Depreciation				
At 1st July 1996	2,165	13,882	1,311	17,358
Charge for the year	315	2,157	400	2,872
Released on disposals	(279)	(758)	(294)	(1,331)
Currency adjustment	(215)	(460)	(69)	(744)
At 30th June 1997	1,986	14,821	1,348	18,155
Net book value				
At 30th June 1997	11,814	8,317	1,045	21,176
At 30th June 1996	10,800	7,346	808	18,954

b) The Company

	Freehold land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
At 1st July 1996	9,273	16,223	1,313	26,809
Additions	1,005	2,936	588	4,529
Disposals	(1,054)	(712)	(194)	(1,960)
At 30th June 1997	9,224	18,447	1,707	29,378
Depreciation				
At 1st July 1996	1,470	10,314	928	12,712
Charge for the year	204	1,696	223	2,123
Released on disposals	(279)	(700)	(183)	(1,162)
At 30th June 1997	1,395	11,310	968	13,673
Net book value				
At 30th June 1997	7,829	7,137	739	15,705
At 30th June 1996	7,803	5,909	385	14,097



12.

Investments

The Company

Shares at cost in subsidiary undertakings

1997
£'000

1996
£'000

25

25

Details of subsidiary undertakings are shown in note 22.

13.

Stocks

Raw materials
Work in progress
Finished goods

The Group

The Company

1997
£'000

1996
£'000

1997
£'000

1996
£'000

6,182	5,621	5,101	4,651
780	837	780	837
6,480	6,297	2,478	2,042
13,442	12,755	8,359	7,530

14.

Debtors

Trade debtors
Amounts owed by group undertakings
Corporation tax
Prepayments

The Group

The Company

1997
£'000

1996
£'000

1997
£'000

1996
£'000

15,694	16,058	2,477	3,236
—	—	32,124	32,588
—	—	829	—
2,819	3,270	896	1,153
18,513	19,328	36,326	36,977

Included in prepayments for the Group are amounts totalling £506,000 (1996 £565,000) which represent deposits on leased premises paid by a subsidiary undertaking. These amounts are recoverable on expiry of the leases, which will not be within one year. All other debtors are due within one year.

15.

Creditors

Amounts falling due
within one year

Bank loans and overdrafts
Trade creditors
Amounts owed to group undertakings
Corporation tax
Other taxes and social security
Other creditors
Proposed dividend payable

The Group

The Company

1997
£'000

1996
£'000

1997
£'000

1996
£'000

1,917	—	1,917	—
5,478	7,390	4,256	5,979
—	—	28,384	25,394
1,536	4,713	—	3,011
1,382	1,417	412	360
2,473	2,046	1,050	1,046
4,190	3,491	4,190	3,491
16,976	19,057	40,209	39,281



16.

Deferred taxation

a) Movements during the year were:-

	The Group		The Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
At 1st July 1996	2,209	4,672	1,789	1,792
Charge/(release) for the year	794	(2,463)	665	(3)
At 30th June 1997	<u>3,003</u>	<u>2,209</u>	<u>2,454</u>	<u>1,789</u>

b) Represented by:-

Difference between accumulated depreciation and capital allowances	2,060	2,229	1,865	2,041
Unremitted reserves of overseas subsidiaries	1,934	1,695	—	—
Other timing differences	(991)	(1,715)	589	(252)
At 30th June 1997	<u>3,003</u>	<u>2,209</u>	<u>2,454</u>	<u>1,789</u>

There is no unprovided deferred tax.

17.

Share capital

	1997 £'000	1996 £'000
Authorised 75,000,000 ordinary shares of 20p each	15,000	15,000
Allotted, called up and fully paid 72,742,335 (1996 60,615,641) ordinary shares of 20p each	<u>14,548</u>	<u>12,123</u>

Movements in share capital and share premium account during the year were:-

	Share capital		Share premium
	Number of shares	£'000	£'000
At 1st July 1996	60,615,641	12,123	66
One for five capitalisation issue	12,123,083	2,424	(66)
Employee share options exercised	3,611	1	4
At 30th June 1997	<u>72,742,335</u>	<u>14,548</u>	<u>4</u>

Under the terms of the 1984 employee share option scheme, options outstanding at 25th September 1997, as amended for the capitalisation issues, which are exercisable between 3 and 10 years after the date the options were granted, were:-

Date options granted	Option price	Number of shares
23rd September 1988	£0.78	23,621
6th September 1989	£1.28	24,447

Details of directors' share options, included in the above figures, are shown in note 4.

No options lapsed or were granted during the year.



18.

Movements during the year were:-

Profit and loss account

	The Group		The Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
At 1st July 1996	52,044	40,273	8,468	6,463
Retained profit/(loss) for the year	7,089	10,666	(1,648)	3,206
Movement in currency reserve	(3,978)	2,306	—	—
One for five capitalisation issue	(2,358)	(1,201)	(2,358)	(1,201)
At 30th June 1997	<u>52,797</u>	<u>52,044</u>	<u>4,462</u>	<u>8,468</u>

The cumulative amount of goodwill resulting from acquisitions made in earlier financial years, which has been written off to reserves is £1,913,000 (1996 £1,913,000).

19.

a) Reconciliation of operating profit to net cash inflow from operating activities:-

Notes to the consolidated cash flow statement

	1997 £'000	1996 £'000
Operating profit	14,247	17,636
Depreciation charges	2,872	2,651
(Profit) on sale of tangible fixed assets	(61)	(60)
(Increase) in stocks	(687)	(2,943)
(Increase) in debtors	(1,466)	(2,106)
(Decrease)/increase in creditors	(1,197)	669
Net cash inflow from operating activities	<u>13,708</u>	<u>15,847</u>

b) Analysis of net funds:-

	Consolidated balance sheet			Consolidated cash flow statement		
	Cash at bank £'000	Overdrafts and loans £'000	Net funds £'000	Cash £'000	Bank deposits £'000	Net funds £'000
At 1st July 1996	34,462	—	34,462	4,412	30,050	34,462
Changes in the year	(265)	(1,917)	(2,182)	(2,711)	529	(2,182)
At 30th June 1997	<u>34,197</u>	<u>(1,917)</u>	<u>32,280</u>	<u>1,701</u>	<u>30,579</u>	<u>32,280</u>

20.

Pension scheme

The Group operates a number of pension schemes throughout the world. The major schemes, which cover over 90% of scheme members, are of the defined benefit type.

The total pension cost of the Group for the year was £1,804,000 (1996 £1,393,000) of which £819,000 (1996 £585,000) related to overseas schemes. The pension cost relating to the U.K. scheme is assessed in accordance with the advice of a qualified actuary using the projected unit method. The latest actuarial assessment of that scheme was at July 1995. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries and pensions. It was assumed that the investment return would be 2.5% per annum in excess of salary increases and that future pensions would increase at the rate of 4.5% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the U.K. scheme was £7,565,000 and the actuarial value of the assets was sufficient to cover 93% of the benefits that had accrued to members after allowing for expected future increases in earnings. The deficit on an ongoing basis is being reduced over members' future working lives by additional company contributions. Neither the ongoing deficit nor the additional company contributions are considered by the actuary to be material. On a discontinuance basis, the scheme is fully funded.



21. a) Outstanding capital expenditure not provided for in these financial statements was:-

Commitments

	The Group		The Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Authorised and committed	568	1,578	515	50

b) Group annual commitments under non-cancellable operating leases (all of which relate to land and buildings in subsidiary companies) were £265,000 (1996 £559,000), of which £134,000 (1996 £421,000) expires within one year and £131,000 (1996 £138,000) expires in the second to fifth years inclusive. The Company has no material annual commitments under non-cancellable operating leases.

22. The following are the principal subsidiary undertakings of Renishaw plc, all of which are wholly owned. The country of incorporation is Great Britain and the country of registration is England and Wales unless otherwise stated. The country of incorporation is also the country of operation.

Subsidiary undertakings

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 Investments Limited (Guernsey)	Investment company.
Renishaw International B.V. (The Netherlands)	Overseas holding and investment company.
Renishaw Inc (USA)	Service and distribution of group products.
Renishaw KK (Japan)	Service and distribution of group products.
Renishaw GmbH (Germany)	Service and distribution of group products.
Renishaw S.A. (France)	Service, distribution, research and development and manufacture of group products.
Simci S.A. (France)	Service and distribution of group products.
Renishaw S.p.A. (Italy)	Service and distribution of group products.
Renishaw Iberica S.A. (Spain)	Service and distribution of group products.
Renishaw A.G. (Switzerland)	Service and distribution of group products.
Renishaw (Hong Kong) Limited (Hong Kong)	Service and distribution of group products.
Renishaw Latino Americana Ltda. (Brazil)	Service and distribution of group products.
Wotton Travel Limited	Travel agency.



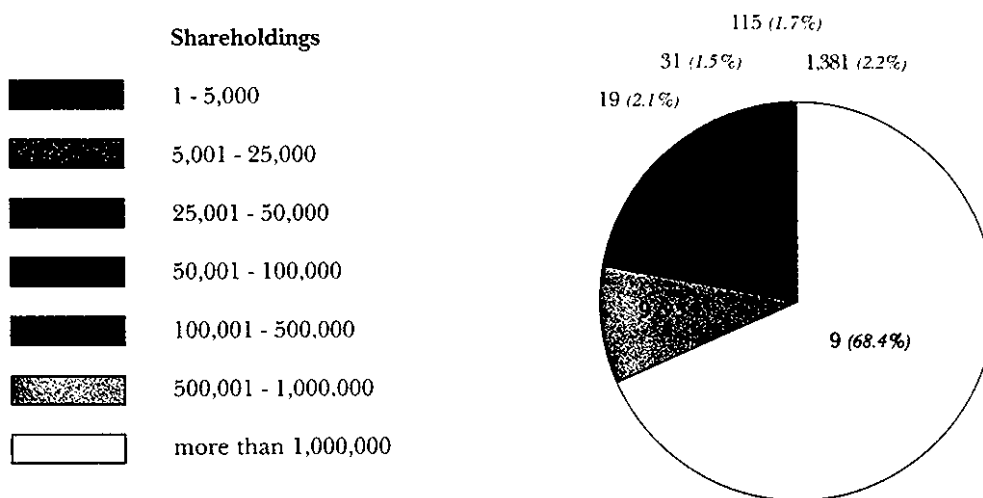
Shareholders' profile

	Number of shareholders		Number of shares	
	Number	%	Number	%
1. Range of shareholdings				
1 - 500	467	29.1	106,484	0.1
501 - 1,000	324	20.1	241,580	0.3
1,001 - 5,000	590	36.7	1,324,554	1.8
5,001 - 10,000	65	4.0	433,311	0.6
10,001 - 25,000	50	3.1	829,182	1.1
25,001 - 50,000	31	1.9	1,104,177	1.5
50,001 - 100,000	19	1.2	1,478,983	2.1
100,001 - 500,000	43	2.7	10,612,101	14.6
500,001 - 1,000,000	9	0.6	6,891,511	9.5
more than 1,000,000	9	0.6	49,720,452	68.4
	<u>1,607</u>	<u>100.0</u>	<u>72,742,335</u>	<u>100.0</u>

2.. Categories of shareholders

Directors	5	0.3	38,777,732	53.3
Banks, insurance companies, nominee companies, pension funds and other corporate bodies	461	28.7	32,222,286	44.3
Individuals	1,141	71.0	1,742,317	2.4
	<u>1,607</u>	<u>100.0</u>	<u>72,742,335</u>	<u>100.0</u>

Number of shareholders in each shareholding range



The above information was compiled from the register as at 17th September 1997.



10 year financial record

Results	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Overseas sales	72,063	69,633	57,267	46,130	44,343	40,697	41,455	43,087	35,244	25,053
U.K. sales	9,338	7,444	5,395	4,744	3,657	3,350	4,207	4,474	3,953	3,176
Total sales	<u>81,401</u>	<u>77,077</u>	<u>62,662</u>	<u>50,874</u>	<u>48,000</u>	<u>44,047</u>	<u>45,662</u>	<u>47,561</u>	<u>39,197</u>	<u>28,229</u>
Profit on ordinary activities before taxation	18,034	20,115	13,535	8,222	7,142	9,087	11,103	13,423	10,088	5,359
Taxation	4,653	4,207	3,831	2,379	2,129	2,745	3,335	4,253	3,069	1,402
Profit for the financial year	<u>13,381</u>	<u>15,908</u>	<u>9,704</u>	<u>5,843</u>	<u>5,013</u>	<u>6,342</u>	<u>7,768</u>	<u>9,170</u>	<u>7,019</u>	<u>3,957</u>
Dividends	6,292	5,242	3,880	3,372	3,152	3,157	2,910	2,314	1,617	1,016
Retained profit	<u>7,089</u>	<u>10,666</u>	<u>5,824</u>	<u>2,471</u>	<u>1,861</u>	<u>3,185</u>	<u>4,858</u>	<u>6,856</u>	<u>5,402</u>	<u>2,941</u>
Capital employed	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Share capital	14,548	12,123	10,765	9,776	9,758	9,717	9,697	7,722	7,700	1,540
Share premium	4	66	145	1,041	923	641	522	206	—	5,770
Reserves	52,797	52,044	40,273	35,763	34,223	34,137	31,200	28,180	21,485	16,154
Shareholders' funds	<u>67,349</u>	<u>64,233</u>	<u>51,183</u>	<u>46,580</u>	<u>44,904</u>	<u>44,495</u>	<u>41,419</u>	<u>36,108</u>	<u>29,185</u>	<u>23,464</u>
Deferred taxation	3,003	2,209	4,672	4,815	4,862	3,418	1,647	2,341	1,566	2,189
Capital employed	<u>70,352</u>	<u>66,442</u>	<u>55,855</u>	<u>51,395</u>	<u>49,766</u>	<u>47,913</u>	<u>43,066</u>	<u>38,449</u>	<u>30,751</u>	<u>25,653</u>
Statistics	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Overseas sales as a percentage of total sales	88.5%	90.3%	91.4%	90.7%	92.4%	92.4%	90.8%	90.6%	89.9%	88.7%
Earnings per share *	18.4p	21.9p	13.4p	8.1p	6.9p	8.8p	10.8p	12.8p	9.8p	8.0p
Dividend per share *	8.65p	7.21p	5.34p	4.65p	4.38p	4.38p	4.04p	3.2p	2.26p	1.42p

* Figures for 1996 and prior years have been amended for the one for five capitalisation issue in November 1996 and previous capitalisation issues.



Bar chart - 10 year financial record

