

Directors' report

The directors have pleasure in presenting their 26th Annual Report, together with the audited financial statements for the year ended 30th June 1999 as set out on pages 20 to 34.

Trading results

The group results for the year were:-

	1999 £'000	1998 £'000
Profit on ordinary activities before taxation	25,829	22,380
Taxation on profit on ordinary activities	6,716	6,280
Profit for the financial year	19,113	16,100
Dividends	8,184	7,242
Retained profit for the year	10,929	8,858

Review of the business

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

A review of the business is given in the Chairman's statement and Financial review. An analysis of turnover by geographical market is given in note 2 to the financial statements.

Dividends

The directors propose a final dividend of 7.78p per share net which, together with the interim dividend of 3.66p, makes a total of 11.44p for the year, compared to 9.95p for the previous year. The final dividend will be paid on 22nd November 1999 to shareholders on the register on 29th October 1999.

Share capital

Under the terms of the 1984 employee share option scheme, options were granted to employees of the Group. Details of options exercised during the year are given in note 17 to the financial statements. All share options granted under this scheme have now been exercised.

There has been no change in share capital between 1st July 1999 and 30th September 1999.

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	
	1999	1998
D R McMurtry	26,369,803	26,369,803
D J Deer	12,375,607	12,375,607
B R Taylor	5,147	5,147
A C G Roberts	15,164	15,164
L Brook	17,011	17,011

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 1999 to 30th September 1999.

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 87, a non-executive director for 19 years, 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.



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 35 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 2000 annual general meeting and 31st December 2000. *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 control

The Group strives to perform its activity in a way that allows it to best protect and support the environment. All processes are under tight control and regular reviews with the utilities authorities ensure that they are kept to the highest possible performance levels. Extensive recycling takes place, from the composting of bio-degradable materials to the re-processing of metallic wastes. This policy is also encouraged for staff, through the provision of recycling facilities for individual use.

Over the last year, a packaging waste reduction programme has been conducted, leading to the elimination of polystyrene chips and the redesign of the packaging of several products in order to reduce its environmental impact, making it lighter and more easily recyclable.

The recently completed phase 1 of the site development programme has provided the opportunity to implement some new concepts in heating and lighting, designed to improve the building's efficiency, thereby minimising its impact on the environment. This includes the use of variable air volumes and a 'free cooling' multistage air conditioning system, low energy lighting system and the maximised use of natural ambient lighting. Building insulation has also been designed to keep energy losses to a minimum.

Furthermore, continuing effort is paid to support wildlife on the site, in concert and collaboration with the relevant local authorities and associations.

Substantial shareholdings

Apart from the shareholdings of Messrs McMurtry and Deer (36.2% and 17% respectively), the directors are not aware of any shareholding which represents 3% or more of the issued share capital of the Company, as at 30th September 1999.

Research and development

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

Creditor payment policy

The Company has a variety of payment terms:-

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

Two payment runs are made each month. The Company's policy is to ensure that all invoices are settled within 60 days of the receipt and agreement of a valid and complete invoice. Wherever possible, payments are made using the Bankers' Automated Clearing Service ("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 1999 was approximately 30 days (1998 30 days).

Donations

During the year the Group made charitable donations of £42,382 (1998 £40,297). No political donations were made.

Corporate governance

The Principles of Good Governance and the Code of Best Practice ('the Combined Code') was published in June 1998. It became effective for accounting periods ending on or after 31st December 1998 and was incorporated into the Listing Rules of the London Stock Exchange in January 1999. The Combined Code has 14 principles of good governance and 45 code provisions that are applicable to listed companies.

The provisions of the Combined Code are set out in four parts, as follows: Directors, Directors' remuneration, Relations with shareholders and Accountability and audit.

The statement below, together with the report on directors' remuneration on page 17, explains how the Company has applied the principles set out in the four parts of the Combined Code.

Board of directors

The Board meets at least monthly, is responsible for the proper management of the Company and retains control over the Company and its subsidiary undertakings. It has five members, four executive directors and one non-executive director. Biographical details are set out on page 5. The Board receives appropriate documentation, management accounts, forecasts and commentaries thereon, in advance of each formal meeting to enable its members to review the financial performance of the Group, current trading and key business initiatives. There is also a formal schedule of matters specifically reserved to it for decision, including the approval of annual and interim results, acquisitions, major capital expenditure, material agreements, forecasts and senior executive appointments. 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 Board procedures are followed and applicable rules and regulations are complied with.

Board Committees

There is an executive authorisation committee that is responsible for the executive management of the Group's business. It is chaired by the chairman and comprises the executive directors.

In January 1999, the Board undertook a reorganisation of the Group into six specialist product divisions, with three supporting service divisions. Each of these divisions has its own Executive Board which comprises the four executive directors and the director and general manager of each division. Other senior divisional managers attend the board meetings as required.

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

An audit committee exists 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 meets at least twice a year with the Finance Director, Group Internal Audit Manager and external auditors in attendance. The Board ensures that an objective and professional relationship is maintained with the external auditors.

Directors' remuneration

Details of directors' remuneration are set out in the remuneration report on page 17.

Relations with shareholders

The company reports formally to shareholders twice a year, when its half-year and full-year results are announced and a full report is issued to shareholders. At the same time, the Assistant Chief Executive and Finance Director give presentations on the results to institutional investors, analysts and the media.

The annual general meeting takes place at the company and formal notification is sent to shareholders at least 20 working days in advance. At the meeting, a business presentation is made to shareholders and all Directors are available, formally during the meeting, and informally afterwards, for questions.

The Board is ready, where practicable, to enter into a dialogue with institutional shareholders based on the mutual understanding of objectives. Institutional investors and analysts are actively encouraged to visit the Company.

The Company will make arrangements to advise shareholders attending the annual general meeting of the number of proxy votes lodged for each resolution, in the categories 'For' and 'Against', together with the numbers 'at the Chairman's discretion', and of abstentions. *These will be advised after each resolution has been dealt with on a show of hands.*

The Company's internet site (address on page 5) gives access to information about the Group, its products and its performance.

Accountability and audit

The Statement of directors' responsibilities in relation to the financial statements is set out on page 19.

An assessment of the Group's financial position is set out in the Financial Review on pages 10 to 12.

Going concern

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

Internal control

The Board acknowledges that it is responsible for the Company's system of internal 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. However, any system can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board conducts an annual review of the operation and effectiveness of the Group's system of internal financial controls. It has limited its work to a review of these controls, as permitted by the London Stock Exchange.

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

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

The Board has identified the key financial risks 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 objectives.

Up to date internal financial reports, including monthly management accounts and rolling twelve month 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 are established that are considered appropriate to the size of the organisation. 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 Manual. Authorisation limits have been reviewed, documented and formally approved at Board level. All items of capital expenditure and all employee recruitment require authorisation by the Board of the relevant group company or division. Treasury activities are controlled by the Board. The overseas trading subsidiaries only retain sufficient funds to meet their working capital requirements. Significant foreign currency transactions are decided by the Board, which determines when and how foreign currency is converted into sterling. The Group does not use any open ended financial derivative instruments.

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 audit and its cost effectiveness, internal audit reports and the 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 measures are 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 the controls formally on an annual basis.

Compliance with the Combined Code

The Company has complied throughout the accounting period with the Provisions of the Code of Best Practice set out in Section 1 of the Combined Code, except for the following matters:

The roles of Chairman and Chief Executive are currently combined, as the directors consider this to be in the best interests of the Company and shareholders. The Board considers that there is a clear 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.

There is no nominations committee to consider the appointment of new directors. Given the size of the Board, this is a matter reserved for the Board as a whole.

The Board currently has only one non-executive director, which is not in accordance with provision A.3.1 of the Code, which requires that not less than one third of the board should comprise non-executive directors. The audit and remuneration committees, therefore, are not constituted in accordance with the requirements of the Combined Code. The Board continues to take active measures to secure the appointment of an additional non-executive director.

In accordance with the articles of association of the Company, the Chairman and Deputy Chairman are not subject to election by the shareholders. The other executive directors are subject to re-election by rotation bi-annually and the non-executive director requires re-election on an annual basis due to his age. None of the directors has a service contract.

Remuneration report

The Board as a whole is responsible for the overall remuneration policy. The remuneration committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration. It determines, on the Board's behalf, specific remuneration packages for each of the executive directors.

Remuneration committee

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 personal performance and 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 UK 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.

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

The non-executive director does not participate in the Company's pension schemes.

Service contracts

No director has a service contract.

Benefits

Company cars and other benefits provided to directors are subject to income tax and no benefits are pensionable. The benefits are included in the directors' remuneration table on page 26 at their taxable value.

Long-term incentive schemes

There are no long-term incentive schemes in operation for the directors.

Details of directors' remuneration are shown in note 5 on page 26. Currently, there are no outstanding share options.

Year 2000

The Year 2000 problem is an issue that affects many areas of operation and is not confined to mainframe or mini-computer legacy applications. Relatively new PC hardware and software can be non-compliant and it has also become clear that there are Year 2000 issues with embedded software residing in microprocessors used to control machines and communications products.

To ensure that we do not suffer disruption to production in the year 2000, key suppliers have been asked to confirm the Year 2000 compliance of their products and operational computer systems. We have sent out a standard letter and compliance questionnaire to all production suppliers and a few selected non-production vendors.

A Year 2000 policy statement has been prepared to provide information for customers on how we are addressing the Year 2000 conformity issue. It has been placed on our web site and is also sent to customers who enquire about the compliance of our products and commercial applications.

The Company started to address all issues associated with Year 2000 compliance in 1996 and subsequently has implemented a groupwide programme aimed at ensuring that all computer systems and microprocessor reliant equipment will be Year 2000 compliant.

The vast majority of computer systems used in the Group have been upgraded to the Year 2000 compliant versions. Plans are well under way to perform outstanding tasks required by 1st October 1999. We will also continue to test all systems, to reinforce the view that they are compliant, during the remainder of 1999.

Much of the resource required to achieve Year 2000 compliance is coming from the diversion of IT and other staff from non-critical projects. The total cost involved is not identifiable with precision, although the cost of new computer equipment is estimated at £1.6m.



By order of the Board
A C G Roberts
Secretary

30th September 1999

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.

Report of the auditors

Auditor's report to the members of Renishaw plc

We have audited the financial statements on pages 20 to 34.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described above, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on page 17 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 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 1999 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

30th September 1999

Vipul Audit Plc

Marlborough House
Fitzalan Court
Cardiff CF24 0TE

RENISHAW 

Consolidated profit and loss account

for the year ended 30th June 1999

	Notes	1999 £'000	1998 £'000
Turnover	2	96,319	92,349
Cost of sales		46,271	46,403
Gross profit		50,048	45,946
Distribution costs		15,517	14,398
Administrative expenses		11,192	10,689
		26,709	25,087
Operating profit	3	23,339	20,859
Profit on sale of property	4	586	—
Profit before interest		23,925	20,859
Interest receivable less payable	6	1,904	1,521
Profit on ordinary activities before taxation		25,829	22,380
Tax on profit on ordinary activities	7	6,716	6,280
Profit for the financial year	8	19,113	16,100
Dividends	9	8,184	7,242
Retained profit for the financial year	18	10,929	8,858
		pence	pence
Earnings per share	10	26.3	22.1
Profit on sale of property		(0.8)	—
Adjusted earnings per share	10	25.5	22.1

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 1999

	Notes	The Group		The Company	
		1999 £'000	1998 £'000	1999 £'000	1998 £'000
Fixed assets					
Tangible assets	11	32,784	27,035	21,412	18,657
Investments	12	-	-	25	25
		32,784	27,035	21,437	18,682
Current assets					
Stocks	13	14,215	14,285	8,492	8,422
Debtors	14	23,969	20,867	58,702	58,527
Cash at bank	19(b)	37,591	34,588	4,798	3,866
		75,775	69,740	71,992	70,815
Creditors					
Amounts falling due within one year	15	18,651	18,516	71,689	66,556
Net current assets		57,124	51,224	303	4,259
Total assets less current liabilities		89,908	78,259	21,740	22,941
Provisions for liabilities and charges	16	4,865	3,950	4,315	4,240
Net assets		85,043	74,309	17,425	18,701
Capital and reserves					
Called up share capital	17	14,558	14,557	14,558	14,557
Share premium account	17	42	40	42	40
Profit and loss account	18	70,443	59,712	2,825	4,104
Shareholders' funds - equity		85,043	74,309	17,425	18,701

The financial statements on pages 20 to 34 were approved by the Board of directors on 30th September 1999 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 1999

	Notes	1999 £'000	1998 £'000
Net cash inflow from operating activities	19(a)	24,433	21,952
Returns on investments and servicing of finance			
Interest received		2,295	2,455
Interest paid		(541)	(1,032)
		1,754	1,423
Tax paid		(4,795)	(5,916)
Capital expenditure			
Purchase of tangible fixed assets		(11,081)	(7,704)
Sale of tangible fixed assets		1,056	118
		(10,025)	(7,586)
Equity dividends paid		(7,490)	(6,456)
Cash inflow before management of liquid resources and financing		3,877	3,417
Management of liquid resources (Increase)/decrease in bank deposits		(2,137)	446
Financing			
Issue of ordinary share capital under employee share option scheme		3	45
Increase in cash in the year		1,743	3,908

Reconciliation of net cash flow to movement in net funds

for the year ended 30th June 1999

		1999 £'000	1998 £'000
Increase in cash in the year		1,743	3,908
Cash outflow/(inflow) from movement in liquid resources		2,137	(446)
Changes in net funds resulting from cash flows		3,880	3,462
Currency differences		(877)	(1,154)
Movement in net funds in the year		3,003	2,308
Net funds at 1st July 1998		34,588	32,280
Net funds at 30th June 1999	19(b)	37,591	34,588

Consolidated statement of total recognised gains and losses

for the year ended 30th June 1999

	1999 £'000	1998 £'000
Profit for the financial year	19,113	16,100
Currency translation differences on foreign currency net investments	(198)	(1,943)
Total gains recognised relating to the year	<u>18,915</u>	<u>14,157</u>

Reconciliations of movements in shareholders' funds

for the year ended 30th June 1999

	The Group		The Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Profit for the financial year	19,113	16,100	6,905	6,884
Dividends	(8,184)	(7,242)	(8,184)	(7,242)
Retained profit/(loss) for the year	10,929	8,858	(1,279)	(358)
Other recognised gains and losses	(198)	(1,943)	—	—
New share capital issued	1	9	1	9
Premium on new share capital issued	2	36	2	36
Net addition/(reduction) to shareholders' funds	10,734	6,960	(1,276)	(313)
Shareholders' funds at 1st July 1998	74,309	67,349	18,701	19,014
Shareholders' funds at 30th June 1999	<u>85,043</u>	<u>74,309</u>	<u>17,425</u>	<u>18,701</u>

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. Details of subsidiary undertakings are shown in note 23.

Turnover

Turnover represents the amount derived from the provision by the Group of goods and services to third party customers 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 - 3 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.

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. All other currency exchange differences are accounted for in the profit and loss account.

Liquid resources and cash

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources comprise term deposits of less than one year.

Pension costs

The Group operates a contributory pension scheme, of the defined benefit type, for UK 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

Purchased goodwill arising on consolidation in respect of acquisitions before 1st July 1998, when FRS 10 - Goodwill and intangible assets, was adopted, was written off to 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	1999 £'000	1998 £'000
USA	33,417	34,931
Germany	15,780	12,843
Japan	10,635	10,469
Italy	7,520	7,200
France	4,443	4,192
Other overseas countries	14,163	13,049
Total sales to overseas customers	85,958	82,684
United Kingdom	10,361	9,665
Total group turnover	96,319	92,349

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	1999 £'000	1998 £'000
Research and development	7,262	6,232
Depreciation	3,483	3,056
Foreign exchange (gains)	(849)	(172)
Auditors' remuneration - audit for the Group	94	91
- audit for the Company	28	28
Other fees paid to the auditors and their associates	83	95

b) Staff numbers and costs

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

	1999 Number	1998 Number
United Kingdom	864	795
Overseas	321	310
	1,185	1,105

The aggregate payroll costs of the above were:-

	1999 £'000	1998 £'000
Wages and salaries	28,915	25,566
Social security costs	2,738	2,564
Other pension costs (note 20)	2,403	1,974
	34,056	30,104

4.

**Profit on sale
of property**

During the year, the Group disposed of its previous premises in Ireland. The proceeds were £990,000 and the profit on disposal was £586,000.

Due to roll-over relief, there is no corporation tax liability on the profit.

5.

The total emoluments of the directors were:-

**Directors'
remuneration
and share
options**

	1999 £'000	1998 £'000
Salaries and fees	749	679
Benefits	74	76
Appreciation award	301	241
Pension contributions	195	178
	<u>1,319</u>	<u>1,174</u>

	Salary & fees £'000	Benefits £'000	Apprec. award £'000	Total 1999 £'000	Total 1998 £'000	Pension contributions	
						1999 £'000	1998 £'000
Chairman							
D R McMurtry	251	22	114	387	332	94	86
Other executive directors							
D J Deer	138	21	63	222	204	52	48
B R Taylor	218	21	81	320	283	32	29
A C G Roberts	125	9	43	177	158	17	15
Non-executive							
L Brook	17	1	-	18	19	-	-
	<u>749</u>	<u>74</u>	<u>301</u>	<u>1,124</u>	<u>996</u>	<u>195</u>	<u>178</u>

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

There are no directors' share options outstanding.

6.

**Interest
receivable less
payable**

	1999 £'000	1998 £'000
Bank interest receivable	2,428	2,557
Bank interest payable	(524)	(1,036)
	<u>1,904</u>	<u>1,521</u>

7.

**Tax on profit
on ordinary
activities**

	1999 £'000	1998 £'000
UK corporation tax charge at 30.75% (1998 31%)	2,698	2,025
Deferred tax charge at 30% (1998 31%)	665	107
Overseas tax	3,353	4,148
	<u>6,716</u>	<u>6,280</u>

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

8.

**Profit for the
financial year**

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 £6,905,000 (1998 £6,884,000).

9.

Dividends

	1999 £'000	1998 £'000
Interim dividend paid of 3.66p (1998 3.32p)	2,514	2,266
Final dividend proposed of 7.78p (1998 6.63p)	5,670	4,976
	<u>8,184</u>	<u>7,242</u>

10.

**Earnings per
share**

Earnings per share are calculated on earnings of £19,113,000 (1998 £16,100,000) and on 72,787,040 shares (1998 72,771,804), being the weighted average number of shares in issue during the year. Adjusted earnings per share for the current year are calculated after excluding the profit on sale of the property in Ireland.

11.

Tangible assets

a) The Group

	Freehold land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
At 1st July 1998	19,811	25,147	2,481	47,439
Additions	5,334	3,722	516	9,572
Disposals	(853)	(1,887)	(306)	(3,046)
Currency adjustment	90	144	18	252
At 30th June 1999	24,382	27,126	2,709	54,217
Depreciation				
At 1st July 1998	2,331	16,724	1,349	20,404
Charge for the year	706	2,254	523	3,483
Released on disposals	(447)	(1,866)	(296)	(2,609)
Currency adjustment	7	138	10	155
At 30th June 1999	2,597	17,250	1,586	21,433
Net book value				
At 30th June 1999	21,785	9,876	1,123	32,784
At 30th June 1998	17,840	8,423	1,132	27,035

b) The Company

	Freehold land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
At 1st July 1998	11,943	20,570	1,782	34,295
Additions	2,709	2,651	292	5,652
Disposals	—	(1,337)	(213)	(1,550)
At 30th June 1999	14,652	21,884	1,861	38,397
Depreciation				
At 1st July 1998	1,632	13,065	941	15,638
Charge for the year	494	2,037	361	2,892
Released on disposals	—	(1,335)	(210)	(1,545)
At 30th June 1999	2,126	13,767	1,092	16,985
Net book value				
At 30th June 1999	12,526	8,117	769	21,412
At 30th June 1998	10,311	7,505	841	18,657

The net book value of freehold land and buildings for the Group include £1,946,000 in respect of buildings under construction at the year end.

12.		1999 £'000	1998 £'000
Investments	Shares at cost in subsidiary undertakings	25	25
The Company			

Details of subsidiary undertakings are shown in note 23.

13.		The Group		The Company	
		1999 £'000	1998 £'000	1999 £'000	1998 £'000
Stocks					
	Raw materials	5,302	5,858	4,250	4,812
	Work in progress	718	958	674	818
	Finished goods	8,195	7,469	3,568	2,792
		14,215	14,285	8,492	8,422

14.		The Group		The Company	
		1999 £'000	1998 £'000	1999 £'000	1998 £'000
Debtors					
	Trade debtors	21,517	18,868	3,552	3,175
	Amounts owed by group undertakings	—	—	53,467	53,564
	Corporation tax	—	—	761	1,055
	Prepayments	2,452	1,999	922	733
		23,969	20,867	58,702	58,527

Included in prepayments for the Group are amounts totalling £226,000 (1998 £337,000) 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.

CreditorsAmounts falling due
within one year

	The Group		The Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Trade creditors	4,494	6,967	3,384	5,374
Amounts owed to group undertakings	—	—	60,204	55,140
Corporation tax	3,003	1,715	—	—
Other taxes and social security	1,895	1,449	502	459
Other creditors	3,589	3,409	1,929	607
Proposed dividend payable	5,670	4,976	5,670	4,976
	18,651	18,516	71,689	66,556

16.

Movements during the year were:-

**Provisions for
liabilities and
charges**

a) The Group	At 1st July 1998 £'000	Changes in the year £'000	At 30th June 1999 £'000
Deferred taxation	3,110	665	3,775
Warranty provisions	840	(50)	790
Other	—	300	300
	3,950	915	4,865
b) The Company	At 1st July 1998 £'000	Changes in the year £'000	At 30th June 1999 £'000
Deferred taxation	3,400	125	3,525
Warranty provisions	840	(50)	790
	4,240	75	4,315

Deferred taxation is represented by:-

Deferred taxation is represented by:-	The Group		The Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Difference between accumulated depreciation and capital allowances	2,844	2,634	2,637	2,420
Unremitted reserves of overseas subsidiaries	2,120	2,001	—	—
Other timing differences	(1,189)	(1,525)	888	980
	3,775	3,110	3,525	3,400

Deferred taxation is included on a full provision basis, except that provision is only made for the reserves anticipated to be remitted by certain overseas subsidiaries in the short term. No provision is made for tax that would arise on other unremitted reserves, as it is not anticipated that they will be remitted in the foreseeable future.

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 two years is given for a small number of products. The 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 two years of the balance sheet date. In 1998, warranty provisions were included within other creditors. The comparative figures have been adjusted accordingly. The other provision relates to a potential liability in respect of overseas sales tax.

17.		1999	1998
		£'000	£'000
Share capital	Authorised		
	75,000,000 ordinary shares of 20p each	15,000	15,000
	Allotted, called up and fully paid		
	72,788,543 (1998 72,786,539) ordinary shares of 20p each	14,558	14,557

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

	Share capital		Share premium
	Number of shares	£'000	£'000
At 1st July 1998	72,786,539	14,557	40
Employee share options exercised	2,004	1	2
At 30th June 1999	72,788,543	14,558	42

The middle market price of the shares at 30th June 1999 was £4.54 (1998 £4.36). The range during the year was £2.995 to £ 4.875.

18.		Movements during the year were:-			
Profit and loss account		The Group		The Company	
		1999	1998	1999	1998
		£'000	£'000	£'000	£'000
	At 1st July 1998	59,712	52,797	4,104	4,462
	Retained profit/(loss) for the year	10,929	8,858	(1,279)	(358)
	Movement in currency reserve	(198)	(1,943)	—	—
	At 30th June 1999	70,443	59,712	2,825	4,104

The cumulative amount of goodwill resulting from acquisitions made in earlier financial years, which has been written off to reserves is £1,913,000 (1998 £1,913,000).

19.

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

Notes to the consolidated cash flow statement

	1999 £'000	1998 £'000
Operating profit	23,339	20,859
Depreciation charges	3,483	3,056
Profit on sale of tangible fixed assets	(34)	(64)
Decrease/(increase) in stocks	70	(843)
Increase in debtors	(2,214)	(3,103)
(Decrease)/increase in creditors	(461)	1,647
Increase in provisions	250	400
Net cash inflow from operating activities	<u>24,433</u>	<u>21,952</u>

b) Analysis of net funds:-

	Net cash at bank £'000	Bank deposits £'000	Net funds £'000
At 1st July 1998	4,455	30,133	34,588
Cash flows	1,743	2,137	3,880
Non-cash adjustment	(877)	—	(877)
At 30th June 1999	<u>5,321</u>	<u>32,270</u>	<u>37,591</u>

20.

Pension schemes

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 £2,403,000 (1998 £1,974,000), of which £867,000 (1998 £870,000) related to overseas schemes. The pension cost relating to the UK 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 1998. 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 UK scheme was £17,350,000 and the actuarial value of the assets was sufficient to cover 86% 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. On a minimum funding requirement basis, the scheme is 91% funded and the contributions payable are sufficient to amortise the deficit.

21.

Commitments

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

	The Group		The Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Authorised and committed	<u>3,430</u>	<u>2,463</u>	<u>1,600</u>	<u>2,408</u>

b) Group annual commitments under non-cancellable operating leases (all of which relate to land and buildings in subsidiary companies) were £736,000 (1998 £484,000), of which £358,000 (1998 £317,000) expires within one year and £378,000 (1998 £167,000) expires in the second to fifth years inclusive. The Company has no material annual commitments under non-cancellable operating leases.

22.

a) An analysis by currency of Group net cash at the year end is as follows:

Foreign currency holdings and borrowings	Currency	Net cash balance at 30th June 1999 £'000
	Pounds Sterling	46,172
	US Dollar	(5,775)
	Japanese Yen	(2,611)
	Euro	(383)
	Other	188
		<u>37,591</u>

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 or libid.

b) Net assets and associated (borrowings)/deposits at the year end:

As noted in the Financial review on page 12, 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 as follows:

Currency	Net assets of subsidiary £'000	Currency (borrowing)/ deposit £'000	Base borrowing interest rate %
US Dollar	10,020	(7,867)	5.3%
Japanese Yen	3,205	(3,033)	0.1%
Euro (excluding Ireland)	9,086	(8,471)	2.6%
Euro (Ireland)	3,415	6,500	2.6%

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 to eliminate the borrowings on a rolling one month cycle. These currency swaps are not reflected in the table above. In order to hedge future running costs of the subsidiary in Ireland, the Group holds a deposit in Euro. At the year end, there were no unrecognised gains or losses on foreign currency monetary assets and liabilities or currency hedges.

23.

Subsidiary undertakings

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.

Company	Principal activities
Renishaw International Limited	Overseas holding and investment company.
Renishaw (Ireland) Limited (<i>Republic of Ireland</i>)	Manufacture and sale of advanced precision metrology and inspection equipment.
Renishaw Investments Limited (<i>Guernsey</i>)	Investment company.
Renishaw (Guernsey) Limited (<i>Guernsey</i>)	Finance company.
Renishaw International B.V. (<i>The Netherlands</i>)	Overseas holding and investment company.
Renishaw Inc (<i>USA</i>)	Service and distribution of group products.
Renishaw KK (<i>Japan</i>)	Service and distribution of group products.
Renishaw GmbH (<i>Germany</i>)	Service and distribution of group products.
Renishaw S.A. (<i>France</i>)	Service, distribution, research and development and manufacture of group products.
Renishaw S.p.A. (<i>Italy</i>)	Service and distribution of group products.
Renishaw Iberica S.A. (<i>Spain</i>)	Service and distribution of group products.
Renishaw A.G. (<i>Switzerland</i>)	Service and distribution of group products.
Renishaw (Hong Kong) Limited (<i>Hong Kong</i>)	Service and distribution of group products.
Renishaw Latino Americana Ltda. (<i>Brazil</i>)	Service and distribution of group products.
Wotton Travel Limited	Travel agency.

Notice of meeting

NOTICE IS HEREBY GIVEN that the 26th annual general meeting of the Company will be held at New Mills, Wotton-under-Edge, Gloucestershire, GL12 8JR on Friday 19th November 1999 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 1999.
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 a special 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 7,278,854;
 - (ii) the maximum price that may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the 10 business days immediately preceding the day on which the ordinary share is purchased;
 - (iii) the minimum price which may be paid for an ordinary share shall be 20p;
 - (iv) the authority hereby conferred shall expire at the earlier of the conclusion of the annual general meeting to be held in 2000 and 31st December 2000 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

21st October 1999

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 17th November 1999 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 17th November 1999 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

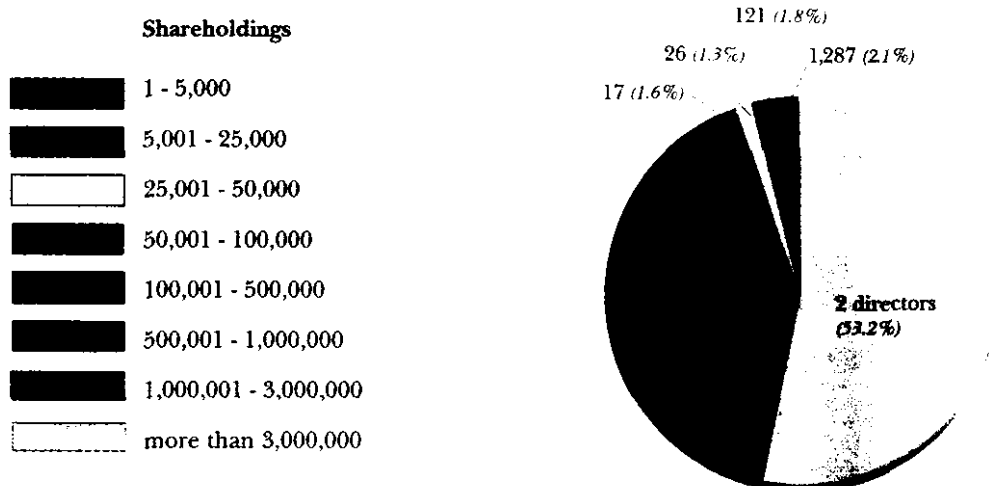
A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company and the appointment of a proxy will not preclude a member from attending and voting at the meeting. A form of proxy is enclosed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

Shareholders' profile

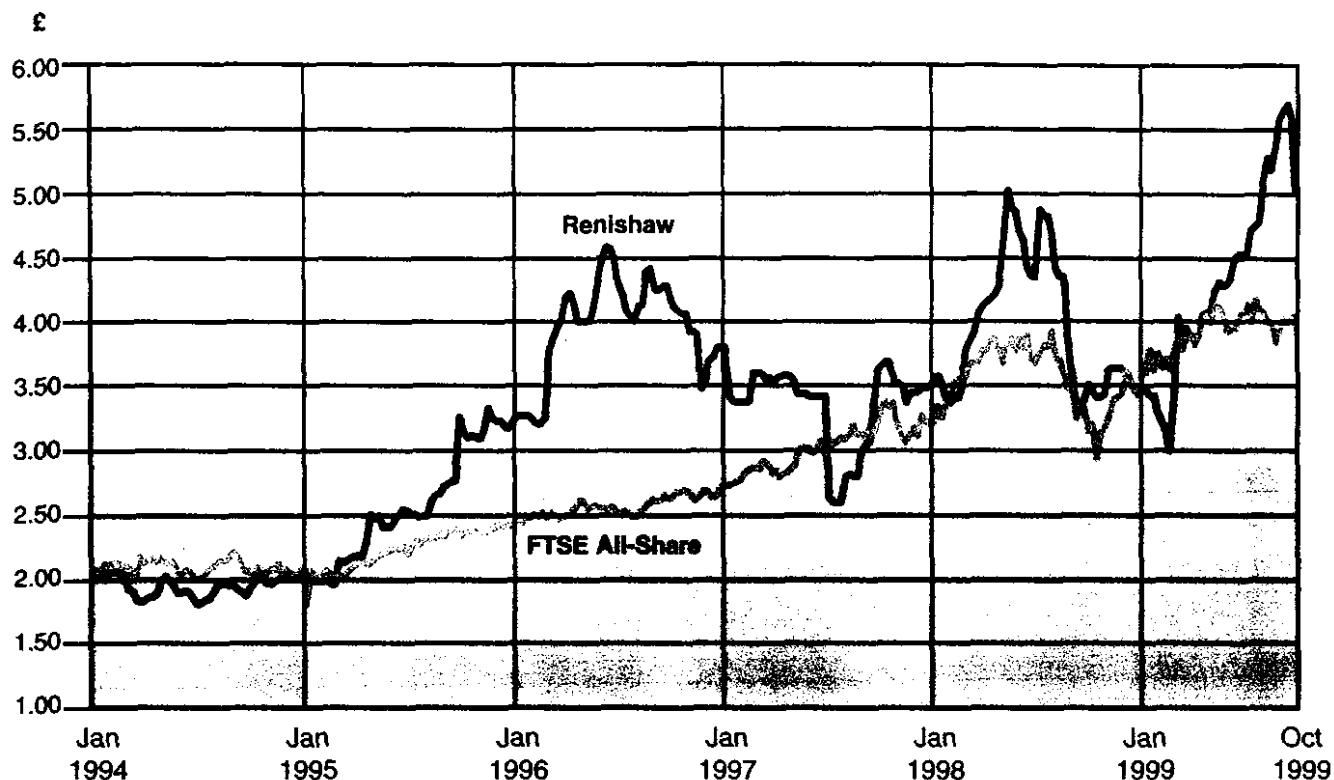
	Number of shareholders		Number of shares	
	Number	%	Number	%
1. Range of shareholdings				
1 - 500	451	29.9	100,869	0.1
501 - 1,000	288	19.1	219,312	0.3
1,001 - 5,000	548	36.4	1,236,820	1.7
5,001 - 10,000	72	4.8	509,190	0.7
10,001 - 25,000	49	3.3	774,414	1.1
25,001 - 50,000	26	1.7	933,714	1.3
50,001 - 100,000	17	1.1	1,175,647	1.6
100,001 - 500,000	30	2.0	6,547,344	9.0
500,001 - 1,000,000	15	1.0	10,687,969	14.7
1,000,001 - 3,000,000	8	0.6	11,857,854	16.3
more than 3,000,000	2	0.1	38,745,410	53.2
	1,506	100.0	72,788,543	100.0
2. Categories of shareholders				
Directors	5	0.3	38,782,732	53.3
Banks, insurance companies, nominee companies, pension funds and other corporate bodies	413	27.4	32,315,043	44.4
Individuals	1,088	72.3	1,690,768	2.3
	1,506	100.0	72,788,543	100.0

Number of shareholders in each shareholding range



The above information was compiled from the register as at 13th September 1999.

Graph of share price



The Renishaw share price is the closing mid-point price as listed in the Financial Times, from 1st January 1994 to 30th September 1999. The graph also shows the relative movement in the FTSE All-Share index over the same period.

Financial calendar

Annual general meeting
19th November 1999

Dividends

Final dividend

Payment date 22nd November 1999
Record date 29th October 1999
Ex-div date 25th October 1999

Interim dividend (provisional)

Payment date 17th April 2000
Record date 17th March 2000
Ex-div date 13th March 2000

Announcement of results

Annual results - July
Half year results - February

The interim results and the preliminary announcement of the full year's results are published on our website at <http://www.renishaw.com> on the same day as the announcements to the London Stock Exchange.

10 year financial record

Results

	1999 £'000	1998 £'000	1997 £'000	1996 £'000	1995 £'000	1994 £'000	1993 £'000	1992 £'000	1991 £'000	1990 £'000
Overseas sales	85,958	82,684	72,063	69,633	57,267	46,130	44,343	40,697	41,455	43,087
UK sales	10,361	9,665	9,338	7,444	5,395	4,744	3,657	3,350	4,207	4,474
Total sales	96,319	92,349	81,401	77,077	62,662	50,874	48,000	44,047	45,662	47,561
Profit on ordinary activities before tax	25,829	22,380	18,034	20,115	13,535	8,222	7,142	9,087	11,103	13,423
Taxation	6,716	6,280	4,653	4,207	3,831	2,379	2,129	2,745	3,335	4,253
Profit for the financial year	19,113	16,100	13,381	15,908	9,704	5,843	5,013	6,342	7,768	9,170
Dividends	8,184	7,242	6,292	5,242	3,880	3,372	3,152	3,157	2,910	2,314
Retained profit	10,929	8,858	7,089	10,666	5,824	2,471	1,861	3,185	4,858	6,856

Capital employed

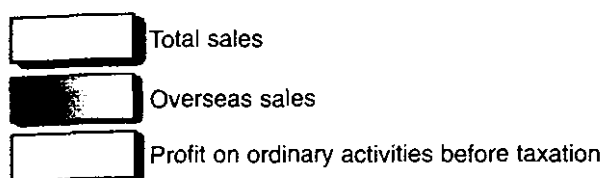
	1999 £'000	1998 £'000	1997 £'000	1996 £'000	1995 £'000	1994 £'000	1993 £'000	1992 £'000	1991 £'000	1990 £'000
Share capital	14,558	14,557	14,548	12,123	10,765	9,776	9,758	9,717	9,697	7,722
Share premium	42	40	4	66	145	1,041	923	641	522	206
Revenue reserves	70,443	59,712	52,797	52,044	40,273	35,763	34,223	34,137	31,200	28,180
Shareholders' funds	85,043	74,309	67,349	64,233	51,183	46,580	44,904	44,495	41,419	36,108
Deferred taxation	3,775	3,110	3,003	2,209	4,672	4,815	4,862	3,418	1,647	2,341
Capital employed	88,818	77,419	70,352	66,442	55,855	51,395	49,766	47,913	43,066	38,449

Statistics

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Overseas sales as a percentage of total sales	89.2%	89.5%	88.5%	90.3%	91.4%	90.7%	92.4%	92.4%	90.8%	90.6%
Earnings per share *	26.3p	22.1p	18.4p	21.9p	13.4p	8.1p	6.9p	8.8p	10.8p	12.8p
Dividend per share *	11.44p	9.95p	8.65p	7.21p	5.34p	4.65p	4.38p	4.38p	4.04p	3.2p

* 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



All figures shown x £million

