

# Interim report 2007

## Financial highlights

Unaudited

	<b>6 months to 31st December 2006</b>	6 months to 31st December 2005	% change	Audited Year ended 30th June 2006
	<b>£'000</b>	£'000	%	£'000
Revenue	<b>87,120</b>	81,625	+7%	175,835
Operating profit	<b>12,013</b>	13,882	-13%	35,468
Profit before tax	<b>13,513</b>	15,340	-12%	38,102
Profit after tax	<b>10,810</b>	12,272	-12%	30,481
Earnings per share	<b>14.9p</b>	16.9p	-12%	41.9p
Proposed dividend per share	<b>7.05p</b>	6.71p	+5%	21.78p

## Chairman's statement

I report the Company's results for the first six months of the current financial year ended 31st December 2006.

Revenue in this period increased 7% to £87.1m (2005: £81.6m), representing growth of 12% at constant exchange rates and demonstrating good progress in all our major geographic markets. There was above average growth in dental, styli, machine tool and encoder products which offset a softening in the market for co-ordinate measuring machine (CMM) products.

Operating profit for the period was £12.0m (2005: £13.9m). The adverse impact of the strong pound on the profit for the period, which was highlighted at the AGM in October, is estimated to be £3.1m. Profit before tax amounted to £13.5m (2005: £15.3m). Profit after tax was £10.8m resulting in earnings per share of 14.9p (2005: 16.9p). Net cash balances at 31st December 2006 were £26.5m (2005: £25.7m).

We remain committed to a high level of research and development which, including associated engineering costs, amounted to £14.8m (2005: £13.8m), an increase of 7%. New products introduced include the UCCLite controller from our CMM product line, an optical toolsetter (OTS) and optical interface (OMI-2T) from our machine tool product line and the REXM high accuracy angle encoder.

Capital expenditure during the six months amounted to £5.5m (2005: £7.2m).

The refurbishment at Woodchester is complete and equipment for the new automated stores is being commissioned. The laser and calibration product line has been successfully relocated to Woodchester. At New Mills, the former machine shop has been refurbished and now provides pre-production machining and assembly facilities with further investment being made in the Group's rapid prototyping facility.

In India, we have expanded our sales and procurement activities and the production facility at Pune is now operational and the software development team has been established.

The Company has continued to strengthen its worldwide marketing representation, in particular a new subsidiary has been established in Singapore and two additional regional offices in Brazil.

The Company announced on 19th January 2007 that agreement had been reached with the Trustees of the Company's defined benefit pension scheme to cease future accrual for current members of the scheme and future employees. The pension fund liability as at 31st December 2006, measured under the rules for IAS19 accounting purposes, has increased to £32.1m (30th June 2006: £18.8m) reflecting the latest triennial valuation undertaken by the scheme actuary on 29th September 2006. This valuation resulted in a £41m funding deficit on an ongoing basis which reduces to £24m after the proposed changes. This change should reduce the reported deficit at the end of our financial year and reduce the Group's exposure to future volatility. The Company and Trustees are now in the process of consultation with members to establish a new defined contribution scheme (with a Company contribution of 11%) within the existing pension scheme trust to take effect from 6th April 2007.

Although we remain very confident for the longer term, at this stage it appears likely that the adverse effects of currency exchange rates, together with the softening of demand for our products in the CMM market (with some development delays in delivering certain of our new and in-demand products, in particular the REVO™ and GYRO™), will result in profits for the full year being below those for last year.

An interim dividend of 7.05p per share (2006: 6.71p per share) will be paid on 9th April 2007 to shareholders on the register on 9th March 2007.



Sir David R McMurtry CBE RDI CEng FIMechE FEng  
Chairman & Chief Executive  
24th January 2007

## Consolidated income statement

Unaudited	Notes	6 months to 31st December 2006 £'000	6 months to 31st December 2005 £'000	Audited Year ended 30th June 2006 £'000
<b>Revenue</b>	2	<b>87,120</b>	81,625	175,835
Cost of sales		<b>(48,128)</b>	(43,341)	(90,901)
<b>Gross profit</b>		<b>38,992</b>	38,284	84,934
Distribution costs		<b>(16,407)</b>	(14,785)	(30,782)
Administrative expenses		<b>(10,572)</b>	(9,617)	(18,684)
<b>Operating profit</b>		<b>12,013</b>	13,882	35,468
Financial income	3	<b>3,978</b>	3,330	6,507
Financial expenses	3	<b>(2,478)</b>	(1,872)	(3,873)
<b>Profit before tax</b>		<b>13,513</b>	15,340	38,102
Income tax expense - UK and deferred tax	4	<b>(756)</b>	(508)	(2,724)
- overseas	4	<b>(1,947)</b>	(2,560)	(4,897)
		<b>(2,703)</b>	(3,068)	(7,621)
<b>Profit for the period attributable to the equity shareholders</b>		<b>10,810</b>	12,272	30,481
<b>Earnings per share (basic and diluted)</b>	5	<b>14.9p</b>	16.9p	41.9p

## Consolidated statement of recognised income and expense

Unaudited	6 months to 31st December 2006 £'000	6 months to 31st December 2005 £'000	Audited Year ended 30th June 2006 £'000
Foreign exchange translation differences	<b>(394)</b>	326	(390)
Actuarial loss in the pension schemes	<b>(13,693)</b>	(2,660)	(147)
Effective portion of changes in fair value of cash flow hedges, net of recycling	<b>511</b>	(83)	(326)
Deferred tax on income and expense recognised in equity	<b>4,014</b>	825	280
Loss recognised directly in equity	<b>(9,562)</b>	(1,592)	(583)
Profit for the period	<b>10,810</b>	12,272	30,481
<b>Total recognised income and expense for the period attributable to the equity shareholders</b>	<b>1,248</b>	10,680	29,898
Opening adjustment on adoption of IAS 32 and IAS 39 at 1st July 2005 - Cash flow hedging reserve		2,234	2,234
		12,914	32,132

## Consolidated balance sheet

Unaudited

	Notes	At 31st December 2006 £'000	At 31st December 2005 £'000	Audited At 30th June 2006 £'000
<b>Assets</b>				
Property, plant and equipment	6	69,779	67,615	69,081
Intangible assets	7	13,654	7,530	12,543
Investments in associates		908	928	908
Deferred tax assets		14,633	10,940	10,606
<b>Total non-current assets</b>		<b>98,974</b>	87,013	93,138
Inventories		30,995	28,195	28,359
Trade receivables		32,814	33,134	37,717
Current tax		298	360	183
Other receivables		7,656	6,109	6,320
Cash and cash equivalents		26,549	25,708	30,728
<b>Total current assets</b>		<b>98,312</b>	93,506	103,307
<b>Total assets</b>		<b>197,286</b>	180,519	196,445
<b>Equity</b>				
Issued capital	8	14,558	14,558	14,558
Share premium	8	42	42	42
Currency translation reserve	8	(129)	981	265
Cash flow hedging reserve	8	2,365	2,176	2,007
Retained earnings	8	116,179	110,642	125,864
<b>Total equity attributable to the equity shareholders</b>		<b>133,015</b>	128,399	142,736
<b>Liabilities</b>				
Employee benefits		32,058	22,200	18,838
Deferred tax liabilities		11,756	10,481	11,745
<b>Total non-current liabilities</b>		<b>43,814</b>	32,681	30,583
Trade payables		10,926	9,444	10,692
Current tax		2,177	2,064	1,402
Provisions		891	642	793
Other payables		6,463	7,289	10,239
<b>Total current liabilities</b>		<b>20,457</b>	19,439	23,126
<b>Total liabilities</b>		<b>64,271</b>	52,120	53,709
<b>Total equity and liabilities</b>		<b>197,286</b>	180,519	196,445

## Consolidated statement of cash flow

Unaudited	6 months to 31st December 2006 £'000	6 months to 31st December 2005 £'000	Audited Year ended 30th June 2006 £'000
<b>Cash flows from operating activities</b>			
Profit for the period	10,810	12,272	30,481
Adjustments for:			
Amortisation of development costs	1,052	724	1,397
Amortisation of other intangibles	493	302	703
Depreciation	3,765	3,743	7,840
Profit on sale of fixed assets	(8)	(14)	(51)
Financial income	(3,978)	(3,330)	(6,507)
Financial expenses	2,478	1,872	3,873
Tax expense	2,703	3,068	7,621
	<b>6,505</b>	<b>6,365</b>	<b>14,876</b>
Increase in inventories	(2,636)	(799)	(963)
Decrease/(increase) in trade and other receivables	2,471	1,830	(4,289)
(Decrease)/increase in trade and other payables	(2,951)	(1,169)	2,664
Difference between pension charge and contributions	259	(720)	(1,261)
Increase in provisions	98	10	161
	<b>(2,759)</b>	<b>(848)</b>	<b>(3,688)</b>
Income taxes paid	(2,018)	(3,637)	(7,605)
<b>Cash flows from operating activities</b>	<b>12,538</b>	<b>14,152</b>	<b>34,064</b>
<b>Investing activities</b>			
Purchase of tangible fixed assets	(5,902)	(7,082)	(12,816)
Development costs capitalised	(2,240)	(1,177)	(3,227)
Purchase of other intangibles	(416)	(187)	(4,217)
Investment in associates	-	(928)	(928)
Sale of tangible fixed assets	93	313	399
Interest received	785	1,040	1,911
<b>Cash flows from investing activities</b>	<b>(7,680)</b>	<b>(8,021)</b>	<b>(18,878)</b>
<b>Financing activities</b>			
Interest paid	(20)	(12)	(15)
Dividends paid	(10,969)	(9,972)	(14,853)
<b>Cash flows from financing activities</b>	<b>(10,989)</b>	<b>(9,984)</b>	<b>(14,868)</b>
Net (decrease)/increase in cash and cash equivalents	(6,131)	(3,853)	318
Cash and cash equivalents at beginning of period	30,728	30,072	30,072
Effect of exchange rate fluctuations on cash held	1,952	(511)	338
<b>Cash and cash equivalents at end of period</b>	<b>26,549</b>	<b>25,708</b>	<b>30,728</b>

## Notes

### 1. Status of Interim report and accounting policies

The Interim report was approved by the directors on 24th January 2007.

This interim financial information has been prepared on the basis of the accounting policies adopted in the most recent annual financial statements, these being for the year ended 30th June 2006, as revised for the implementation of specified new amended endorsed standards or interpretations.

The interim financial information for the six months to 31st December 2006 and the comparative figures for the six months to 31st December 2005 are unaudited. The comparative figures for the financial year ended 30th June 2006 are an abridged version of the statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The Interim report has been sent to all shareholders and is available to the public from the registered office. It is also published on the Company's website at [www.renishaw.com](http://www.renishaw.com).

### 2. Analysis of revenue and result by geographic segments

<b>6 months to 31st December 2006</b>	<b>Continental Europe £'000</b>	<b>Far East £'000</b>	<b>Americas £'000</b>	<b>UK and Ireland £'000</b>	<b>Rest of the world £'000</b>	<b>Eliminations £'000</b>	<b>Total £'000</b>
Revenue	31,672	25,766	22,025	5,232	2,425	-	87,120
Inter-segment revenue	-	-	-	68,981	-	(68,981)	-
<b>Total revenue</b>	<b>31,672</b>	<b>25,766</b>	<b>22,025</b>	<b>74,213</b>	<b>2,425</b>	<b>(68,981)</b>	<b>87,120</b>
Segment result	4,091	1,686	914	7,007	160	-	13,858
Unallocated central corporate costs							(1,845)
Net financial income							1,500
Profit before tax							13,513

<b>6 months to 31st December 2005</b>	<b>Continental Europe £'000</b>	<b>Far East £'000</b>	<b>Americas £'000</b>	<b>UK and Ireland £'000</b>	<b>Rest of the world £'000</b>	<b>Eliminations £'000</b>	<b>Total £'000</b>
Revenue	26,884	25,029	22,095	5,024	2,593	-	81,625
Inter-segment revenue	-	-	-	62,107	-	(62,107)	-
<b>Total revenue</b>	<b>26,884</b>	<b>25,029</b>	<b>22,095</b>	<b>67,131</b>	<b>2,593</b>	<b>(62,107)</b>	<b>81,625</b>
Segment result	3,036	1,121	1,269	9,955	260	-	15,641
Unallocated central corporate costs							(1,759)
Net financial income							1,458
Profit before tax							15,340

## 2. Analysis of revenue and result by geographic segments (continued)

	Continental Europe £'000	Far East £'000	Americas £'000	UK and Ireland £'000	Rest of the world £'000	Eliminations £'000	Total £'000
<b>Year to 30th June 2006</b>							
Revenue	58,945	53,130	46,708	11,513	5,539	-	175,835
Inter-segment revenue	-	-	-	130,547	-	(130,547)	-
Total revenue	<u>58,945</u>	<u>53,130</u>	<u>46,708</u>	<u>142,060</u>	<u>5,539</u>	<u>(130,547)</u>	<u>175,835</u>
Segment result	<u>6,629</u>	<u>2,943</u>	<u>3,467</u>	<u>24,781</u>	<u>1,380</u>	<u>-</u>	<u>39,200</u>
Unallocated central corporate costs							(3,732)
Net financial income							<u>2,634</u>
Profit before tax							<u><u>38,102</u></u>

## 3. Financial income and expenses

<b>Financial income</b>	<b>6 months to 31st December 2006 £'000</b>	<b>6 months to 31st December 2005 £'000</b>	<b>Year ended 30th June 2006 £'000</b>
Interest income	788	1,030	1,901
Expected return on assets in the pension schemes	3,190	2,300	4,606
	<u>3,978</u>	<u>3,330</u>	<u>6,507</u>
<b>Financial expenses</b>	<b>6 months to 31st December 2006 £'000</b>	<b>6 months to 31st December 2005 £'000</b>	<b>Year ended 30th June 2006 £'000</b>
Interest on pension fund liabilities	2,458	1,860	3,858
Bank interest payable	20	12	15
	<u>2,478</u>	<u>1,872</u>	<u>3,873</u>

## 4. Income tax expense

The income tax expense has been estimated at a rate of 20% (December 2005: 20%), the rate expected to be incurred for the full year.

## 5. Earnings per share

Earnings per share are calculated on earnings of £10,810,000 (December 2005: £12,272,000) and on 72,788,543 shares, being the number of shares in issue during the period. Earnings per share for the year ended 30th June 2006 are calculated on earnings of £30,481,000 and on 72,788,543 shares, being the number of shares in issue during that year.



## 6. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
<b>Cost</b>					
At 1st July 2006	54,096	58,283	4,296	984	117,659
Additions	371	2,720	309	2,129	5,529
Transfers	525	550	-	(1,075)	-
Disposals	-	(91)	(116)	-	(207)
Currency adjustment	(1,020)	(275)	(72)	-	(1,367)
<b>At 31st December 2006</b>	<b>53,972</b>	<b>61,187</b>	<b>4,417</b>	<b>2,038</b>	<b>121,614</b>
<b>Depreciation</b>					
At 1st July 2006	8,501	37,423	2,654	-	48,578
Charge for the period	550	2,855	360	-	3,765
Released on disposals	-	(37)	(85)	-	(122)
Currency adjustment	(156)	(192)	(38)	-	(386)
<b>At 31st December 2006</b>	<b>8,895</b>	<b>40,049</b>	<b>2,891</b>	<b>-</b>	<b>51,835</b>
<b>Net book value</b>					
<b>At 31st December 2006</b>	<b>45,077</b>	<b>21,138</b>	<b>1,526</b>	<b>2,038</b>	<b>69,779</b>
At 30th June 2006	45,595	20,860	1,642	984	69,081

## 7. Intangible assets

	Goodwill on consolidation £'000	Acquired intangible assets £'000	Internally generated development costs £'000	Software licences		Total £'000
				In use £'000	In the course of acquisition £'000	
<b>Cost</b>						
At 1st July 2006	2,372	1,308	13,234	6,407	44	23,365
Additions	-	-	2,240	416	-	2,656
<b>At 31st December 2006</b>	<b>2,372</b>	<b>1,308</b>	<b>15,474</b>	<b>6,823</b>	<b>44</b>	<b>26,021</b>
<b>Amortisation</b>						
At 1st July 2006	-	20	6,615	4,187	-	10,822
Charge for the period	-	110	1,052	383	-	1,545
<b>At 31st December 2006</b>	<b>-</b>	<b>130</b>	<b>7,667</b>	<b>4,570</b>	<b>-</b>	<b>12,367</b>
<b>Net book value</b>						
<b>At 31st December 2006</b>	<b>2,372</b>	<b>1,178</b>	<b>7,807</b>	<b>2,253</b>	<b>44</b>	<b>13,654</b>
At 30th June 2006	2,372	1,288	6,619	2,220	44	12,543

## 8. Reconciliation of movements in equity

### 6 months to 31st December 2006

	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total £'000
At 1st July 2006	14,558	42	265	2,007	125,864	142,736
Profit for the period	-	-	-	-	10,810	10,810
Other recognised income and expense	-	-	(394)	358	(9,526)	(9,562)
Dividends paid	-	-	-	-	(10,969)	(10,969)
<b>At 31st December 2006</b>	<b>14,558</b>	<b>42</b>	<b>(129)</b>	<b>2,365</b>	<b>116,179</b>	<b>133,015</b>

### 6 months to 31st December 2005

	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total £'000
At 1st July 2005	14,558	42	655	-	110,202	125,457
Adoption of IAS32 & IAS39	-	-	-	2,234	-	2,234
Profit for the period	-	-	-	-	12,272	12,272
Other recognised income and expense	-	-	326	(58)	(1,860)	(1,592)
Dividends paid	-	-	-	-	(9,972)	(9,972)
<b>At 31st December 2005</b>	<b>14,558</b>	<b>42</b>	<b>981</b>	<b>2,176</b>	<b>110,642</b>	<b>128,399</b>

### Year to 30th June 2006

	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total £'000
At 1st July 2005	14,558	42	655	-	110,202	125,457
Adoption of IAS32 & IAS39	-	-	-	2,234	-	2,234
Profit for the year	-	-	-	-	30,481	30,481
Other recognised income and expense	-	-	(390)	(227)	34	(583)
Dividends paid	-	-	-	-	(14,853)	(14,853)
<b>At 30th June 2006</b>	<b>14,558</b>	<b>42</b>	<b>265</b>	<b>2,007</b>	<b>125,864</b>	<b>142,736</b>

### Dividends paid during the periods were:

	6 months to 31st December 2006 £'000	6 months to 31st December 2005 £'000	Year ended 30th June 2006 £'000
2006 final dividend of 15.07p per share (2005 13.70p)	10,969	9,972	9,972
2006 interim dividend of 6.71p per share	-	-	4,881
	<b>10,969</b>	<b>9,972</b>	<b>14,853</b>

## 8. Reconciliation of movements in equity (continued)

The 2007 interim dividend of 7.05p per share will be paid on 9th April 2007 to shareholders on the register at 9th March 2007, with an ex-dividend date of 7th March 2007.

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## Financial calendar

Record date for interim dividend	9th March 2007
Interim dividend payment	9th April 2007
Announcement of full year results	25th July 2007
Mailing of Annual report	Mid August 2007
Annual general meeting	12th October 2007
Final dividend payment	15th October 2007

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## Warning to shareholders

Over the last year many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000. It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be wary of any unsolicited advice, offers to buy at a discount or offers of free company reports.

If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation.
- Check that they are properly authorised by the FSA before getting involved. You can check at [www.fsa.gov.uk/register](http://www.fsa.gov.uk/register)
- The FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would then not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at the website [www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml](http://www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml)
- Inform our Registrar's Compliance Department on 0870 6003970 (UK) or +44 121 4157047 (overseas).

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