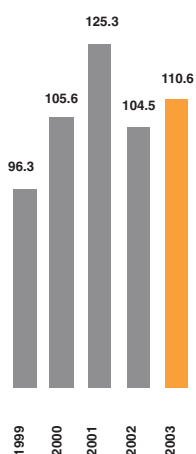


Annual report 2003

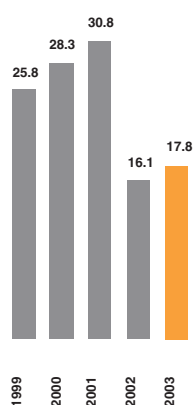
Results at a glance

	2003 £'000	2002 £'000	Change
Turnover	110,640	104,490	+6%
Operating profit	15,644	13,448	+16%
Margin	14.1%	12.9%	+9%
Profit before taxation	17,799	16,062	+11%
Taxation	3,454	880	+292%
Profit after taxation	14,345	15,182	-6%
Earnings per share (basic and diluted)	19.7p	20.9p	-6%
Dividend per share	16.7p	15.9p	+5%
Cash at bank	37,235	35,656	+4%

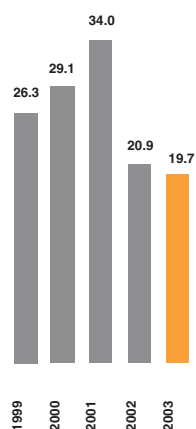
Turnover
£ million



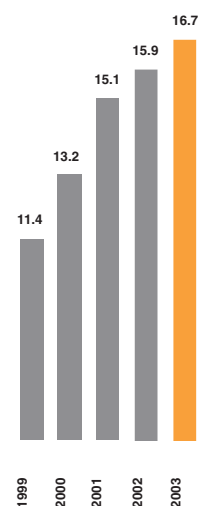
Profit before taxation
£ million



Earnings per share
Pence



Dividend per share
Pence



Directors



Sir David McMurtry, CBE, RDI, CEng, FIMechE, FREng

Chairman and Chief Executive, age 63, 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 founded Renishaw in 1973 with John Deer and joined Renishaw in 1976. His CBE was awarded "for services to Science and Technology" and he was appointed a Royal Designer for Industry (RDI) in 1989. He is a visiting Professor of Huddersfield University and has been awarded an honorary Doctorate of Engineering at the University of Birmingham and honorary degrees of Doctor of Engineering at Heriot-Watt University and Bristol University. David is a Chartered Engineer, a Fellow of the Institute of Mechanical Engineers, a Fellow of the American Society of Manufacturing Engineers and a Fellow of the Royal Academy of Engineering. In addition to his role as Chairman and Chief Executive, David also has responsibility for group technology.



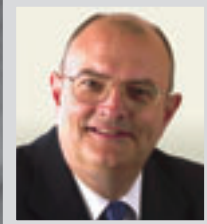
John Deer

Deputy Chairman, age 65, trained as a mechanical engineer and worked for Rolls-Royce plc, Bristol, from 1960 to 1974. He was Managing Director of Renishaw from 1974 to 1989, primarily involved in the commercial direction of the Group, with particular emphasis on marketing and the establishment of the Group's wholly-owned subsidiaries in USA, Ireland, Japan, Germany, France and Italy. John and Sir David McMurtry were members of the four-man team of Renishaw engineers honoured with the MacRobert Award in 1987. John is responsible for group manufacturing and group quality and is chairman of the overseas marketing subsidiaries.



Allen Roberts, FCA

Group Finance Director, age 54, is a Fellow of the Institute of Chartered Accountants in England and Wales. Before joining Renishaw in 1979, he was employed for 11 years by Peat, Marwick, Mitchell & Co. He was appointed a director in 1980. Allen heads group finance, business systems and Wotton Travel and is the company secretary.



Ben Taylor

Assistant Chief Executive, age 54, has been involved in the field of metrology all his working life, after graduating in mechanical engineering and design from Pennsylvania State University. Before joining Renishaw Inc as President in 1985, he was the Director of Engineering at Sheffield Measurement, USA. Ben was appointed to the Board of Renishaw plc in 1987 and is responsible for group marketing, strategy and planning, international operations and human resources. He serves on various metrology committees and other professional associations.



Geoff McFarland

Group Engineering Director, age 35, graduated with a BEng in computer aided mechanical engineering at Heriot-Watt University, where he subsequently worked for several years as a research associate. After working briefly in the high-volume manufacturing electronic sector, Geoff joined Renishaw's research and development facility in Edinburgh in 1994, before moving to Renishaw's headquarters to become Director and General Manager of the CMM products division. Geoff was appointed to the Board in July 2002. He heads the group engineering function and is also responsible for group patents.



**Joe McGeehan, FIEE,
FREng**

the senior independent non-executive director, age 57, is Managing Director of Toshiba Research Ltd: Telecommunications Research Laboratory, Bristol. After obtaining the degrees of BEng and PhD in electrical and electronic engineering from the University of Liverpool, he spent several years involved in industrial research before entering academia. Since 1985, he has held a number of senior positions at the University of Bristol. In 2003 he was awarded the degree of DEng by the University of Liverpool for his major contribution to mobile communications research, much of which has formed the basis of international standards. He is a Fellow of the Institution of Electrical Engineers and a Fellow of the Royal Academy of Engineering. Joe was appointed as a director in January 2001.



Terry Garthwaite, FCA

non-executive director, age 56, is a chartered accountant from Price Waterhouse, London. Following 12 years working at Foseco Minsep plc, a specialty chemical company, Terry joined the specialist multinational engineering group, Senior plc as Group Finance Director. Whilst at Senior he was also responsible for investor relations and chaired the group's tax and treasury committee and the UK pension funds. Since leaving Senior, he has been providing consultancy services whilst working with the Prince's Trust and the Support Group of the Institute of Chartered Accountants in England and Wales. Terry was appointed a director of the Company on 1st July 2003 and is the chairman of the audit committee.



David Snowden, FCA

non-executive director, age 66, was a partner at KPMG for 25 years, latterly acting as Senior Partner for KPMG in South Wales. David was an audit partner covering a wide range of businesses and was also regional partner in charge of insolvency work for ten years. Since his retirement from KPMG in 1993, David has been a director and corporate adviser to a number of private companies. David was appointed a director of the Company on 1st July 2003 and is the chairman of the remuneration and nomination committee.

Audit committee:

Terry Garthwaite (Chair)
Joe McGeehan
David Snowden

**Remuneration and nomination
committee:**

David Snowden (Chair)
Terry Garthwaite
Joe McGeehan
David McMurtry
John Deer

Chairman's statement

Trading

I am pleased to report that the improvement in trading conditions anticipated at the half year has continued throughout the second half.

Turnover for the year totalled £110.6m, compared with £104.5m in 2002. At the previous year's exchange rates, turnover would have been £2.9m higher at £113.5m. Strong growth was experienced in the Asean region and Japan and in Central and Eastern Europe where the Group has been concentrating its recent marketing focus. All product divisions showed growth over the previous year, in particular, Laser scale, Encoders and Spectroscopy products.

Operating profit for the year ended 30th June 2003 was £15.6m, an increase of 16% over the previous year. Profit before tax rose by 11% to £17.8m (2002 £16.1m). Profits after tax amounted to £14.3m (2002 £15.2m), after reflecting a more normalised tax rate following release last year of tax provisions no longer required. Earnings per share were 19.7p (2002 20.9p).

The Group has maintained its customary high level of liquidity with cash balances of £37.2m (2002 £35.7m).

Manufacturing

Investment in the Group's manufacturing and assembly processes continues. The first phase of the transfer of assembly activities and finished goods stores to our site at Woodchester has been successfully concluded. Phase 2 development will begin in August this year which will enable the transfer of the Machine Shop to Woodchester from New Mills.

Marketing

The Group has continued its strategy of overseas market development and enhancing service to customers. New subsidiaries have been established in Canada, Israel, Austria and Sweden, the latter two already having commenced trading. During the year, offices have been purchased in Brazil, Sweden and South Korea, with a new office block in Japan acquired since the year end. Our Russian subsidiary has recently moved into new Moscow offices; our Spanish subsidiary is due to move into new offices in Barcelona.

The Group has attended over 100 exhibitions, tradeshow and seminars throughout the world, the largest number attended by the Group in any one year. The Renishaw website has been further developed and extended, with in excess of two thirds of a million visitors each year.

Appointment of non-executive directors

The Board is pleased to report that two additional non-executive directors were appointed to the Board on 1st July 2003; David Snowden FCA aged 66 was a partner at KPMG for 25 years, latterly acting as senior partner to KPMG in South Wales. He retired from KPMG in 1993 and has subsequently been a non-executive director and corporate adviser to a number of companies. Terry Garthwaite FCA aged 56 spent 4 years at Price Waterhouse in London before working for Foseco Minsep plc and then joining engineering group, Senior plc, as Group Finance Director. Since leaving Senior in 2000, he has been providing consultancy services whilst working with the Prince's Trust and the Support Group of the Institute of Chartered Accountants in England and Wales.

They have both been appointed to the audit committee where Terry is chairman and the remuneration and nomination committee where David is chairman. John Deer and Ben Taylor have stepped down from the audit committee which now comprises only non-executive directors.

Research and development

Total research and development expenditure and associated engineering costs during the year amounted to £20.2m of which research and development amounted to £14.2m. This compares with the total research and development and associated engineering costs of £19.4m in 2002. Arising from our R&D programme a number of new products have continued to be introduced. During the year for example, the ProCera® Piccolo tooth scanner has been both successfully developed for and sold to Nobel Biocare for the dental market. In addition, the forthcoming EMO Exhibition in Milan will see the official launch of a number of new products for the machine tool market.



The ProCera® Piccolo.



A Nobel Biocare advertisement featuring the ProCera® Piccolo.



Mercedes-Ilmor

During the year Renishaw was pleased to renew its technical partnership with Mercedes-Ilmor Limited, supplier of championship winning Formula One race engines to Mercedes-Benz.

The renewed arrangement aims to continue the successes of the earlier agreement entered into between Renishaw and Ilmor Engineering Limited in November 1999. Despite a change of ownership in December 2002, when Mercedes-Benz took a majority shareholding in Ilmor, and a rationalisation of its technical partnership programme, the newly named Mercedes-Ilmor decided to maintain the partnership with Renishaw as a result of the positive contribution made by Renishaw products to Mercedes-Ilmor's manufacturing operations.

Renishaw will continue as the sole supplier of probing systems and machine tool performance testing products with an increased focus on the field-testing of Renishaw's innovative metrology products at Mercedes-Ilmor's main manufacturing site in Northamptonshire, UK.

Together, Mercedes-Ilmor, Mercedes-Benz and McLaren have now won 33 Formula One Grands Prix.

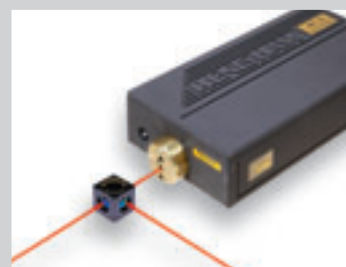
Above left: Sir David McMurtry with Hans-Ulrik Maik, Mercedes-Ilmor's Managing Director, signing the latest partnership agreement.

Above centre and right: Mercedes-Ilmor's manufacturing facilities at Brixworth, Northamptonshire, UK.

Right: Mercedes-Benz FO110M engine used to power Team McLaren Mercedes in the 2002 Formula One World Championship.



The QC10 ballbar allows Mercedes-Ilmor rapidly to check that their machines are performing to specification before undertaking expensive machining processes.



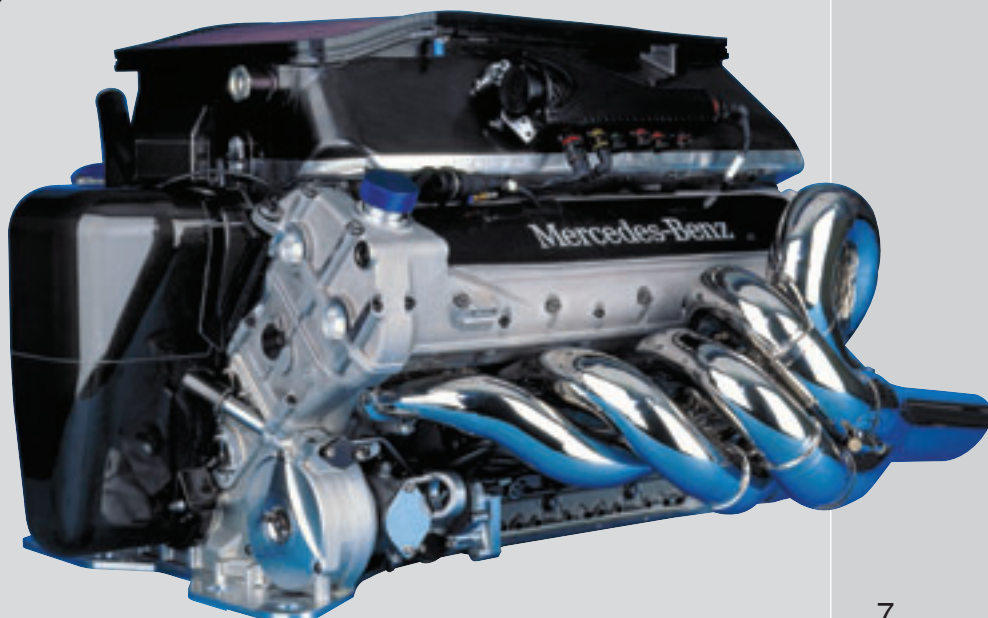
When a fully comprehensive calibration of a machine tool is required, Mercedes-Ilmor relies on the superior accuracy of Renishaw's ML10 laser measurement system.



Strain-gauge technology used in Renishaw's MP700 inspection probe, gives Mercedes-Ilmor the accuracy that they require in automating set-ups on their high-precision machine tools.



Renishaw's non-contact tool setting systems are used by Mercedes-Ilmor to check for tool breakage during critical machining operations.



Chairman's statement continued

Capital expenditure

Capital expenditure of £8.2m includes investment in new plant and machinery and further development of the Group's IT management information systems and R&D design tools, compared with £8.9m in the previous year.



Assembly hall, Woodchester.

Personnel

In a further demanding year, particularly following the recent downturn, I must give a special mention to the staff throughout the Group without whom Renishaw's achievements would not be possible.

Prospects and dividend

We have ended the year with trading conditions continuing to improve. There are some signs of more buoyant activity in the world economy, we have a number of new markets to develop and a number of new product introductions. Cost controls remain strong with recruitment mainly confined to areas of extra investment and new markets. We remain confident of the Group's longer term continuing progress.

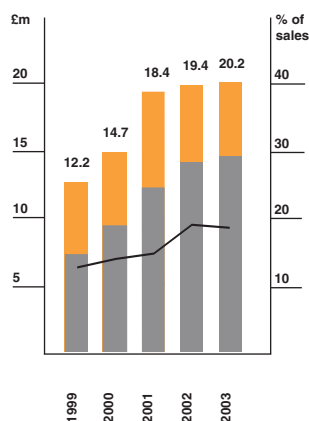
Your board proposes a final dividend of 11.36p per share, giving a total for the year of 16.70p, an increase of 5% over that for 2002.

Sir David R McMurtry

CBE, RDI, CEng, FIMechE, FREng
Chairman and Chief Executive
23rd July 2003

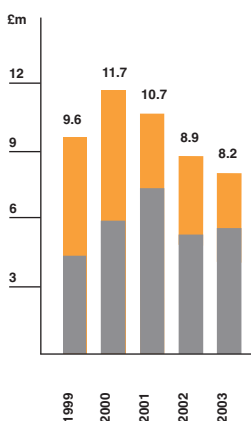
Engineering costs

Other
Research and development
— % of sales

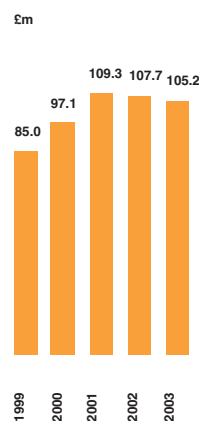


Capital expenditure

Land and buildings
Plant and vehicles



Shareholders' funds





Lindisfarne Gospels

The British Library contains one of the world's foremost collections of Anglo-Saxon decorated manuscripts originating from both Britain and abroad, exemplifying almost every significant script or school. In the past, information on the materials used to compose the illuminations has relied upon later written evidence such as artist instructions and pigment price lists. Until recently, analysis of the pigments using non-destructive techniques has been limited and so identification has largely been done by visual inspection and recipe reconstruction, which can be unreliable.

However, Professor Robin Clark and Dr Katherine Brown of University College London, together with David Jacobs and Dr Michelle Brown of the British Library, have undertaken analysis of the Lindisfarne Gospels, using Renishaw Raman spectroscopy and a fibre optic probe. The Lindisfarne Gospels were written between 715 and 721 AD in honour of St Cuthbert, Bishop of Lindisfarne who died in 687 AD.

The original analysis of the manuscript in 1960 identified lazurite pigments, which would represent the earliest known use of these in an English manuscript and, by implication, prove the existence of a trade route from what is now north-east Afghanistan to Northumbria. The investigations using Renishaw instrumentation revealed that the blue pigment in the Lindisfarne Gospels is not lazurite but indigo, probably made from the woad plant. Of the manuscripts studied so far by Raman spectroscopy, the earliest work found to contain lazurite dates from around 920 AD, significantly later than originally thought.



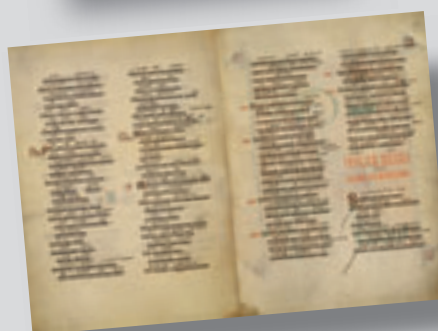
The RM Raman Microscope was used in the Lindisfarne Gospel analysis.

This investigation shows the improvements that can be made to scientific and historical knowledge through the non-invasive analytical techniques provided by Renishaw's Raman spectroscopy instrumentation.



Above: Carpet page and initial page from St. John's Gospel.

Below: the title page and spread from St. Mark's Gospel.



Operating and financial review

Business outline

Renishaw's business is metrology, the science of measurement. The business is managed as seven products divisions, whose products are marketed and distributed throughout the world by the Group's marketing subsidiaries, which have been established in all the major market areas in which the Group operates.

The Group's co-ordinate measuring machine ("CMM") probes are the industry standard for accurate post-process inspection of components on CMMs. The CMM products division offers an extensive range of probes for different applications, motorised and manual probe heads, together with a range of accessories, styli, extension bars and a universal CMM controller.

Machine tool products are used for automated component identification, workpiece setting and inspection and can be fitted on CNC turning and milling machines. This division offers a complete range of products, including tool setting systems, probing systems, arms, transmission systems and software.

The main products in the Laser and calibration products division are the laser interferometer, used to determine the accuracy of CMMs, machine tools and other industrial and scientific equipment, and the QC10 ballbar, which can check CNC machine tools quickly and cost-effectively. The division also offers the HS10 laser scale system, which is used in precision motion systems.

Encoder products are used in many applications, where precise linear or rotary motion control is required. Renishaw's encoder systems consist of a flexible gold plated scale, which can be cut to the required length and easy to install high resolution optical encoders.

Products from the Digitising products division are used in the process of gathering data from undefined 3D surfaces and are used in fields such as tool, die and mould making, in industries such as jewellery, coin, shoe and automotive manufacture. More recently, the dental scanning system has been introduced specifically to diversify into the dental industry.

Renishaw manufactures a wide range of spectroscopy products, the main product being the Raman microscope. These products, which are used to identify the composition and structure of materials, are used in many different fields, such as pharmaceutical, forensic, semiconductor and chemical industries.

The Styli and Custom products division was set up to focus on business opportunities for styli and accessories, where the standard Renishaw product does not address the customer's specialised requirements.

The Group mainly manufactures its products in the UK and Ireland and has opened marketing and distribution subsidiaries in the major markets around the world. These subsidiaries are located in the USA, Japan, Germany, France, Italy, Spain, Switzerland, Hong Kong, Brazil, the Netherlands, India, Australia, Slovenia, Czech Republic, Poland and Russia. More recently, new subsidiaries have been set up in Sweden, South Korea, Canada, Austria and Israel.

Business strategy

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

The Group plans to pursue other market sectors, in addition to the more traditional manufacturing customers, which have been the major customers for Renishaw products in the past. These other market sectors include printing, scientific research, dental, process control in chemical, semiconductor and material production and motion feedback systems for equipment used in the production of electronic and semiconductor components.

The Group also plans to develop territorial markets, investing further in Eastern Europe and Russia, South East Asia and other areas considered opportune.

In order to improve the Group's ability to design, manufacture and support the Group's products, more investment will be made in the manufacturing facilities at Wotton-under-Edge and Woodchester in the UK.

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

Operating review

In the year to 30th June 2003, group sales were £110.6m, up 6% on the previous year of £104.5m. Overall, compared with the previous year, there was an adverse currency effect due to exchange rate changes. At constant exchange rates, the turnover growth was 9%.

The market for our products has been subdued in the USA and in Europe, but there has been increasing demand in Japan and the Far East. The following table shows the analysis of turnover by geographical market and the effect of exchange rate fluctuations.

Country	2003 at actual exchange rates	2003 at 2002 exchange rates	2002 at actual exchange rates
	£'000	£'000	£'000
USA and Canada	29,633	32,646	31,041
Germany	17,484	16,392	16,642
Japan	14,120	14,798	11,956
Far East (excluding Japan)	11,778	12,873	10,207
Italy	8,786	8,476	8,310
France	4,924	4,356	4,719
Other overseas countries	14,244	14,377	11,894
United Kingdom	9,671	9,671	9,721
Total group turnover	110,640	113,589	104,490

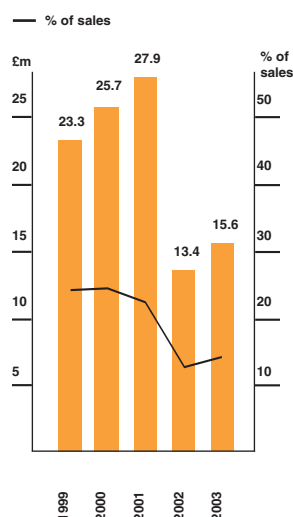
Headcount increased during the year from 1,536 at June 2002 to 1,639 at June 2003. Of the increase of 103, 25 were in our overseas marketing subsidiaries, whilst 78 were added to our design, marketing, administration and production facilities in the UK and Ireland. Total labour costs for the Group increased by 3% from £51.8m in 2002 to £53.3m in 2003. Note that 2002 included £1.4m voluntary redundancy and early retirement payments.

At the operating profit level, operating profit was £15.6m, up 16% on the previous year of £13.4m. Included in this figure are currency gains of £3.0m, mainly arising from forward contract sales of US Dollars, which compares with £4.0m for the previous year, where there were also forward contract sales of Japanese Yen at favourable exchange rates.

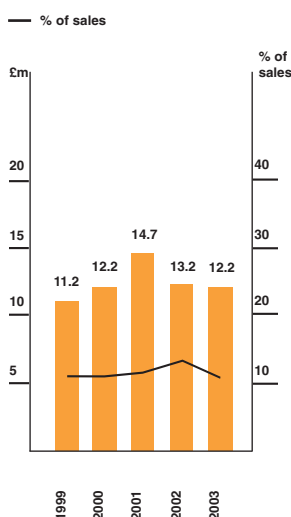
With slightly lower interest receivable and lower finance income arising from FRS 17 calculations, profit before tax was £17.8m, up 11% on last year's profit of £16.1m. Tax, at 19% of profits, was higher than last year's 5%, as last year's charge included the release of certain provisions that were considered to be no longer required. With dividends increased by 5% over last year, from 15.9 pence per share to 16.7 pence per share, retained earnings were £2.2m, compared with £3.6m for the previous year.

As a result of the higher tax charge this year, the earnings per share has not grown in line with the growth in profit before tax. This year, earnings per share were 19.7p, compared with 20.9p for the previous year.

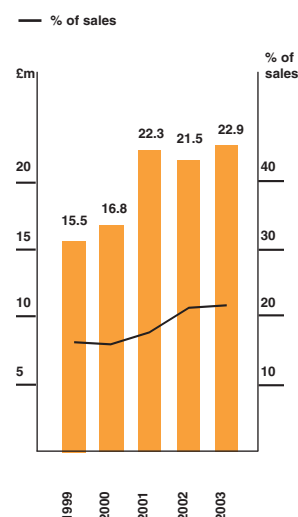
Operating profit



Administrative expenses



Distribution costs



Operating and financial review continued

European operations

The economies of Central Europe continue to grow at a rate of 3% to 5% per year with low labour costs and a skilled workforce helping to secure high levels of direct foreign investment throughout the region.

Many companies are now choosing to establish their new manufacturing operations or relocate existing facilities into the area. The automotive industry is leading this trend as the largest overall investor, including companies such as Peugeot, Citroen, Toyota, VW-Skoda, Daewoo, Adam Opel, Isuzu Motors and Ford.

A similar situation exists in Russia where exploitation of oil and gas reserves is the driving force behind the high levels of foreign investment.

Against the background of this positive growth trend and the accession of eight new countries into the EU during 2004, the Group is in an excellent position to take full advantage of these business opportunities having already established its own subsidiary operations in the key markets of Czech Republic, Poland, Russia and Austria and a representative office in Hungary. Additionally, the Group has a 50% interest in RLS merilna tehnika d.o.o. a company based in Slovenia, whereby RLS distributes Renishaw products in the former Yugoslav countries. This is a continuation of Renishaw's recent strategy in Central Europe in establishing its own direct operations in favour over third party distribution channels. This has resulted in much closer working relationships with, and provided higher levels of service and support to, existing and new customers.

The establishment of Renishaw AB in Sweden as the Nordic headquarters further strengthens Renishaw's position in Europe.

World developments



Canada

Renishaw (Canada) Limited is situated on the outskirts of Toronto in the city of Mississauga close to Pearson International Airport and a main highway intersection. The office covers approximately 470 m² and includes areas for sales, technical support, product display and demonstration, warehousing and distribution.



Japan

Renishaw KK has acquired a 9-storey building in the Shinjuku-ku business district in Tokyo. The building allows scope for future expansion and, as part of the premises is let to a tenant, it also provides a rental income.

New European operations



Sweden

The Renishaw AB office is the headquarters for the Nordic area and is situated in Järfälla on a major motorway route 20 km north-west of Stockholm. The building has ample office space as well as a purpose-built 200 m² demonstration area and space for warehousing.



Austria

Located in the south of Vienna, Renishaw (Austria) GmbH is well situated some 30 minutes from the airport and the centre of Vienna.



Czech Republic

Established in 2001, Renishaw s.r.o. is located in Brno, which is central to customers in both the Czech and Slovak Republics. The facility has 350 m² of office space including a demonstration facility, stock storage areas and room for further expansion.



Poland

Renishaw Sp. z o.o. occupies 150 m² in a brand new office building located 10 km south of Warsaw near the main airport. This location is ideal for access to the south of Poland where many of Renishaw's customers are located.



Russia

In 2003 OOO Renishaw moved from its previous facility in Moscow to a newly refurbished office with its own separate dedicated stock area.

Operating and financial review continued

FRS 17 - Retirement benefits has again had an impact on the Group's balance sheet reserves. A shortfall of a further £3.5m (net of deferred tax) is reflected in the year end balance sheet with a £4.7m (net of deferred tax) actuarial loss recognised in the Consolidated statement of total recognised gains and losses.

During the year, the Company made additional contributions of £1.5m to the pension scheme, in line with recommendations from the scheme's actuaries.

Balance sheet and cash flow

Whilst further property development has been put on hold for our New Mills site for the time being, the investment in our production facility at Woodchester has continued and this site now houses the main manufacturing and assembly operations and finished goods. Also, property purchases have been made for our offices in Brazil, which were previously rented, and for our new subsidiaries in South Korea and Sweden. Total capital expenditure for the year was £8.2m, compared with £8.9m for the previous year.

Stock has reduced during the year, as improvements have been made in the stock management systems. Stock was £20.2m at the end of the year, 9% below the £22.1m at the end of the previous year.

The Group's cash balances have been maintained, with cash increasing from £35.7m at the end of last year to £37.2m at the end of June 2003.

Whilst retained earnings were positive at £2.2m, the negative effect of the pension liability has meant that shareholders' funds decreased in the year by £2.5m, from £107.7m to £105.2m.

Treasury policy

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

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

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

The Group uses a number of financial instruments to manage foreign currency risk, such as foreign currency borrowings to hedge the exposure on the net assets of the overseas subsidiaries and, from time to time, forward exchange contracts to hedge foreign currency net income streams. Also, currency swaps are used to minimise the interest cost of maintaining the currency borrowings. The foreign currency borrowings are short-term with floating interest rates. The Group does not speculate with derivative financial instruments.

See note 20 on page 33 for an analysis of cash balances and borrowings at the year end.

During the year, there were forward contracts in place to hedge against a proportion of the Group's US Dollar and Euro receivables and there are a number of forward contracts outstanding at the year end to hedge a major proportion of our Euro receivables for 2004.

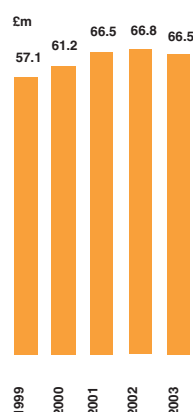
Investment for the future

The Group invested 18% of turnover in its research and development programme, including associated engineering costs and is committed to continuing this policy in order to develop new patented products to support its existing markets and to expand into new market areas.

Investment in manufacturing, to improve efficiencies in production and ensure capacity will continue.

The Group will also continue to expand its presence around the world by opening offices in new territories and expanding existing offices where appropriate. The Group believes it is important to have local offices to support its business where the size of the market warrants this.

Working capital



Net cash balances



Directors' report

The directors have pleasure in presenting their 30th Annual report, together with the audited financial statements for the year ended 30th June 2003 as set out on pages 20 to 35.

Trading results

The group results for the year were:-

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation	17,799	16,062
Taxation on profit on ordinary activities	3,454	880
Profit for the financial year	14,345	15,182
Dividends	12,156	11,573
Retained profit for the year	2,189	3,609

Principal activities and review of the business

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

A review of the business and likely future developments are given in the Chairman's statement and the Operating and financial review. An analysis of turnover by geographical market is given in note 2 to the financial statements. Further information is also available on the Group's website: www.renishaw.com and in the Group profile.

Dividends

The directors propose a final dividend of 11.36p per share (2002 10.82p) which, together with the interim dividend of 5.34p (2002 5.08p), makes a total of 16.70p for the year, compared to 15.90p for the previous year. The final dividend will be paid on 20th October 2003 to shareholders on the register on 19th September 2003.

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 at the end of the year, were:-

	Ordinary shares of 20p each	
	2003	2002
D R McMurtry	26,377,291	26,377,291
D J Deer	12,393,040	12,378,940
B R Taylor	10,147	5,147
A C G Roberts	5,165	5,165
G McFarland (appointed 24th July 2002)	—	—
J P McGeehan	900	—

All the above holdings were beneficially held with the exception of 2,320,311 shares (2002 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 2003 to 23rd July 2003.

B R Taylor, who does not have a service contract, and J P McGeehan, whose contract for services is terminable upon one month's notice, retire by rotation and being eligible, offer themselves for re-election. In addition, T D Snowden and T B Garthwaite, who each have a contract for services terminable upon one month's notice, offer themselves for election, having been appointed to the Board on 1st July 2003. T D Snowden held 5,000 ordinary shares in the Company at the date of his appointment.

Biographical details of the directors are shown on pages 4 and 5.

Environmental control

The Renishaw Group operates in an environmentally responsible manner, adopting the most appropriate environmentally-friendly technologies and practices to ensure the minimisation of its environmental impact.

Work on the Woodchester site to bring it in line with the latest environmental standards has continued with the systematic elimination of unsuitable materials. An energy-efficient air conditioning system has been implemented using Munters heat recovery wheels and older air conditioning installations on other sites have also been upgraded to new more efficient systems. In addition, flood management work is starting to ensure both the security of the site and the preservation of local waterways.

Across all sites, a review of energy use has been undertaken with a view to minimising consumption. This involves the implementation of a system to monitor remotely individual loads and to provide on-line analysis of energy usage. Future building developments are being designed to meet local planning authority requirements regarding the storage and recycling of both rainwater and greywater where appropriate.

Recycling of materials has been for many years an integral part of Renishaw's manufacturing ethos. New schemes are being devised to extend recycling to all areas where benefit to the environment can be achieved. Some site recycling facilities have been opened up for use by employees in order to promote an environmentally responsible culture.

Efforts in the integration of environmental requirements in the design of products have continued through the minimisation of packaging and its progressive transfer to recyclable cardboard packaging wherever possible. The programme of introduction of lead-free techniques to address the requirements of the European Waste Electrical and Electronic Equipment Directive has been continuing and an investment plan is under preparation to gear up the Company to embrace this new technology.

Auditors

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

Special business

The notice of annual general meeting on page 37 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. 9 at the annual general meeting to give the required authority until the earlier of the conclusion of the 2004 annual general meeting and 31st December 2004. 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 well established systems of safety management are in place throughout the Group to safeguard employees, customers and visitors.

Employment policies are designed to provide equal opportunities irrespective of colour, ethnic origin, nationality, religion, sex, marital or disabled status. The Company always considers carefully an application for employment by any registered disabled person. Also, opportunities are given to employees who become disabled, to continue in their employment or to be trained for other positions. Regular contact is maintained with all employees through monthly communications meetings and departmental channels. The quarterly in-house journal ensures staff are kept well informed on the progress of the Group. In addition, the Assistant Chief Executive presents the interim and final results, following their publication, to all employees, in February and August respectively.

Creditor payment policy

The Company has a variety of payment terms:

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

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

Typically, the Company settles all due invoices in the calendar month following their receipt. The number of days' purchasing outstanding at the end of June 2003 was approximately 30 days (2002 30 days).

Corporate governance

The Board is committed to maintaining high standards of corporate governance.

The statement below, together with the report on directors' remuneration on page 19, explains how the Company has applied the principles set out in the Combined Code and the subsequent Turnbull guidance.

The Board

The Board is responsible for the proper management of the Company and retains control over the Company and its subsidiary undertakings. It meets as often as is necessary for the proper conduct of business, normally five times a year. During the year ended 30th June 2003, the Board met five times and all directors in office at the relevant time attended such meetings. It now has eight members, five executive directors and three non-executive directors. Biographical details are set out on pages 4 and 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. The Board focuses on formulation of strategy, control and review of business performance. 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 and removals (including the company secretary). 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.

The Board appointed two additional independent non-executive directors who took office on 1st July 2003. A number of applicants were considered and a shortlist interviewed. The Board identified a need for candidates with good knowledge of financial matters and business affairs. Both new appointees are experienced chartered accountants with an understanding of the requirements of listed companies and of the engineering and electronics sector. It is expected that both will make significant contributions to Board decision-making in the future.

An induction programme has been commenced for both new directors which includes an opportunity to meet major shareholders.

The senior independent non-executive director for the year from 1st July 2003 is Joe McGeehan. It is intended that this position is rotated between the non-executive directors on an annual basis.

Board committees

The Board has two formally constituted committees; the audit committee and the remuneration and nomination committee. Both have terms of reference that have been approved by the Board. The Board took the opportunity following the appointment of the new non-executive directors to review the membership of both committees.

The current audit committee members are set out on page 5 and now comprise solely independent non-executive directors. It met three times during the financial year with its previous membership and twice since then with its new composition. The Group Finance Director, Group Internal Audit Manager and external auditors have been in attendance

at all such meetings. The committee intends to meet at least three times a year, including at least one meeting, or part, with the external auditors without the executive directors being present.

The remuneration and nomination committee is the committee with responsibility for determining remuneration policy, determining executive director remuneration packages, reviewing the structure and composition of the Board and nominating candidates for appointment to the Board. The current members of the remuneration and nomination committee are set out on page 5. It met once during the financial year with its previous membership and intends to meet at least two times a year in future.

There is an executive committee known as the Executive Board that is responsible for the executive management of the Group's business. It is chaired by the Chairman and includes the executive directors.

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

At 30th June 2003, the Group had seven specialist products divisions, with three supporting service divisions. Each of these divisions has its own executive board, which meets quarterly and which comprises the five executive directors and the director and general manager of each division. Other senior divisional managers attend the board meetings as required.

Directors' remuneration

Details of directors' remuneration are set out in the Directors' remuneration report on page 19 and in note 4 to the financial statements.

Relations with shareholders

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

The annual general meeting takes place at the Company's head office 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 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 (www.renishaw.com) gives access to information about the Group, its products and its performance. The interim results and the preliminary announcement of the full year's results are published on the website no later than ten minutes after they have been released at the Financial Services Authority.

Internal control

The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal controls, including financial, operational, compliance and risk management. The Company has established procedures to ensure compliance with the Combined Code and the related Turnbull guidance.

The Board acknowledges that it is responsible for the Company's system of internal control and for reviewing its effectiveness. Also, it acknowledges 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. This is intended to ensure that the directors maintain full and effective control over all significant strategic, financial, organisational and compliance issues. However, any system is designed to manage rather than eliminate the risk of failure to achieve business objectives and 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 control, are set out below:

Directors and senior managers have identified the significant risks faced by the Company and its subsidiaries. There is an on-going process for identifying, evaluating and managing risks, together with determining key controls and reporting procedures to minimise their impact. It is reviewed regularly by the Board and accords with the Turnbull guidance.

Formal interviews have been conducted with directors and general managers from all areas of the business. The key risks have been identified with due consideration and analysis of political, economic, social and technological factors that could impact on each business area's objectives. For each identified risk, a value judgement has been made on the impact, both financial and reputational, that its crystallisation would have on the business, together with the likelihood of the risk occurring. Scores have been calculated for each risk using a risk score matrix and the risks prioritised based on these scores. This process has been facilitated by Internal Audit, to ensure consistency. Following this process, Internal Audit has ensured that proper control policies, procedures and activities are in place to maintain the key business risks within the risk tolerance levels agreed by the Board. This process is ongoing.

In addition, monthly reports are prepared by the director and general manager of each UK division setting out the 'strengths, opportunities, failures and threats' facing the business. These reports are formally reviewed in the divisional board meetings. Monthly sales reports are also prepared for the Board by the managing director of each overseas subsidiary company. These reports address pertinent business risks.

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 monthly reporting to the Board of 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.

Control procedures are established that are considered appropriate to the size and nature 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.

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.

Key procedures and controls are defined in the Group Internal Control 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 policies are defined 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 control system is monitored and supported by Internal Audit. This monitoring process is continual. It is a principal function of the Group's 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 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.

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.

Compliance statement

The Board has reviewed the effectiveness of the system of internal control during the year and for the period to the date of approval of the financial statements.

In its opinion, the Company has complied from 1st July 2002 with 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 was no nominations committee to consider the appointment of new directors.

The consideration of candidates to the Board was a matter reserved for the Board as a whole. All directors were involved in the selection process for the two additional non-executive directors appointed on 1st July 2003. Since their appointment, a newly constituted remuneration and nomination committee is responsible for reviewing Board composition. This committee is not constituted in accordance with the Combined Code since it includes the Chairman and Chief Executive and the Deputy Chairman, both being executive directors. However, the committee is composed of a majority of non-executive directors and is chaired by a non-executive director.

The Board did not comprise one third non-executive directors during the financial year. However, this requirement of the Combined Code has now been fulfilled with the two new non-executive director appointments.

In accordance with the articles of association of the Company, the Chairman and Deputy Chairman are not subject to re-election by the shareholders.

Substantial shareholdings

Apart from the shareholdings of Sir David McMurtry and John Deer (36.2% and 17% respectively), the shareholdings notified to the directors, which represent 3% or more of the issued share capital of the Company, as at 23rd July 2003, are:

Company	Number of shares	Percentage
CRMC*	3,820,308	5.25%
HBOS plc	3,379,992	4.64%
Aegon UK plc	3,045,947	4.18%

*Capital Research and Management Company

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.

Donations and community involvement

During the year the Group made charitable donations of £57,345 (2002 £86,797). The Group organises its charitable donations by two methods: firstly, by allocating a fund of money to its Charities Committee; and secondly, through direct grants as decided by the Board. The Charities Committee meets at least four times a year to consider all applications for donations from local groups in the UK. Its donations policy is to provide funds to local causes or local branches of national groups, with specific focus on youth projects.

In addition to donations to charitable causes, the Company is actively involved with the community, for example, hosting events at its premises for local schools and supporting the community sports foundation efforts in providing sporting facilities in Wotton-under-Edge. No political donations were made (2002 £nil).

By order of the Board
A C G Roberts FCA
Secretary
23rd July 2003

Directors' remuneration report

Remuneration policy

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

During the year, the committee appointed William M Mercer to give advice in relation to certain benefits for the directors.

Details of directors' remuneration (including pensions), which form the audited section of this report, are shown in note 4 on page 26.

Remuneration and nomination committee

The committee was chaired by Joe McGeehan until 23rd July 2003, the other members to this date being Sir David McMurtry, Chairman and Chief Executive and John Deer, the Deputy Chairman. From 23rd July 2003, David Snowden (chair from 23rd July 2003) and Terry Garthwaite, non-executive directors, joined the committee. Neither the Chairman nor the Deputy Chairman participate in matters relating to his own remuneration. Remuneration of the non-executive directors is determined by the executive directors. The committee has access to internal and 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 and nomination 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 electronic 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 directors do 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

G McFarland participates in the Company's defined benefit scheme and more details are given in note 4 on page 26.

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

Service Contracts

No director has a service contract. The three non-executive directors have been appointed under contracts for services which are intended to continue for an initial period of three years. However, these contracts may be terminated by either the Company or the director on one month's notice.

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.

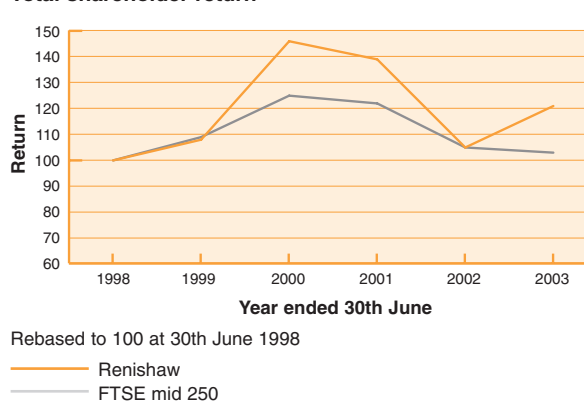
Share options and long-term incentive schemes

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

Performance graph

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

Total shareholder return



By order of the Board
J P McGeehan
Chairman, Remuneration and nomination committee
23rd July 2003

Consolidated profit and loss account

for the year ended 30th June 2003

	Notes	2003 £'000	2002 £'000
Turnover	2	110,640	104,490
Cost of sales		59,941	56,273
Gross profit		50,699	48,217
Distribution costs		22,880	21,524
Administrative expenses		12,175	13,245
		35,055	34,769
Operating profit	3	15,644	13,448
Interest receivable less payable	5	1,925	1,974
Other finance income	6	230	640
Profit on ordinary activities before taxation		17,799	16,062
Tax on profit on ordinary activities	7	3,454	880
Profit for the financial year	8	14,345	15,182
Dividends	9	12,156	11,573
Retained profit for the financial year	18	2,189	3,609
		pence	pence
Earnings per share (basic and diluted)	10	19.7	20.9
Dividend per share	9	16.7	15.9

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 2003

	Notes	The Group		The Company	
		2003	2002	2003	2002
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	11	50,877	49,088	32,584	31,693
Investments	12	–	–	25	25
		50,877	49,088	32,609	31,718
Current assets					
Stocks	13	20,171	22,076	12,831	12,861
Debtors	14	29,600	27,206	89,703	72,487
Cash at bank	21	37,235	35,656	7,264	461
		87,006	84,938	109,798	85,809
Creditors					
Amounts falling due within one year	15	20,534	18,176	101,917	80,586
Net current assets		66,472	66,762	7,881	5,223
Total assets less current liabilities		117,349	115,850	40,490	36,941
Provisions for liabilities and charges	16	(3,503)	(3,035)	(4,162)	(4,397)
Net assets excluding pension liability		113,846	112,815	36,328	32,544
Pension liability	19	(8,620)	(5,130)	(8,470)	(5,040)
Net assets including pension liability		105,226	107,685	27,858	27,504
Capital and reserves					
Called up share capital	17	14,558	14,558	14,558	14,558
Share premium account	17	42	42	42	42
Profit and loss account	18	90,626	93,085	13,258	12,904
Shareholders' funds – equity		105,226	107,685	27,858	27,504

The financial statements on pages 20 to 35 were approved by the Board of directors on 23rd July 2003 and were signed on its behalf by:-

Sir D R McMurtry

A C G Roberts

Directors

Consolidated cash flow statement

for the year ended 30th June 2003

	Notes	2003 £'000	2002 £'000
Net cash inflow from operating activities	21	20,481	18,291
Returns on investments and servicing of finance			
Interest received		1,954	2,244
Interest paid		(48)	(131)
		1,906	2,113
Tax paid		(1,380)	(5,195)
Capital expenditure			
Purchase of tangible fixed assets		(8,184)	(8,962)
Sale of tangible fixed assets		158	427
		(8,026)	(8,535)
Equity dividends paid		(11,763)	(11,195)
Cash inflow/(outflow) before management of liquid resources		1,218	(4,521)
Management of liquid resources			
Decrease in bank deposits		7,628	2,828
Increase/(decrease) in cash in the year		8,846	(1,693)

Reconciliation of net cash flow to movement in net funds

for the year ended 30th June 2003

	Notes	2003 £'000	2002 £'000
Increase/(decrease) in cash in the year		8,846	(1,693)
Cash inflow from movement in liquid resources		(7,628)	(2,828)
Changes in net funds resulting from cash flows		1,218	(4,521)
Currency differences		361	882
Movement in net funds in the year		1,579	(3,639)
Net funds at 1st July		35,656	39,295
Net funds at 30th June	21	37,235	35,656

Consolidated statement of total recognised gains and losses

for the year ended 30th June 2003

	2003 £'000	2002 £'000
Profit for the financial year	14,345	15,182
Currency translation differences on foreign currency net investments	52	864
Actuarial loss recognised in the pension schemes	(6,680)	(8,590)
Deferred tax thereon	1,980	2,480
	(4,700)	(6,110)
Total gains recognised since last Annual report	9,697	9,936

Analysis of actuarial loss recognised in the Consolidated statement of total recognised gains and losses:

	2003 £'000	2002 £'000
Actual return less expected return on pension scheme assets	(4,110)	(7,370)
Experience gains and losses arising on the scheme liabilities	(270)	180
Changes in assumptions underlying the present value of liabilities	(2,300)	(1,400)
Actuarial loss recognised in the statement above	(6,680)	(8,590)

Reconciliations of movements in shareholders' funds

for the year ended 30th June 2003

	The Group		The Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Profit for the financial year	14,345	15,182	17,060	8,949
Dividends	(12,156)	(11,573)	(12,156)	(11,573)
Retained profit/(loss) for the year	2,189	3,609	4,904	(2,624)
Currency translation differences	52	864	—	—
Actuarial loss net of deferred tax	(4,700)	(6,110)	(4,550)	(4,410)
Net (reduction in)/addition to shareholders' funds	(2,459)	(1,637)	354	(7,034)
Shareholders' funds at 1st July	107,685	109,322	27,504	34,538
Shareholders' funds at 30th June	105,226	107,685	27,858	27,504

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.

In accordance with FRS 8, transactions or balances between group companies that have been eliminated on consolidation are not reported as related party transactions.

Turnover

Turnover represents the amount derived from the provision by the Group of goods and services to third party customers during the year 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 equipment – 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. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

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

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 consolidated 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 contributory pension schemes, of the defined benefit type, for UK and Irish based employees. The schemes are administered by trustees and are independent of the group finances. Contributions are paid to the schemes in accordance with the recommendations of independent actuaries to enable the trustees to meet from the schemes the benefits accruing in respect of current and future service.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

The pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

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 FRS 17, were not obtained because of the smaller number of foreign employees.

Warranty on the sale of products

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. A warranty provision is included in the accounts, which is calculated on the basis of historical return in warranty information and other quality reports.

2. Turnover

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

	2003 £'000	2002 £'000
USA and Canada	29,633	31,041
Germany	17,484	16,642
Japan	14,120	11,956
Far East (excluding Japan)	11,778	10,207
Italy	8,786	8,310
France	4,924	4,719
Other overseas countries	14,244	11,894
Total sales to overseas customers	100,969	94,769
United Kingdom	9,671	9,721
Total group turnover	110,640	104,490

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. Operating profit

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

	2003 £'000	2002 £'000
Research and development	14,246	13,921
Depreciation	6,295	5,826
Foreign exchange gains	(2,980)	(3,989)
Profit on disposal of fixed assets	(36)	(130)
Auditors' remuneration – audit for the Group	128	122
– audit for the Company	38	35
Other fees paid to the auditors and their associates - tax	260	177
- other	58	99

Staff numbers and costs:-

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

	2003 Number	2002 Number
United Kingdom	1,143	1,149
Overseas	432	437
	1,575	1,586

The aggregate payroll costs of the above were:-

	2003 £'000	2002 £'000
Wages and salaries	43,831	42,633
Social security costs	4,352	4,319
Other pension costs (note 19)	5,160	4,852
	53,343	51,804

4. Directors' remuneration and share options

The total remuneration of the directors was:-

	2003 £'000	2002 £'000
Salaries and fees	1,141	965
Benefits	140	89
Appreciation award	328	254
Pension contributions	291	254
	1,900	1,562

	Salary & fees £'000	Benefits £'000	Appreciation award £'000	Total 2003 £'000	Total 2002 £'000	Pension contributions	
						2003 £'000	2002 £'000
Chairman							
D R McMurtry	345	25	110	480	447	133	123
Other executive directors							
D J Deer	210	33	67	310	281	81	68
B R Taylor	292	37	78	407	362	44	41
A C G Roberts	155	28	41	224	206	23	22
G McFarland	127	17	32	176	—	10	—
Non-executive							
J P McGeehan	12	—	—	12	12	—	—
	1,141	140	328	1,609	1,308	291	254

G McFarland, who was appointed a director on 24th July 2002, participates in the Company's defined benefit scheme. The values required to be reported were:-

AB* at 24th July 2002	Increase in AB excluding inflation	Increase in AB including inflation	Transfer value of (A) less director's contribution	Transfer value of AB at 24th July 2002	Transfer value of AB at 30th June 2003	Increase in transfer value less director's contribution
£ p.a.	£	£	£	£	£	£
14,580	1,400	1,620	2,140	66,562	78,550	6,644

* AB = Accrued benefits

The amounts in respect of pension contributions are the amounts paid by the Company to the personal pension plans of the directors for the relevant periods, except for G McFarland, where the amounts paid are those to the Company's defined benefit scheme, in which he participates. Benefits include company cars (or cash alternative), private telephone and private health insurance. There were no directors' share options outstanding at any time during the year.

5. Interest receivable less payable

	2003 £'000	2002 £'000
Bank interest receivable	1,973	2,105
Bank interest payable	(48)	(131)
	1,925	1,974

6. Other finance income

	2003 £'000	2002 £'000
Expected return on pension fund assets	2,530	2,320
Interest on pension fund liabilities	(2,300)	(1,680)
	230	640

7. Tax on profit on ordinary activities

	2003 £'000	2002 £'000
UK corporation tax credit on the loss for the year at 30%	–	(1,182)
Foreign tax (including credits of £nil (2002 £462,000) in respect of previous periods)	2,431	1,354
Total current tax	2,431	172
Deferred tax – origination and reversal of timing differences	1,023	2,094
– prior year	–	(1,386)
Tax on profit on ordinary activities	3,454	880

The tax for the year is lower than the UK standard rate of corporation tax of 30%. The differences are explained as follows:

	2003 £'000	2002 £'000
Tax at 30% on the profit on ordinary activities	5,340	4,819
Effects of:		
Different tax rates applicable in overseas subsidiaries	(2,514)	(2,183)
Research and development tax credit	(809)	(244)
Tax provisions released as no longer required	–	(1,848)
Capital allowances in excess of depreciation	(131)	(89)
Expenses not deductible for tax purposes	38	37
Companies with unrelieved tax losses in the year	1,355	92
Tax in respect of prior years	–	(462)
Tax relating to pension fund liability	(500)	(540)
Other timing differences	(348)	590
Current tax charge for the year	2,431	172

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 £17,060,000 (2002 £8,949,000).

9. Dividends

	2003 £'000	2002 £'000
Interim dividend paid of 5.34p (2002 5.08p)	3,887	3,697
Final dividend proposed of 11.36p (2002 10.82p)	8,269	7,876
	12,156	11,573

10. Earnings per share

Basic and diluted earnings per share are calculated on earnings of £14,345,000 (2002 £15,182,000) and on 72,788,543 shares, being the number of shares in issue during the year.

11. Tangible assets

The Group	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1st July 2002	36,748	39,746	3,729	80,223
Additions	2,668	4,965	527	8,160
Disposals	—	(2,617)	(516)	(3,133)
Currency adjustment	104	46	8	158
At 30th June 2003	39,520	42,140	3,748	85,408
Depreciation				
At 1st July 2002	4,336	24,840	1,959	31,135
Charge for the year	810	4,764	721	6,295
Released on disposals	—	(2,588)	(424)	(3,012)
Currency adjustment	72	36	5	113
At 30th June 2003	5,218	27,052	2,261	34,531
Net book value				
At 30th June 2003	34,302	15,088	1,487	50,877
At 30th June 2002	32,412	14,906	1,770	49,088

The Company	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1st July 2002	21,091	32,805	2,403	56,299
Additions	1,455	4,176	206	5,837
Disposals	—	(2,532)	(315)	(2,847)
At 30th June 2003	22,546	34,449	2,294	59,289
Depreciation				
At 1st July 2002	3,148	20,111	1,347	24,606
Charge for the year	445	3,969	458	4,872
Released on disposals	—	(2,512)	(261)	(2,773)
At 30th June 2003	3,593	21,568	1,544	26,705
Net book value				
At 30th June 2003	18,953	12,881	750	32,584
At 30th June 2002	17,943	12,694	1,056	31,693

12. Investments

The Company

	2003 £'000	2002 £'000
Shares at cost in subsidiary undertakings	25	25

Details of subsidiary undertakings are shown in note 23.

13. Stocks

	The Group		The Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Raw materials	9,530	11,244	8,008	8,812
Work in progress	1,519	1,347	1,414	1,304
Finished goods	9,122	9,485	3,409	2,745
	20,171	22,076	12,831	12,861

14. Debtors

	The Group		The Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	27,200	24,766	3,820	3,483
Amounts owed by group undertakings	—	—	84,249	66,788
Corporation tax recoverable	—	—	414	1,190
Prepayments	2,400	2,440	1,220	1,026
	29,600	27,206	89,703	72,487

Included in prepayments for the Group are amounts totalling £50,000 (2002 £260,000) 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

	The Group		The Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade creditors	4,845	3,960	3,455	2,780
Amounts owed to group undertakings	—	—	87,884	67,909
Corporation tax	1,415	284	—	—
Other taxes and social security	2,742	2,187	934	683
Other creditors	3,263	3,869	1,375	1,338
Proposed dividend payable	8,269	7,876	8,269	7,876
	20,534	18,176	101,917	80,586

16. Provisions for liabilities and charges

Movements during the year were:-

	The Group			The Company		
	At 1st July 2002 £'000	Changes in the year £'000	At 30th June 2003 £'000	At 1st July 2002 £'000	Changes in the year £'000	At 30th June 2003 £'000
Deferred taxation	2,548	523	3,071	3,910	(180)	3,730
Warranty provisions	487	(55)	432	487	(55)	432
	3,035	468	3,503	4,397	(235)	4,162

Deferred taxation is represented by:-

	The Group		The Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Difference between accumulated depreciation and capital allowances	3,594	3,463	3,213	3,256
Reserves of overseas subsidiaries to be remitted	240	931	—	—
Other timing differences	(763)	(1,846)	517	654
	3,071	2,548	3,730	3,910
Deferred tax asset on pension schemes (note 19)	(3,650)	(2,170)	(3,630)	(2,160)
At 30th June	(579)	378	100	1,750

The movements in the deferred tax balance were:-

	The Group		The Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
At 1st July	378	2,150	1,750	4,340
Amount charged to/(released from) profit and loss account	1,023	708	(180)	(700)
Amount reflected through the statement of total recognised gains and losses	(1,980)	(2,480)	(1,470)	(1,890)
At 30th June	(579)	378	100	1,750

Deferred tax is provided on unremitted reserves only to the extent that there is a commitment to remit the reserves to the UK. The warranty provision has been calculated on the basis of historical return in warranty information and other quality reports. It is expected that most of this expenditure will be incurred in the next financial year and all expenditure will be incurred within two years of the balance sheet date.

17. Share capital and Share premium

Share capital	2003 £'000	2002 £'000
Authorised 75,000,000 ordinary shares of 20p each	15,000	15,000
Allotted, called up and fully paid 72,788,543 ordinary shares of 20p each	14,558	14,558
Share premium	2003 £'000	2002 £'000
Balance at 30th June	42	42

The middle market price of the shares at 30th June 2003 was 442.5p (2002 423.5p). The range during the year was 295p to 442.5p.

18. Profit and loss account

Movements during the year were:-

	The Group		The Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
At 1st July	93,085	94,722	12,904	19,938
Retained profit/(loss) for the year	2,189	3,609	4,904	(2,624)
Currency translation difference on foreign currency net investments	52	864	—	—
Actuarial loss on pension schemes (note 19)	(6,680)	(8,590)	(6,500)	(6,300)
Deferred tax thereon	1,980	2,480	1,950	1,890
	(4,700)	(6,110)	(4,550)	(4,410)
At 30th June	90,626	93,085	13,258	12,904

The profit and loss account reserve includes a deficit of £8,620,000 (2002 £5,130,000) net of a deferred tax credit of £3,650,000 (2002 £2,170,000) in respect of pension fund deficits of the Group's pension schemes.

The cumulative amount of goodwill resulting from acquisitions made in earlier financial years, which has been written off to reserves, is £1,913,000 (2002 £1,913,000).

19. 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 £5,160,000 (2002 £4,852,000), of which £291,000 (2002 £254,000) related to directors and £1,168,000 (2002 £971,000) 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 and relates entirely to current service costs.

The latest full actuarial valuation of the schemes was carried out at July 2001 and updated to 30th June 2003 by a qualified independent actuary. The major assumptions used by the actuary were:

	30th June 2003	30th June 2002	30th June 2001
Rate of increase in pensionable salaries	3.5%	3.5%	4.5%
Rate of increase in pension payments	2.25%	2.3%	2.5%
Discount rate	5.5%	5.8%	6.0%
Inflation rate	2.5%	2.5%	2.5%
Expected return on equities	8.0%	8.0%	8.0%
Expected return on bonds	5.0%	5.0%	6.2%
Retirement age	65	65	65

The assets and liabilities in the schemes were:-

	The Group			The Company		
	30th June 2003 £'000	30th June 2002 £'000	30th June 2001 £'000	30th June 2003 £'000	30th June 2002 £'000	30th June 2001 £'000
Market value of assets:						
Equities	29,230	26,400	27,900	27,900	25,100	26,200
Bonds and cash	960	500	720	300	100	200
	30,190	26,900	28,620	28,200	25,200	26,400
Actuarial value of liabilities	42,460	34,200	29,170	40,300	32,400	27,300
Deficit in the scheme	(12,270)	(7,300)	(550)	(12,100)	(7,200)	(900)
Deferred tax thereon	3,650	2,170	230	3,630	2,160	270
Net pension liability	(8,620)	(5,130)	(320)	(8,470)	(5,040)	(630)

The history of experience gains and losses is:-

	Year ended 30th June 2003	Year ended 30th June 2002	Year ended 30th June 2001
Differences between the expected and actual return on scheme assets			
amount (£'000)	(4,110)	(7,370)	(4,100)
percentage of scheme assets	(14%)	(5%)	(14%)
Experience gains and losses on scheme assets			
amount (£'000)	(270)	180	(200)
percentage of present value of scheme liabilities	(1%)	1%	(1%)
Total amount recognised in the Consolidated statement of total recognised gains and losses			
amount (£'000)	(6,680)	(8,590)	(1,650)
percentage of present value of scheme liabilities	(16%)	(25%)	(6%)

19. Pension schemes - continued

The movements in the schemes' deficit were:-

	The Group		The Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Deficit in schemes at 1st July	(7,300)	(550)	(7,200)	(900)
Current service cost (included in operating profit)	(2,500)	(2,100)	(2,400)	(2,000)
Contributions paid	3,980	3,300	3,800	3,100
Finance income	230	640	200	600
Actuarial loss	(6,680)	(8,590)	(6,500)	(8,000)
Deficit in schemes at 30th June	(12,270)	(7,300)	(12,100)	(7,200)

At the date of the latest full actuarial valuation, the market value of the assets of the UK scheme was £28,040,000 and the actuarial value of the assets was sufficient to cover 82% 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 83% funded and the contributions payable are sufficient to amortise the deficit.

20. Foreign currency holdings and borrowings

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

Currency	Net cash balance at 30th June 2003 £'000	Net cash balance at 30th June 2002 £'000
Pounds Sterling	69,158	81,799
US Dollar	(10,974)	(26,446)
Japanese Yen	(3,427)	(3,788)
Euro	(15,632)	(13,719)
Other	(1,890)	(2,190)
	37,235	35,656

The carrying value approximates to fair value because of the short maturity of the deposits and borrowings. Interest rates are floating and based on libor/libid.

Net assets and associated borrowings at the year end were:-

As noted in the Operating and financial review on page 14, 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 £'000	Base borrowing interest rate %
US Dollar	17,492	15,673	1.1%
Japanese Yen	9,903	9,554	0.1%
Euro	17,252	18,302	2.2%

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

20. Foreign currency holdings and borrowings - continued**Unrecognised gains and losses on currency hedges at the year end:-**

	£'000
Unrecognised gains on hedges at 1st July 2002	1,859
Gains arising in previous years that were recognised in 2003	(1,859)
Gains arising in 2003 that were not recognised in the year	31
Unrecognised gains on hedges at 30th June 2003	31

All unrecognised gains on hedges at 30th June 2003 are expected to be recognised within 12 months.

Gains and losses on instruments used as hedges are not recognised in the financial statements until the hedged position matures. At the year end, there were no unrecognised gains or losses on foreign currency monetary assets and liabilities.

Short-term debtors and creditors, as defined in FRS 13 – Derivatives and other financial instruments disclosures, have been omitted from all the financial instruments disclosures, save for those relating to currency risk.

21. Notes to the consolidated cash flow statement**Reconciliation of operating profit to net cash inflow from operating activities:-**

	2003 £'000	2002 £'000
Operating profit	15,644	13,448
Depreciation charges	6,295	5,826
Profit on sale of tangible fixed assets	(36)	(130)
Decrease in stocks	1,905	54
Additional pension contributions in excess of service cost	(1,480)	(1,200)
(Increase)/decrease in debtors	(2,672)	3,221
Increase/(decrease) in creditors	770	(2,843)
Decrease/(increase) in provisions	55	(85)
Net cash inflow from operating activities	20,481	18,291

Analysis of net funds:-

	Net cash at bank £'000	Bank deposits £'000	Net funds £'000
At 1st July 2002	3,772	31,884	35,656
Cash flows	8,846	(7,628)	1,218
Currency	361	–	361
At 30th June 2003	12,979	24,256	37,235

22. Commitments

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

	The Group		The Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Authorised and committed	6,490	1,444	1,890	1,320

Included in group commitments above is £4.5 million, which relates to the purchase of a property in Tokyo for our Japanese subsidiary, in July 2003. Group annual commitments under non-cancellable operating leases (all of which relate to land and buildings in subsidiary companies) were £258,000 (2002 £472,000), of which £208,000 (2002 £374,000) expires within one year and £50,000 (2002 £98,000) expires in the second to fifth years inclusive. The Company has no material annual commitments under non-cancellable operating leases.

23. Subsidiary undertakings

The following are the principal subsidiary undertakings of Renishaw plc, all of which are wholly-owned, unless otherwise stated. The country of incorporation and registration is England and Wales unless otherwise stated. The country of incorporation is also the country of operation. * equity held by a subsidiary undertaking

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 Finance and Insurance (Guernsey) Limited (Guernsey)*	Finance and captive insurance company.
Renishaw International B.V. (The Netherlands)*	Overseas holding and investment company and service and distribution of group products.
Renishaw S.A.S. (France)*	Service, distribution, research and development and manufacture of group products.
Wotton Travel Limited	Travel agency.
RLS merilna tehnika d.o.o. (Slovenia) (50%)*	Manufacture and distribution of own products and distribution of group products.

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

Renishaw Inc (USA)*	Renishaw Oceania Pty Limited (Australia)*
Renishaw KK (Japan)*	Renishaw s.r.o. (Czech Republic)*
Renishaw GmbH (Germany)*	Renishaw Sp. z o.o. (Poland)*
Renishaw S.p.A. (Italy)*	OOO Renishaw (Russia)*
Renishaw Iberica S.A. (Spain)*	Renishaw AB (Sweden)*
Renishaw A.G. (Switzerland)*	Renishaw (Austria) GmbH (Austria)*
Renishaw (Hong Kong) Limited (Hong Kong)*	Renishaw (Korea) Limited (South Korea)*
Renishaw Latino Americana Ltda. (Brazil)*	Renishaw (Canada) Limited (Canada)*
Renishaw Metrology Systems Private Limited (India)*	Renishaw (Israel) Limited (Israel)*

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 independent auditors to the members of Renishaw plc

We have audited the financial statements on pages 20 to 35. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual report and the Directors' remuneration report. As described above, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority 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 whether the financial statements and the part of the Directors' remuneration report to be audited are properly prepared in accordance with the Companies Act 1985. 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 accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 18 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures, or its risk and control procedures.

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

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 and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

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 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
23rd July 2003

Marlborough House
Fitzalan Court
Cardiff
CF24 0TE

Notice of meeting

NOTICE IS HEREBY GIVEN that the 30th annual general meeting of the Company will be held at New Mills, Wotton-under-Edge, Gloucestershire, GL12 8JR on Friday 17th October 2003 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 2003.
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 as a director of the Company J P McGeehan, who is retiring by rotation.
5. To elect as a director of the Company T D Snowden.
6. To elect as a director of the Company T B Garthwaite.
7. To approve the Directors' remuneration report contained in the Annual report 2003.
8. To re-appoint KPMG Audit Plc as auditor of the Company and to authorise the directors to determine their remuneration.
9. To consider as special business and, if thought fit, to pass the following resolution, which will be proposed as a special resolution:-

THAT, the Company be and is hereby unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 20p each in the capital of the Company ("ordinary shares") provided that:
 - (i) the maximum number of ordinary shares hereby authorised to be purchased is 7,278,854;
 - (ii) the maximum price that may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the 10 business days immediately preceding the day on which the ordinary share is purchased;

- (iii) the minimum price which may be paid for an ordinary share shall be 20p;
 - (iv) the authority hereby conferred shall expire at the earlier of the conclusion of the annual general meeting to be held in 2004 and 31st December 2004 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.
10. To transact any other business of an annual general meeting.

By order of the Board
A C G Roberts FCA
Secretary

15th August 2003

New Mills
Wotton-under-Edge
Gloucestershire
GL12 8JR

Notes:

The Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6 pm on 15th October 2003 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 15th October 2003 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.

10 year financial record

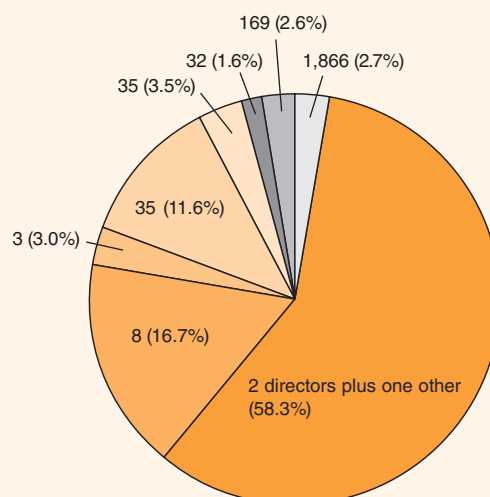
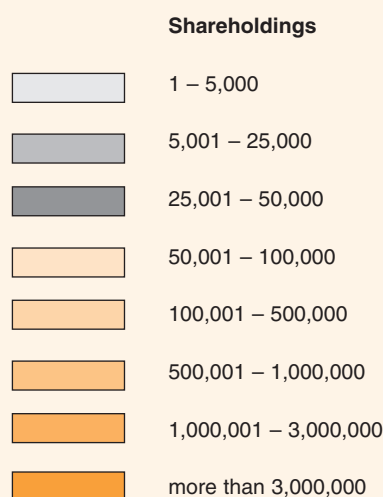
Results	**									
	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000	1998 £'000	1997 £'000	1996 £'000	1995 £'000	1994 £'000
Overseas sales	100,969	94,769	113,133	94,106	85,958	82,684	72,063	69,633	57,267	46,130
UK sales	9,671	9,721	12,215	11,488	10,361	9,665	9,338	7,444	5,395	4,744
Total sales	110,640	104,490	125,348	105,594	96,319	92,349	81,401	77,077	62,662	50,874
Operating profit	15,644	13,448	27,943	25,677	23,339	20,859	14,247	17,636	11,865	7,173
Profit on ordinary activities before tax	17,799	16,062	30,795	28,261	25,829	22,380	18,034	20,115	13,535	8,222
Taxation	3,454	880	6,082	7,065	6,716	6,280	4,653	4,207	3,831	2,379
Profit for the financial year	14,345	15,182	24,713	21,196	19,113	16,100	13,381	15,908	9,704	5,843
Dividends	12,156	11,573	11,020	9,572	8,184	7,242	6,292	5,242	3,880	3,372
Retained profit for the year	2,189	3,609	13,693	11,624	10,929	8,858	7,089	10,666	5,824	2,471
Capital employed	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000	1998 £'000	1997 £'000	1996 £'000	1995 £'000	1994 £'000
Share capital	14,558	14,558	14,558	14,558	14,558	14,557	14,548	12,123	10,765	9,776
Share premium	42	42	42	42	42	40	4	66	145	1,041
Revenue reserves	90,626	93,085	94,722	82,498	70,443	59,712	52,797	52,044	40,273	35,763
Shareholders' funds	105,226	107,685	109,322	97,098	85,043	74,309	67,349	64,233	51,183	46,580
Deferred taxation	3,071	2,548	2,380	4,175	3,775	3,110	3,003	2,209	4,672	4,815
Capital employed	108,297	110,233	111,702	101,273	88,818	77,419	70,352	66,442	55,855	51,395
Statistics	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Overseas sales as a percentage of total sales	91.3%	90.7%	90.3%	89.1%	89.2%	89.5%	88.5%	90.3%	91.4%	90.7%
Basic earnings per share *	19.7p	20.9p	34.0p	29.1p	26.3p	22.1p	18.4p	21.9p	13.4p	8.1p
Dividend per share *	16.70p	15.90p	15.14p	13.16p	11.44p	9.95p	8.65p	7.21p	5.34p	4.65p

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

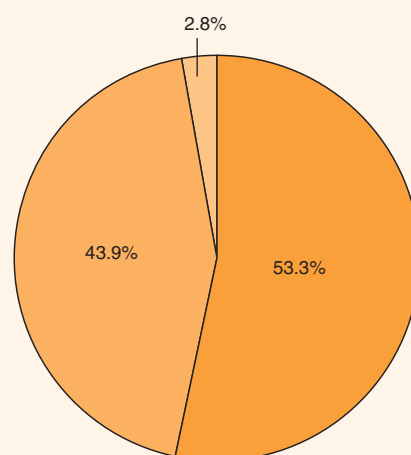
** The 2000 figures have been restated to reflect the impact of the adoption of FRS 17 – Retirement benefits. Figures for 1994 to 1999 have not been restated.

Shareholders' profile

Number of shareholders in each shareholding range



Categories of shareholders



The above information was compiled from the register as at 4th July 2003.

Financial calendar

Annual general meeting

17th October 2003

Dividends

Final dividend

Payment date 20th October 2003
Record date 19th September 2003
Ex-div date 17th September 2003

Interim dividend (provisional)

Payment date 6th April 2004
Record date 5th March 2004
Ex-div date 3rd March 2004

Announcement of results

Annual results – July
Half year results – January

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

