



2006 Annual results

IFRS NOTE

In this presentation the current year results are under International Financial Reporting Standards (IFRS). The comparatives have been restated accordingly.

However, on all graphs, the years 2002 to 2004 have not been adjusted for IFRS.

Chairman's statement

I am pleased to report record results for the year ended 30th June 2006, both in revenue and profitability. These results and comparatives for the prior year have been prepared under the International Financial Reporting Standards (IFRS), as adopted by the EU.

Revenue and Trading

Revenue has increased by 13.6% to £175.8m (2005 £154.8m) with growth in all geographical regions, particularly notable being the Far East and North & South America increasing by 23% and 18% respectively. Revenue in all product lines grew with the sole exception of digitising where a large initial stock of dental demonstration products were delivered in the first half of 2005. Products reflecting significant growth include laser scale, machine tool, encoder and spectroscopy. Group revenue has benefited during the year to the extent of £2.9m due to more favourable currency exchange rates compared with the previous year and £1.4m (previous year £0.7m) currency hedging contracts.

Profit

Operating profit for the year has increased by 21% to £35.5m (2005 £29.3m). Profit before tax rose by 20% to £38.1m (2005 £31.7m) resulting in earnings per share up 20% at 41.9p (2005 34.9p).

Manufacturing

The group's production facilities in the UK have again undergone significant expansion. The manufacturing plant and machinery were successfully moved from New Mills to the company's facilities at Stonehouse with minimal disruption. The old machine hall at New Mills is now currently undergoing refurbishment to provide a pre-production machining and assembly facility, with completion scheduled for the end of July. At our Woodchester facility, 27,000 sq feet is being refurbished to provide both additional assembly space and a new automated storage facility for finished goods and components. The recently purchased facility in Pune, India, is currently being refurbished to provide additional and complementary production facilities and is due to be operational in September.

Research and Development

The group continues to expand its product range and a number of very promising new products have been introduced during the last 12 months, including the SiGNUMTM Intelligent Encoder with Fanuc serial output and RELM from our encoder product line. The GYROTM range of heads to complement the very well received REVOTM and RENSCAN5TM, were introduced at EMO held in Hannover in September 2005 by our co-ordinate measuring machine product line. The machine tool product line introduced the OMP400 high accuracy strain gauge probe and Productivity+TM Active Editor Pro for the graphical measurement cycle design environment.

Further exciting developments have taken place in the dental field with the launch of the inciseTM scanning system for use by dental laboratories who are now being offered precision frameworks for crowns and bridges from the company's new dental manufacturing facility at Stonehouse. Total research and development expenditure during the year including engineering costs amounted to a record £29.3m (2005 £25.4m), of which £1.8m (2005 £0.5m) net of amortisation has been capitalised as an intangible asset in accordance with IFRS.

Marketing

The group continues its drive into developing markets with further sales and marketing representation, particularly in the growth markets of the Far East and India. In China, new offices have been established in Chengdu, Guangzhou and Shenyang, with an office in Qingdao about to open.

Chairman's statement continued

There is now a representative office established in Thailand, with Malaysia to follow in the near future. A liaison office has also been established in Turkey. In India, additional staff have been recruited in Kolkatta, Punjab, Gujarat, Coimbatore, Hyderabad and Chennai and in Bangalore the staff have moved into larger premises.

Investments

In addition to the acquisition of a 50% interest in both PulseTeq Ltd and Metrology Software Products Ltd, reported at the half-year, the company purchased itp GmbH in May 2006. This is a German manufacturer of high quality styli and accessories, based in Völklingen, close to Saarbrücken on the German/French border. itp GmbH designs and manufactures styli for touch trigger probe applications on co-ordinate measuring machines and CNC machine tools, plus styli for gear measurement systems and will further add to the company's market penetration of styli products.

Queen's Award

I am delighted to report that the company was granted a Queen's Award for Enterprise in the Innovations Category in respect of its NC1 and NC4 non-contact tool setting systems; these are used for the automatic setting of cutting tool parameters within the harsh environment of CNC machine tools, together with tool breakage detection. This is the eleventh Queen's Award in the company's history.

Balance Sheet

The group aims to operate with a strong balance sheet including good liquidity. Total capital expenditure for the year on tangible fixed assets amounted to £13.2m (2005 £14.9m), of which £3.5m (2005 £6.0m) was property. Net cash balances at the 30th June 2006 were £30.7m compared with £30.1m at June 2005.

Pension Fund

The Board has for some time been discussing the future of the company pension fund with its trustees and has proposed the closure of the current defined benefit scheme to new employees and the establishment of a defined contribution category within the existing trust. The contribution rates for existing members would also be increased. A consultation process is being undertaken with a view to the changes becoming effective from 1st November 2006. The pension fund liability as at 30th June 2006 measured under the rules for IAS19, net of deferred tax, has decreased to £13.4m (2005 £14.8m).

Personnel

The number of staff employed in the group at the end of the year increased by 7% to 2,004 (2005 1,865). Recruitment has principally been in overseas marketing, UK manufacturing and engineering. I would like to thank all staff worldwide for their contribution to yet another demanding but very successful year.

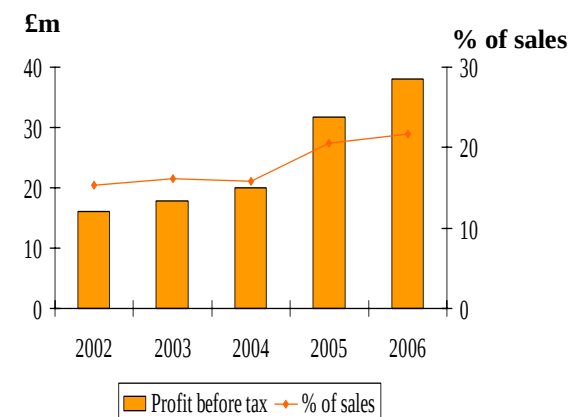
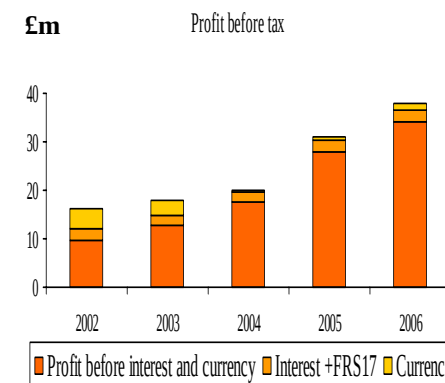
Prospects and Dividend

The current year has again started well. We continue to invest in the research and development of new products and new market areas as well as manufacturing processes to improve efficiency. Providing there are no major adverse currency movements or a significant downturn in world economies, we are confident of continuing growth, both for the current year and the longer-term future. Your board proposes a final dividend of 15.07p per share, giving a total for the year of 21.78p (2005 19.8p).

Sir David R McMurtry, CBE, RDI, CEng, FIMechE, FREng
Chairman and Chief Executive

Financial highlights

	2006 £m	2005 £m	change %
Sales	175.8	154.8	+14%
Operating profit	35.5	29.3	+21%
Operating margin	20.0%	18.9%	
Profit before tax	38.1	31.7	+20%
PBT margin	21.7%	20.5%	
Cash at bank	30.7	30.1	+2%
Earnings per share	41.9p	34.9p	+20%
Dividend per share	21.78p	19.80p	+10%

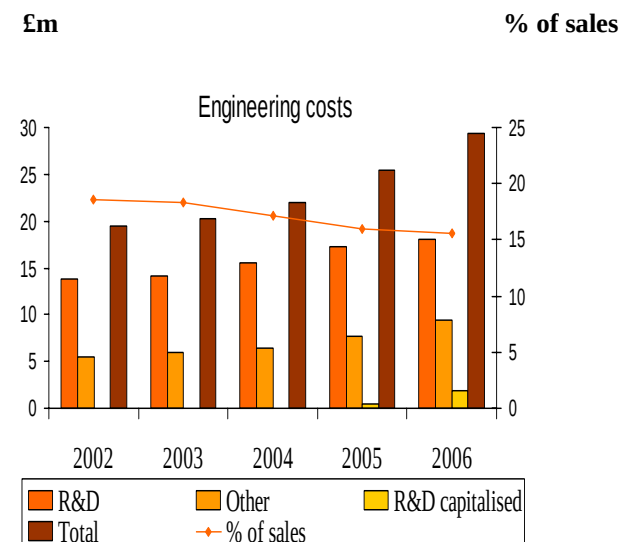
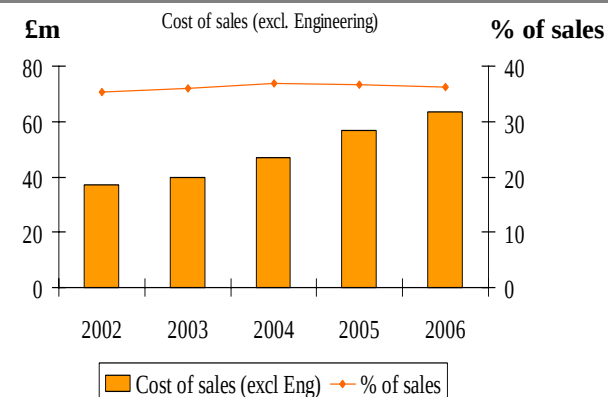


Notes

Profit and loss account

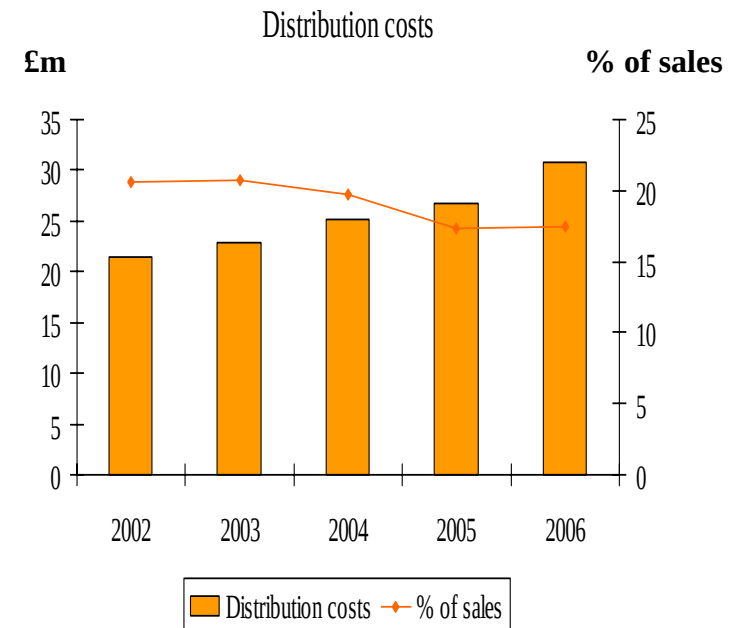
	2006		2005		increase
	£m	%	£m	%	%
Sales	175.8	100	154.8	100	+14%
Cost of sales	63.3	36	56.0	36	+13%
R&D (including Engineering) *	27.5	16	24.9	16	+10%
Gross profit	85.0	48	73.9	48	+15%
Distribution costs	30.8	17	26.8	18	+15%
Administration costs	18.7	11	17.8	11	+5%
Operating profit*	35.5	20	29.3	19	+21%

- * includes R&D of £18.1m (2005 £17.1m)
- R&D in the profit and loss account excludes capitalised costs of £1.8m in 2006 and £0.5m in 2005. These are included in the graph



Profit and loss account

- Overseas sales and marketing headcount increased by 30 people
- New representative offices in Thailand and Turkey. Also Malaysia planned in the near future
- Expansion of our offices in the Far East, mainly China and India
 - China - Chengdu
 - Guangzho
 - Shenyang
 - Qingdao (in the near future)
 - India - Kolkatta
 - Punjab
 - Gujarat
 - Coimbatore
 - Hyderabad
 - Chennai
 - move to larger offices in Bangalore



Notes

Profit and loss account

• Headcount now 2,004 (June 2005 1,865), an increase of 139 people

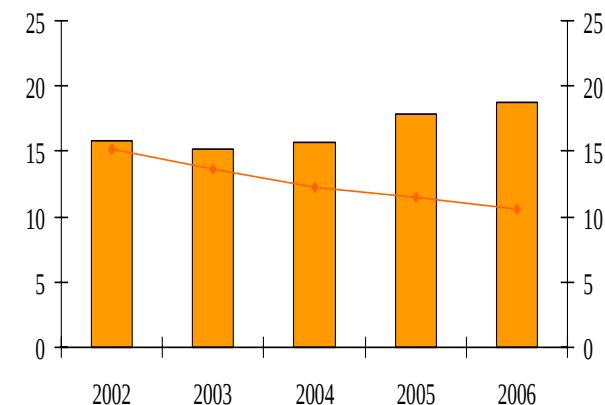
• UK & Ireland	1,562	+79
• Overseas	442	+60

• Continuing investment in IT systems and infrastructure to support financial, marketing, manufacturing and design systems

• 2006 Queen's Award for Enterprise



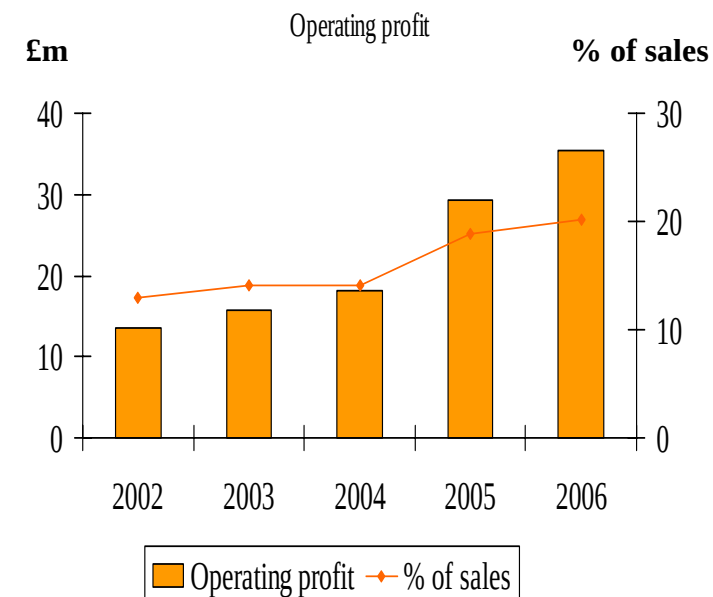
£m Administrative expenses, excluding currency (2002-2004) % of sales



Administrative expenses % of sales

Profit and loss account

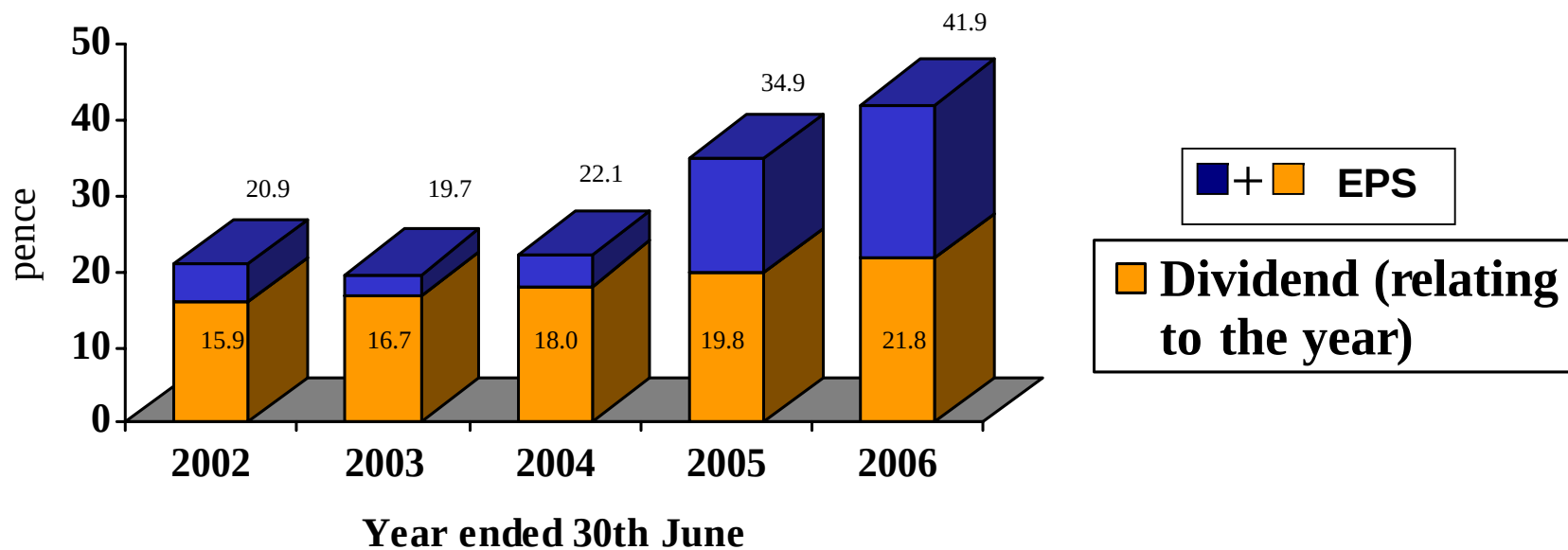
	2006 £m	2005 £m	change %
Operating profit	35.5	29.3	+21%
Interest income	1.9	2.1	-14%
Other finance income	0.7	0.3	-
Profit before tax	38.1	31.7	+20%



Notes

Profit and loss account

Earnings per share and Dividend per share



Dividend cover	1.3	1.2	1.2	1.8	1.9
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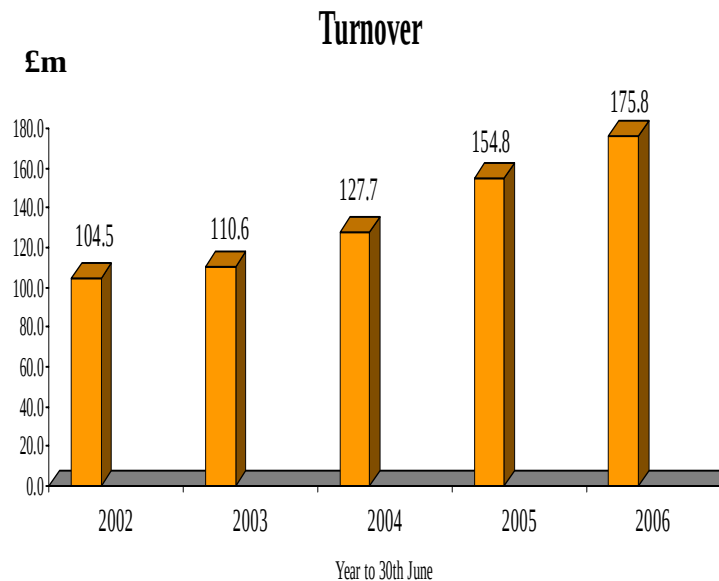
Notes

Sales analysis

- Highest turnover in the Company's history
- Sales up 14% at reported exchange rates
- Sales would have been up 11% at the previous year's exchange rates, i.e. £3.6m lower
- All geographical regions showed growth

• Good growth in:	At actual fx	At prev yr fx
• Far East	+23%	+24%
• America	+18%	+11%
• ROW other	+36%	+35%
• UK	+11%	+11%

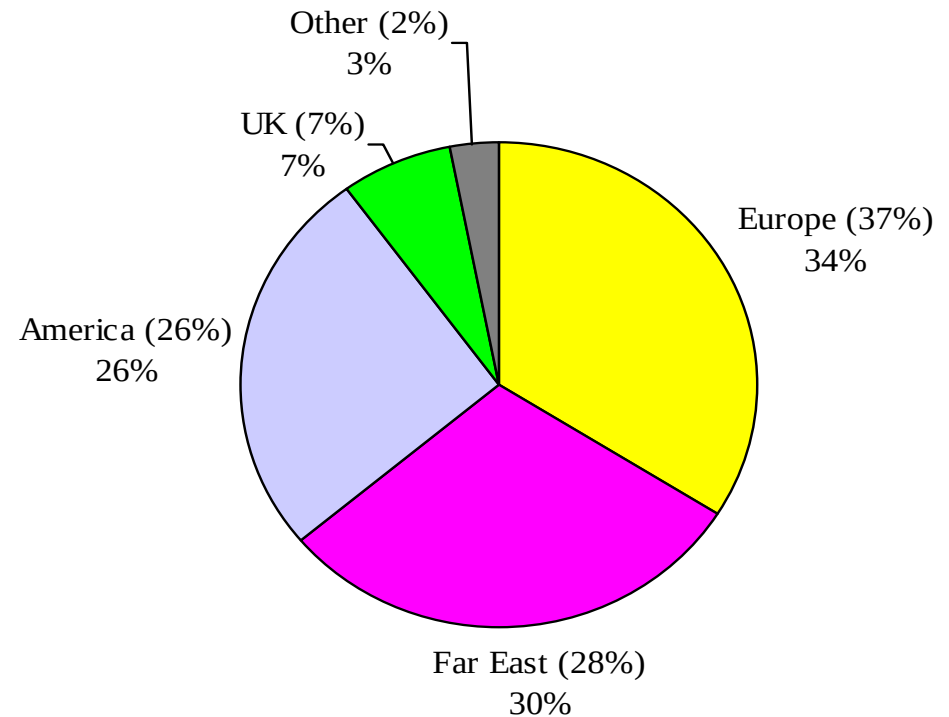
• Low growth in Europe	+2%	+1%
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Sales analysis

- Emerging markets, such as Eastern Europe and India also showed good growth
- All product lines grew, except digitising (including dental)
- Good growth in laser scale, machine tool, encoder products and spectroscopy
- Good order intake with higher year-end order book, although forward order visibility still less than one month's activity



Notes

Group sales

	2006 £m	2005 £m	change %	at p/y fx £m	change %	<u>fx effect</u> + -	
Continental Europe	58.9	57.6	+2%	58.0	+1%	0.9	EUR
Far East	53.1	43.1	+23%	53.2	+24%	0.1	JPY/USD
America (North & South)	46.7	39.6	+18%	43.9	+11%	2.8	USD
ROW	5.6	4.1	+36%	5.5	+35%		
UK & Ireland	11.5	10.4	+11%	11.5	+11%		
Total	175.8	154.8	+14%	172.2	+11%	net +3.6	

Notes

Capital expenditure - tangible fixed assets

•Total capital spend on tangible fixed assets £13.2m (2005 £14.9m), of which £3.5m spent on property, £8.8m on plant and £0.9m on vehicles

•Refurbishment of Stonehouse property completed. Machine shop and raw material stores moved from New Mills during the year

•Dental production facility now located at Stonehouse

•Purchase and refurbishment of India property for production facility. Production planned to start this autumn

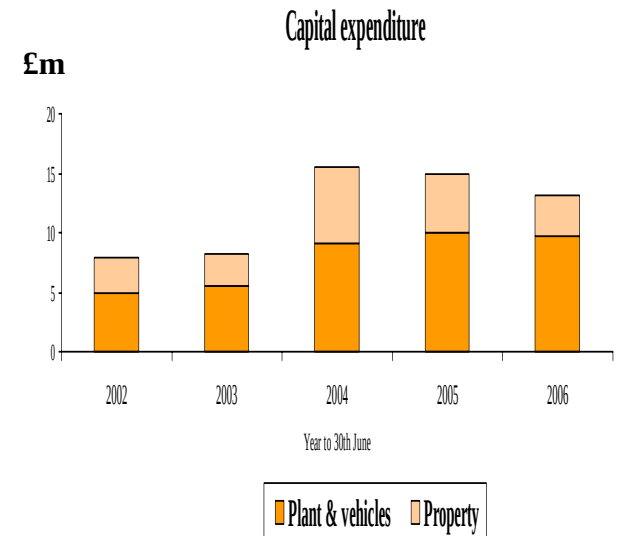
•Continuing investment in production facilities:

Woodchester - additional assembly facilities

- automated stores

- relocation of the laser and calibration product line from Old Town

New Mills - New pre-production machining & assembly hall



Notes

Capital expenditure

- Property additions -
 - Refurbishment of property in Stonehouse
 - Purchase and refurbishment of property in Pune, India for production facility



Stonehouse, UK



Pune, India

Notes

Investments and intangible assets

- Acquisition (100%) in itp GmbH, which manufactures and markets styli. Total investment £4.8m

• Net assets acquired	£1.2m
• Identified intangibles	£1.8m
• Goodwill	£1.8m

- 50% investment in Metrology Software Products Ltd, which develops software products for engineering metrology and production applications. Investment cost of £0.3m

- 50% investment in PulseTeq Ltd, a company working with resonance imaging equipment. This will assist Renishaw in its investigation and exploitation of certain opportunities in the medical field. Investment cost of £0.3m



itp GmbH



Notes

New product releases

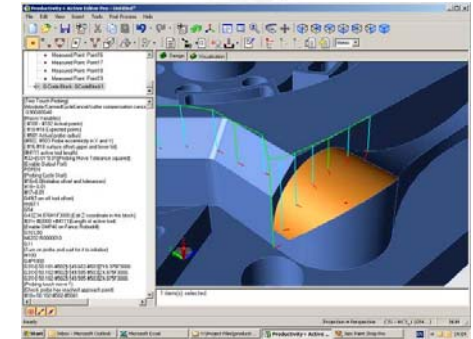
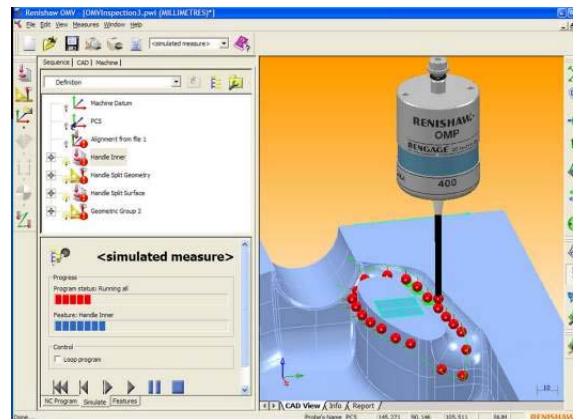


OMP400 high accuracy strain gauge probe

Productivity+™ Active Editor
Pro software



Renishaw OMV (on-machine verification) software



New product releases

CMM - new range of heads



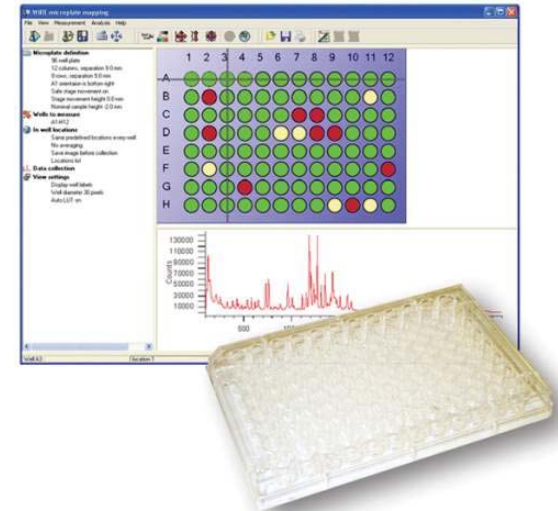
RTP20™



GYRO™



REVO™



Spectroscopy - High throughput screen - Wellplate mapping software for pharmaceutical and life sciences applications

New product releases

SiGNUM intelligent
encoder with Fanuc serial
output



Dental laboratory at
New Mills

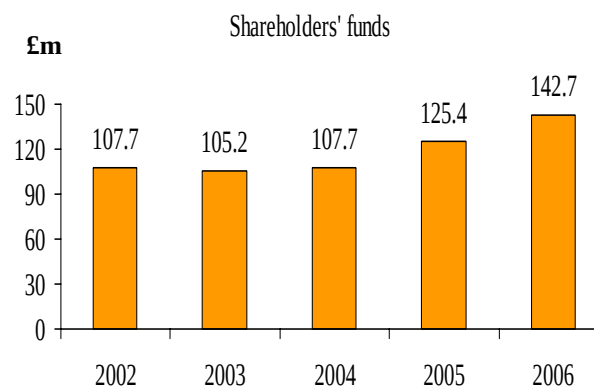
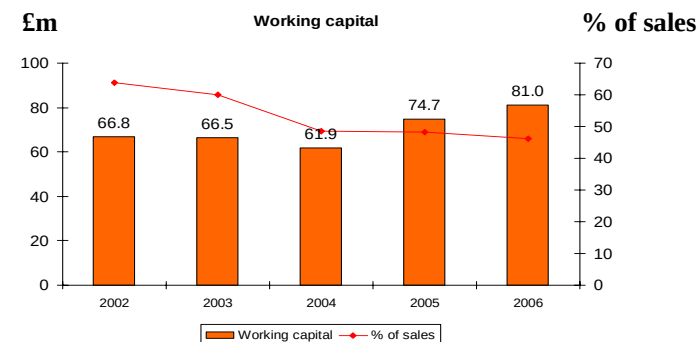


SiGNUM DSi interface



Balance sheet

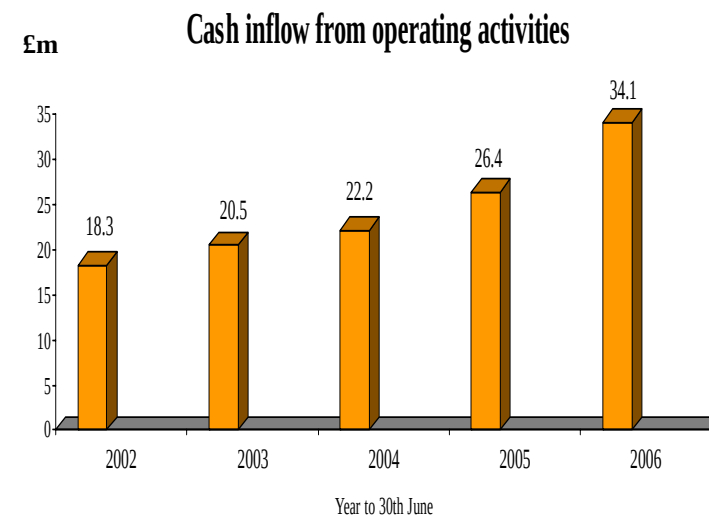
	2006 £m	2005 £m	change %
Tangible fixed assets	69.1	64.3	+7%
Intangible fixed assets	13.5	7.2	+87%
Stock	28.4	27.4	+4%
Debtors	44.0	37.3	+18%
Cash	30.7	30.1	+2%
Creditors	(22.2)	(20.2)	+10%
Net current assets	80.9	74.6	+8%
Provisions	(7.4)	(5.9)	+25%
Pension liability	(13.4)	(14.8)	-9%
Net assets	142.7	125.4	+14%



Notes

Cash inflow from operating activities

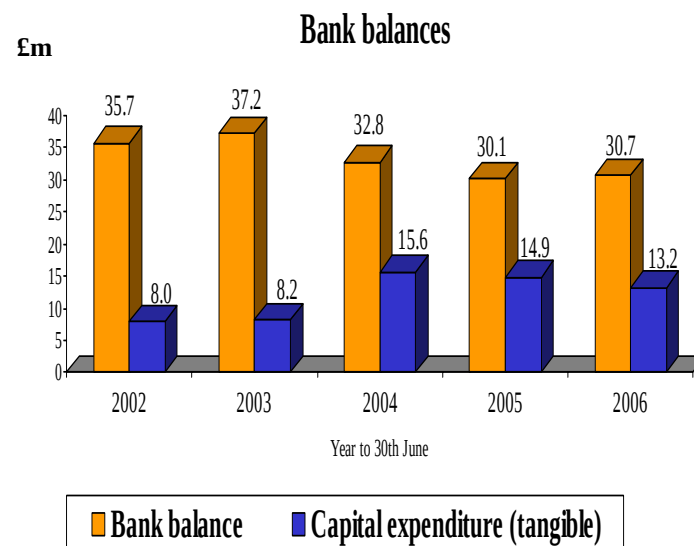
	2006 £m	2005 £m
Operating profit	35.5	29.3
Depreciation	9.9	9.1
Additional pension contributions	(1.3)	(0.2)
(Increase)/decrease in stock	(1.0)	(5.1)
(Increase) in debtors	(4.3)	(4.2)
Increase in creditors	2.9	2.0
Total movement in working capital	(2.4)	(7.3)
Tax paid	(7.6)	(4.5)
Cash inflow from operating activities	<u>34.1</u>	<u>26.4</u>



Notes

Cash inflow

	2006 £m	2005 £m
Cash inflow from operating activities	34.1	26.4
Interest received	1.9	2.1
Dividends paid	(14.9)	(13.4)
R&D capitalised	(3.2)	(2.0)
Capex (tangible)	(13.0)	(16.0)
Capex (intangible)	(3.7)	-
Investment in associates	(0.9)	-
Fx changes on net cash	0.3	0.2
Total cash movement	0.6	(2.7)
Cash at 1st July	30.1	32.8
Cash at 30th June	30.7	30.1



Transition to International Financial Reporting Standards (“IFRS”)

Restatement of 2005 results - major effects

- Capitalisation of development costs - IFRS requires certain development expenditure to be capitalised and subsequently amortised over a period of time. This has resulted in an increase in profit before tax of £0.6m for the year and an intangible asset of £4.8m at 30th June 2005.
- Earnings per share increased from 34.3p to 34.9p.
- Dividends - under IFRS, dividends are only accounted for once they have been approved by shareholders. The 2005 final dividend is therefore not accounted for in the 2005 results and so equity at 30th June 2005 is thereby increased by £10.0m.
- Treatment of exchange differences - Under IFRS, exchange gains and losses resulting from the hedging operation to hedge future foreign currency income streams are reflected in turnover, whereas under previous UK GAAP, these were shown within administrative expenses. This has increased turnover and administrative expenses by £0.7m, although the profit before tax is unchanged.
- Balance sheet reclassifications - IFRS requires a number of assets and liabilities to be presently differently

Transition to International Financial Reporting Standards ("IFRS")

Effect on 2005 income statement

	UK GAAP £m	IFRS £m	change £m
Turnover	154.1	154.8	+0.7
Cost of sales	(81.4)	(80.9)	-0.5
Gross profit	<u>72.7</u>	<u>73.9</u>	<u>+1.2</u>
Overheads	(43.8)	(44.6)	+0.8
Operating profit	<u>28.9</u>	<u>29.3</u>	<u>+0.4</u>
Financial income	2.4	2.4	-
Profit before tax	<u>31.3</u>	<u>31.7</u>	<u>+0.4</u>
Tax expense	(6.3)	(6.3)	-
Net profit	<u>25.0</u>	<u>25.4</u>	<u>+0.4</u>

Transition to International Financial Reporting Standards (“IFRS”)

Effect on 30th June 2005 balance sheet

	UK GAAP £m	IFRS £m
Non-current assets	66.7	82.1
Current assets	94.9	95.2
Total assets	<u>161.6</u>	<u>177.3</u>
Equity	112.2	125.6
Non-current liabilities	19.9	31.2
Current liabilities	29.5	20.5
Total equity and liabilities	<u>161.6</u>	<u>177.3</u>

Main adjustments to increase reserves (equity):

Capitalisation of development costs (net of deferred tax)	£3.4m
Deferral of 2005 final dividend	£10.0m

Future business plans

- Renishaw continues to develop key technologies and processes in each of its business areas to support continued sales growth and to remain the market leader.
- These include further growth in our traditional markets as well as continued emphasis in the fields of dental/medical equipment and systems for semiconductor/electronic production.
- Improvement in manufacturing and assembly efficiencies
- Continued development and investment in -
 - new product development
 - geographic markets

Key objectives

- Renishaw fundamentally believes that success comes from innovative and patented products and processes, low cost, high quality manufacturing, and the ability to provide excellent local customer support in all our markets.