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Interim report 2006

Financial highlights

	Unaudited	Unaudited		Unaudited
	6 months to 31st December 2005	6 months to 31st December 2004	% change	Year ended 30th June 2005
	£'000	£'000	%	£'000
Revenue	**81,625**	72,453	+13%	154,799
Operating profit	**13,882**	11,047	+26%	29,307
Profit before tax	**15,340**	12,388	+24%	31,733
Profit after tax	**12,272**	9,975	+23%	25,436
Earnings per share	**16.9p**	13.7p	+23%	34.9p
Proposed dividend per share	**6.71p**	6.10p	+10%	19.80p *

* includes paid interim dividend of 6.10p

The Interim results are unaudited. Following the transition to International Financial Reporting Standards, the figures for the year ended 30th June 2005 are also unaudited.

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Financial calendar

Record date for interim dividend	10th March 2006
Interim dividend payment	10th April 2006
Announcement of full year results	26th July 2006
Mailing of Annual report	Mid August 2006
Annual general meeting	13th October 2006
Final dividend payment	16th October 2006

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Chairman's statement

I am pleased to report the Company's results for the first six months of the current financial year. These are our first interim results produced under the new International Financial Reporting Standards.

Revenue in this period increased by 13% over the comparable period in 2004 to £81.6m. There was particular growth in the Far East, an increase of 32%, and in North and South America, an increase of 20%. There was a small net reduction in our revenue in Continental Europe of 5%, primarily due to shipment of a large initial stocking order of a dental product launched in the first half of 2004/05. With the exception of digitising (including dental), there was good growth in all product lines, especially spectroscopy. Revenue benefited by £2.0m from currency exchange differences compared with the previous year's actual exchange rates.

Operating profit for the six months grew by 26% to £13.9m compared with £11.0m in 2004. Profit before tax rose to £15.3m (2004: £12.4m), resulting in earnings per share of 16.9p, an increase of 23%. Net cash balances at 31st December 2005 were £25.7m (2004: £23.2m).

During the period a representative office has been established in Turkey and the sales force has been substantially increased in India and the Far East, including Japan.

Research and development remains key to group strategy. As I stated at the Annual General Meeting in October, a number of new products have been introduced at recent exhibitions, in particular, at EMO held in Hannover in September. The GYRO™ range of heads, to complement REVO™ and RENSCAN5™ introduced in April last year in our co-ordinate measuring machine ("CMM") product line were very well received and we anticipate that they will make a valuable contribution in our next financial year. Also introduced were the OMP400 high accuracy strain gauge probe and on-machine verification software launched by our machine tool product line. Total research and development expenditure, including associated engineering costs, amounted to £13.8m (2004: £12.1m). The Group is currently establishing a software product development team at our Pune premises in India.

As recently announced, the Company has acquired a 50% interest in PulseTeq Limited, a small UK company, specialising in radio frequency coil electronics and other enhancements to magnetic resonance scanners for medical purposes. This investment illustrates our intention to exploit opportunities in the medical field by applying our in-house metrology expertise to this important new area of activity. We have also acquired a 50% interest in Metrology Software Products Limited, another small UK-based company, to strengthen the development programmes for our CMM and machine tool product lines. We are very pleased with the developments at these two associates since acquisition.

The new anodising plant has been successfully commissioned at our Stonehouse factory in Gloucestershire and the manufacturing plant and machinery are now being transferred to the new location. In India, a manufacturing facility is being established at our recently acquired premises in Pune to complement Renishaw's existing manufacturing facilities in the UK and Ireland and to facilitate the introduction of new technologies into the worldwide organisation. Total capital expenditure in the UK and overseas during the six months was £7.2m (2004: £10.4m).

Our product range and in particular our recently introduced new generation of products such as the REVO™ and RENSCAN5™ are being increasingly well received in their markets.

As reported at our last annual general meeting, held in October 2005, the Board is currently undertaking a review of the Company's pension arrangements, the results of which are expected to be known during the second half.

We confidently expect continuing progress in the Group's business in the remainder of the financial year.

An interim dividend of 6.71p (2004: 6.10p per share) will be paid on 10th April 2006 to shareholders on the register on 10th March 2006.

Sir David R McMurtry CBE RDI CEng FIMechE FREng
Chairman & Chief Executive
26th January 2006

Consolidated income statement

	Notes	**Unaudited** **6 months to 31st December 2005 £'000**	Unaudited 6 months to 31st December 2004 £'000	Unaudited Year to 30th June 2005 £'000
Revenue	2	**81,625**	72,453	154,799
Cost of sales		**(43,341)**	(38,950)	(80,912)
Gross profit		**38,284**	33,503	73,887
Distribution costs		**(14,785)**	(13,411)	(26,815)
Administrative expenses		**(9,617)**	(9,045)	(17,765)
Operating profit		**13,882**	11,047	29,307
Financial income	3	**3,330**	2,953	5,732
Financial expenses	3	**(1,872)**	(1,612)	(3,306)
Profit before tax		**15,340**	12,388	31,733
Income tax expense - UK and deferred tax	4	**(508)**	49	(2,097)
- overseas	4	**(2,560)**	(2,462)	(4,200)
		(3,068)	(2,413)	(6,297)
Profit for the period		**12,272**	9,975	25,436
Earnings per share (basic and diluted)	5	**16.9p**	13.7p	34.9p
Proposed dividend per share	8	**6.71p**	6.10p	19.80p *

* includes paid interim dividend of 6.10p

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Consolidated balance sheet

	Notes	**Unaudited At 31st December 2005 £'000**	Unaudited At 31st December 2004 £'000	Unaudited At 30th June 2005 £'000
Assets				
Property, plant and equipment	6	**67,615**	63,250	64,337
Intangible assets	7	**7,530**	6,660	7,192
Investments in associates		**928**	-	-
Deferred tax assets		**10,940**	7,047	10,556
Total non-current assets		**87,013**	76,957	82,085
Inventories		**28,195**	25,760	27,396
Trade receivables		**33,134**	29,450	34,594
Current tax		**360**	367	310
Other receivables		**6,109**	3,161	2,790
Cash and cash equivalents		**25,708**	23,211	30,072
Total current assets		**93,506**	81,949	95,162
Total assets		**180,519**	158,906	177,247
Equity				
Issued capital	8	**14,558**	14,558	14,558
Share premium	8	**42**	42	42
Currency translation reserve	8	**981**	210	655
Currency hedging reserve	8	**2,176**	-	-
Retained earnings	8	**110,642**	105,971	110,202
Total equity		**128,399**	120,781	125,457
Liabilities				
Employee benefits	9	**22,200**	11,290	20,700
Deferred tax liabilities		**10,481**	8,065	9,955
Provisions		**642**	624	632
Total non-current liabilities		**33,323**	19,979	31,287
Trade payables		**9,444**	8,640	9,473
Current tax		**2,064**	2,335	2,572
Other payables		**7,289**	7,171	8,458
Total current liabilities		**18,797**	18,146	20,503
Total liabilities		**52,120**	38,125	51,790
Total equity and liabilities		**180,519**	158,906	177,247

Consolidated statement of cash flow

	Unaudited 6 months to 31st December 2005 £'000	Unaudited 6 months to 31st December 2004 £'000	Unaudited Year ended 30th June 2005 £'000
Cash flows from operating activities			
Profit for the period	**12,272**	9,975	25,436
Adjustments for:			
Amortisation of development costs	**724**	686	1,376
Amortisation of other intangibles	**302**	315	673
Depreciation	**3,743**	3,453	7,001
Profit on sale of fixed assets	**(14)**	(8)	(61)
Financial income	**(3,330)**	(2,953)	(5,732)
Financial expenses	**1,872**	1,612	3,306
Tax expense	**3,068**	2,413	6,297
	6,365	5,518	12,860
Increase in inventories	**(799)**	(3,472)	(5,108)
Decrease/(increase) in trade and other receivables	**1,830**	428	(4,222)
Decrease/(increase) in trade and other payables	**(1,169)**	(194)	2,057
Difference between pension charge and contributions	**(720)**	(320)	(190)
Increase in provisions	**10**	78	86
	(848)	(3,480)	(7,377)
Income taxes paid	**(3,637)**	(1,890)	(4,487)
Cash flows from operating activities	**14,152**	10,123	26,432
Investing activities			
Purchase of tangible fixed assets	**(7,082)**	(10,226)	(15,370)
Development costs capitalised	**(1,177)**	(912)	(1,959)
Purchase of other intangibles	**(187)**	(490)	(1,020)
Investment in associates	**(928)**	-	-
Sale of tangible fixed assets	**313**	59	325
Interest received	**1,040**	1,164	2,235
Cash flows from investing activities	**(8,021)**	(10,405)	(15,789)
Financing activities			
Interest paid	**(12)**	(22)	(106)
Dividends paid	**(9,972)**	(9,019)	(13,459)
Cash flows from financing activities	**(9,984)**	(9,041)	(13,565)
Net decrease in cash and cash equivalents	**(3,853)**	(9,323)	(2,922)
Cash and cash equivalents at beginning of period	**30,072**	32,833	32,833
Effect of exchange rate fluctuations on cash held	**(511)**	(299)	161
Cash and cash equivalents at end of period	**25,708**	23,211	30,072

Consolidated statement of recognised income and expense

	Notes	**Unaudited** **6 months to 31st December 2005** **£'000**	Unaudited 6 months to 31st December 2004 £'000	Unaudited Year ended 30th June 2005 £'000
Foreign exchange translation differences		**326**	210	655
Actuarial loss in the pension schemes	9	**(2,660)**	-	(9,370)
Effective portion of changes in fair value of cash flow hedges, net of recycling		**(83)**	-	-
Deferred tax recognised on income and expense recognised in equity		**825**	-	2,580
Profit/(loss) recognised in equity		**(1,592)**	210	(6,135)
Profit for the period		**12,272**	9,975	25,436
Total recognised income and expense for the period		**10,680**	10,185	19,301
Opening adjustment on adoption of IAS 32 and IAS 39 at 1st July 2005 Hedging reserve	1	**2,234**		
		12,914		

Notes

1. Status of Interim report and accounting policies

EU law (IAS Regulation EC 1606/2002) requires that the next annual consolidated financial statements of the company, for the year ending 30th June 2006, be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the EU ("adopted IFRSs").

This interim financial information has been prepared on the basis of the recognition and measurement requirements of adopted IFRSs as at 31st December that are effective (or available for early adoption) at 30th June 2006. Based on these adopted IFRSs, the directors have applied the accounting policies, as set out in the Group's IFRS restated accounts announced on 14th October 2005 for the year ended 30th June 2005, which they expect to apply when the first annual IFRS financial statements are prepared for the year ending 30th June 2006.

However, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 30th June 2006 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that year will be determined finally only when the annual financial statements are prepared for the year.

The Interim report was approved by the directors on 26th January 2006. It should be read in conjunction with the 2005 International Financial Reporting Standards ("IFRS") restated accounts announced on 14th October 2005, which contain the accounting policies adopted under IFRS and a reconciliation of the 2005 income statement and opening and closing balance sheets from UK Generally Accepted Accounting Principles ("UK GAAP") to IFRS.

A reconciliation of the adjustments made to the December 2004 balance sheet is shown in note 10.

As permitted by IFRS 1, the following standards: IAS 32 - Financial instruments: Disclosure and presentation and IAS 39 - Financial instruments: Recognition and measurement have not been applied until 1st July 2005 and accordingly, no adjustment has been made to the 31st December 2004 or 30th June 2005 figures. The Group has applied these standards from 1st July 2005. At that date, unrealised gains on forward currency contracts of £3,192,000 were recognised as a financial asset with a deferred tax charge of £958,000 created against it. The forward foreign exchange contracts have maturities up to 30th June 2008 and their fair value has been determined using a mark-to-market valuation.

The comparative figures for the financial year ended 30th June 2005 are not the Company's statutory accounts for that financial year. Those accounts, which were prepared under UK GAAP, have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The IFRS financial information for the year ended 30th June 2005 is an abridged version of the restated accounts for that year, which were announced on 14th October 2005.

The Interim report has been sent to all shareholders and is available to the public from the registered office.

2. Revenue

Revenue from external customers by location of customer

	6 months to 31st December 2005 £'000	6 months to 31st December 2004 £'000	Year ended 30th June 2005 £'000
Continental Europe	**26,884**	28,196	57,665
Far East, including Japan and Australia	**25,029**	18,931	42,793
North and South America	**22,095**	18,444	39,904
Other overseas regions	**2,593**	1,937	4,076
United Kingdom and Ireland	**5,024**	4,945	10,361
Revenue	**81,625**	72,453	154,799

3. Financial income and expenses

Financial income	**6 months to 31st December 2005 £'000**	6 months to 31st December 2004 £'000	Year ended 30th June 2005 £'000
Interest income	**1,030**	1,143	2,222
Expected return on assets in the pension scheme	**2,300**	1,810	3,510
	3,330	2,953	5,732

Financial expenses	**6 months to 31st December 2005 £'000**	6 months to 31st December 2004 £'000	Year ended 30th June 2005 £'000
Interest on pension fund liabilities	**1,860**	1,590	3,200
Bank interest payable	**12**	22	106
	1,872	1,612	3,306

4. Income tax expense

The income tax expense has been estimated at a rate of 20% (December 2004: 19%), the rate expected to be incurred for the full year.

5. Earnings per share

Earnings per share are calculated on earnings of £12,272,000 (December 2004: £9,975,000) and on 72,788,543 shares, being the number of shares in issue during the period. Earnings per share for the year ended 30th June 2005 are calculated on earnings of £25,436,000 and on 72,788,543 shares, being the number of shares in issue during that year.

6. Property, plant and equipment

	Land and buildings £'000	Plant and equipment £'000	Vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1st July 2005	50,496	50,138	3,976	1,983	106,593
Additions	772	2,764	392	3,055	6,983
Transfers	374	881	-	(1,255)	-
Disposals	-	(560)	(76)	-	(636)
Currency adjustment	331	192	47	-	570
At 31st December 2005	**51,973**	**53,415**	**4,339**	**3,783**	**113,510**
Depreciation					
At 1st July 2005	7,244	32,576	2,436	-	42,256
Charge for the period	605	2,777	361	-	3,743
Released on disposals	-	(281)	(56)	-	(337)
Currency adjustment	71	141	21	-	233
At 31st December 2005	**7,920**	**35,213**	**2,762**	**-**	**45,895**
Net book value					
At 31st December 2005	**44,053**	**18,202**	**1,577**	**3,783**	**67,615**
At 30th June 2005	43,252	17,562	1,540	1,983	64,337

7. Intangible assets

		Software licences		
	Development costs £'000	In use £'000	In the course of acquisition £'000	Total £'000
Cost				
At 1st July 2005	10,007	5,389	540	15,936
Additions	-	-	187	187
Internally generated during the period	1,177	-	-	1,177
Transfers	-	11	(11)	-
At 31st December 2005	**11,184**	**5,400**	**716**	**17,300**
Amortisation				
At 1st July 2005	5,218	3,526	-	8,744
Charge for the period	724	302	-	1,026
At 31st December 2005	**5,942**	**3,828**	**-**	**9,770**
Net book value				
At 31st December 2005	**5,242**	**1,572**	**716**	**7,530**
At 30th June 2005	4,789	1,863	540	7,192

8. Reconciliation of movements in equity

6 months to 31st December 2005

	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Currency hedging reserve £'000	Retained earnings £'000	Total £'000
At 1st July 2005	14,558	42	655	-	110,202	125,457
Profit for the period	-	-	-	-	12,272	12,272
Other recognised income and expense	-	-	326	2,176	(1,860)	642
Dividends	-	-	-	-	(9,972)	(9,972)
At 31st December 2005	**14,558**	**42**	**981**	**2,176**	**110,642**	**128,399**

6 months to 31st December 2004

	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Currency hedging reserve £'000	Retained earnings £'000	Total £'000
At 1st July 2004	14,558	42	-	-	105,015	119,615
Profit for the period	-	-	-	-	9,975	9,975
Other recognised income and expense	-	-	210	-	-	210
Dividends	-	-	-	-	(9,019)	(9,019)
At 31st December 2004	14,558	42	210	-	105,971	120,781

Year to 30th June 2005

	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Currency hedging reserve £'000	Retained earnings £'000	Total £'000
At 1st July 2004	14,558	42	-	-	105,015	119,615
Profit for the year	-	-	-	-	25,436	25,436
Other recognised income and expense	-	-	655	-	(6,790)	(6,135)
Dividends	-	-	-	-	(13,459)	(13,459)
At 30th June 2005	14,558	42	655	-	110,202	125,457

Dividends for the 6 months to 31st December 2005 of £9,972,000 comprise the 2005 final dividend of 13.70p per share (31st December 2004: £9,019,000 comprising the 2004 final dividend of 12.39p per share). An interim dividend in respect of the 6 months to 31st December 2005 will be 6.71p per share and will be paid on 10th April 2006 to shareholders on the register at 10th March 2006, with an ex-dividend date of 8th March 2006.

9. Employee benefits

Whereas in previous interim results, the pension fund valuations were accounted for on the basis of expected financial experience, these Interim results account for pension fund valuations on the basis of actual financial experience.

10. Explanation of transition to IFRS

An explanation of the impact of the transition to IFRS on the June 2005 financial statements was included in the 2005 accounts restated under IFRS, announced on 14th October 2005. This note identifies the impact of restatement on the balance sheet at 31st December 2004 and on the income statement for the six months to that date.

Balance sheet at 31st December 2004	Notes	Previous UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets				
Property, plant and equipment	a	65,478	(2,228)	63,250
Intangible assets	b	-	6,660	6,660
Deferred tax assets	c	-	7,047	7,047
Total non-current assets		65,478	11,479	76,957
Inventories		25,760	-	25,760
Trade receivables		29,450	-	29,450
Current tax	d	-	367	367
Other receivables		3,161	-	3,161
Cash and cash equivalents		23,211	-	23,211
Total current assets		81,582	367	81,949
Total assets		147,060	11,846	158,906
Equity				
Issued capital		14,558	-	14,558
Share premium		42	-	42
Currency reserve	e	-	210	210
Retained earnings	f	98,610	7,361	105,971
Total equity		113,210	7,571	120,781
Liabilities				
Employee benefits	g	7,980	3,310	11,290
Deferred tax liabilities	c	3,647	4,418	8,065
Provisions		624	-	624
Total non-current liabilities		12,251	7,728	19,979
Trade payables		8,640	-	8,640
Current tax	d	1,968	367	2,335
Other payables	h	10,991	(3,820)	7,171
Total current liabilities		21,599	(3,453)	18,146
Total liabilities		33,850	4,275	38,125
Total equity and liabilities		147,060	11,846	158,906

(a) Property, plant and equipment

Tangible assets have been reduced by the transfer of software licences to a separate heading. The adjustment is purely one of reallocation as follows:

At 31st December 2004	£'000
Cost of other intangible assets transferred	5,368
Accumulated amortisation of other intangible assets transferred	(3,140)
Net book value of other intangible assets transferred	2,228

(b) Intangible assets

Development costs, previously written off as incurred under UK GAAP, have been capitalised in accordance with IAS 38 and then amortised over 5 years. Also, certain items of tangible fixed assets have been reallocated to intangible assets, as noted in (a) above. Movements are as follows:

	£'000
Net book value of capitalised development costs at 1st July 2004	4,206
Additional development costs capitalised during the period	912
Amortisation of development costs charged for the period	(686)
Net book value of capitalised development costs at 31st December 2004	4,432
Net book value of other intangible assets transferred (note a)	2,228
Net book value of intangible assets at 31st December 2004	6,660

(c) Deferred tax asset and liability

Deferred tax adjustments at 31st December 2004 were as follows:

	£'000
Deferred tax balance at 31st December 2004 under UK GAAP as reported	(3,647)
Adjustments:	
Provision for capitalised development costs	(1,330)
Adjustment for tax rate on intragroup trading	459
Adjustment for holiday pay accrual	190
Deferred tax on pension funds' deficit	3,310
Deferred tax provision under IFRS at 31st December 2004	(1,018)
Analysed as:	
Deferred tax asset	7,047
Deferred tax liability	(8,065)
	(1,018)

(d) Current tax debtor

The adjustment for current tax debtors represents a reallocation from current liabilities, for amounts previously netted under current tax liabilities.

(e) Currency reserve

Currency exchange differences, previously accounted for within retained profit and loss account reserve, are now accounted for in a separate reserve. Only exchange differences from 1st July 2004 are included, as exchange differences prior to 1st July 2004 are covered by the IFRS 1 exemption and remain in the profit and loss account reserve.

(f) Retained reserves

Retained reserves have been adjusted under IFRS as follows:

	£'000
Retained reserves at 31st December 2004 under UK GAAP as reported	98,610
Capitalised development costs less deferred tax thereon	3,102
Holiday pay accrual less deferred tax thereon	(430)
2005 interim dividend accounted for when paid	4,440
Deferred tax provision on intragroup trading	459
Reallocation of currency exchange differences to currency reserve	(210)
Retained reserves under IFRS at 31st December 2004	105,971

(g) Employee benefits

Under IFRS, the pension funds' deficits have been grossed up for deferred tax. The associated deferred tax asset has been accounted for under non-current assets (see note c).

(h) Other payables

Adjustments under other payables were as follows:

	£'000
Other payables at 31st December 2004 under UK GAAP as reported	10,991
Holiday pay accrual	620
2005 interim dividend accounted for when paid	(4,440)
Other payables under IFRS at 31st December 2004	7,171

Income statement for the period to 31st December 2004	Notes	Previous UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Turnover		72,453	-	72,453
Cost of sales	i	(39,176)	226	(38,950)
Gross profit		33,277	226	33,503
Distribution costs		(13,411)	-	(13,411)
Administrative expenses		(9,045)	-	(9,045)
Profit from operations		10,821	226	11,047
Financial income	j	1,341	1,612	2,953
Financial expenses	j	-	(1,612)	(1,612)
Profit before tax		12,162	226	12,388
Income tax expense	k	(2,432)	19	(2,413)
Net profit for the period		9,730	245	9,975

(i) Cost of sales

Adjustments under cost of sales were as follows:	£'000
Cost of sales under UK GAAP as reported	39,176
Capitalised development costs less amortisation for the period	(226)
Cost of sales under IFRS for the period	38,950

(j) Financial income and financial expenses

Adjustments under financial income and financial expenses were as follows:	£'000
Financial income	
Interest income under UK GAAP as reported	1,121
Other finance income under UK GAAP as reported	220
Grossing up of other finance income for expected return on pension funds' assets	1,590
Interest payable reallocated to financial expenses	22
	2,953
Financial expenses	
Interest on pension funds' liabilities reallocated from financial income	1,590
Interest payable reallocated from financial income	22
	1,612

(k) Income tax expense

Adjustments under income tax expense were as follows:	£'000
Income tax expense under UK GAAP as reported	2,432
Tax provision on capitalised development costs net of amortisation	68
Tax adjustment on intragroup trading	(87)
Income tax expense under IFRS for the period	2,413

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