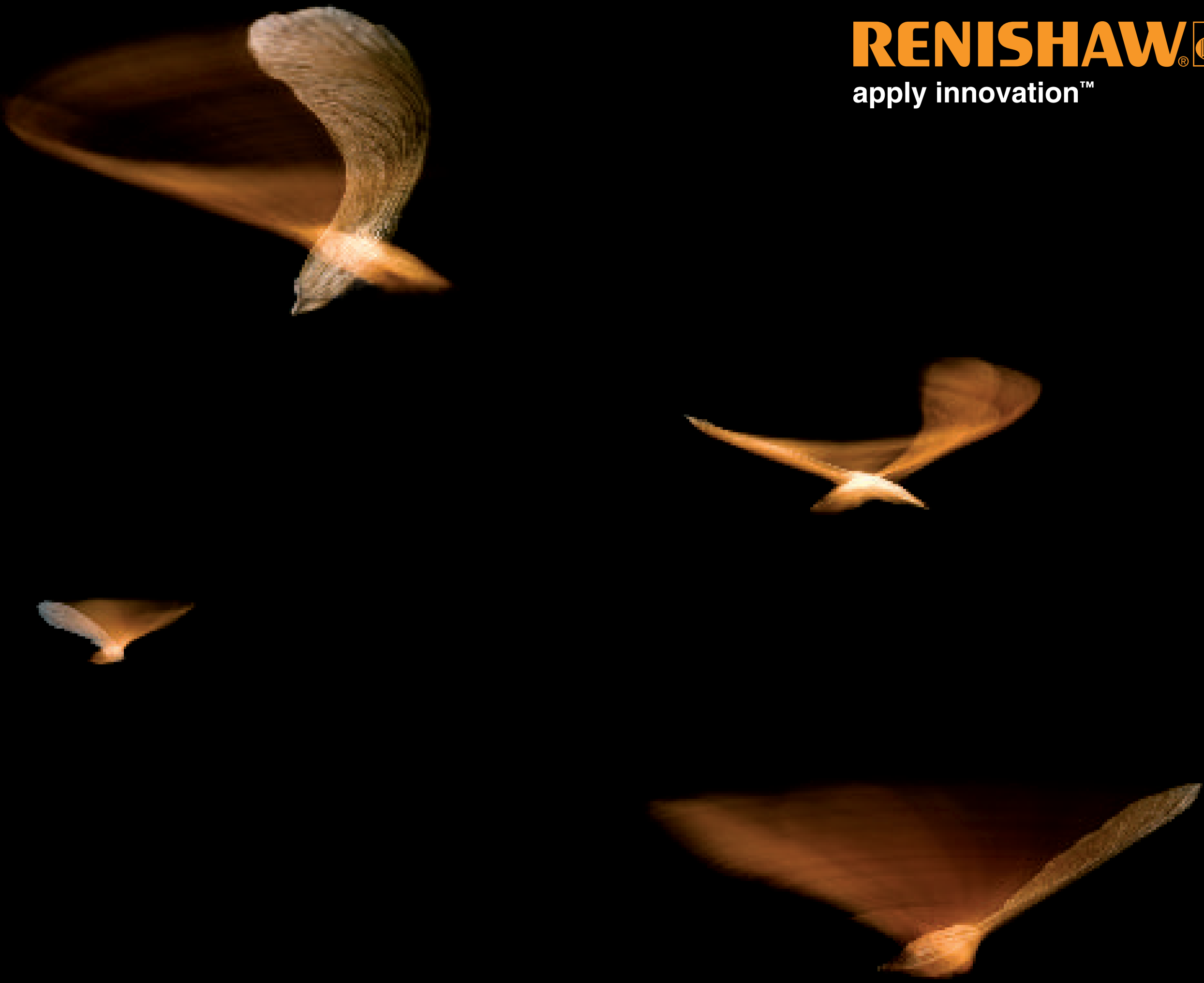
RENISHAW
apply innovation™



From the seeds of innovation...

Annual report **2005**

revolutionary products

Introduced this year - REVO™/RENSCAN5™ is the first in a range of developing products and is paving the way for ultra high-speed, high-accuracy scanning

Company secretary and registered office
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Internet: www.renishaw.com

Registrars and transfer office
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Telephone: 0870 6003970 (UK)
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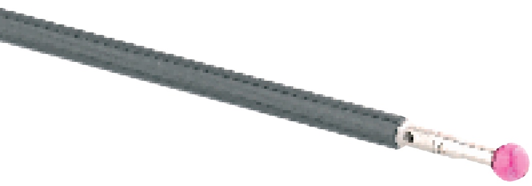
Auditors
KPMG Audit Plc

Solicitors
Norton Rose

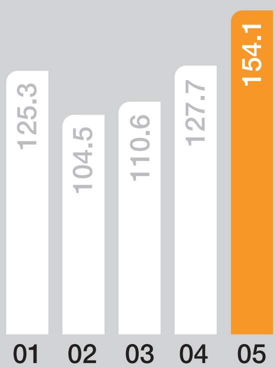
Stockbrokers
UBS

Principal bankers
Lloyds TSB

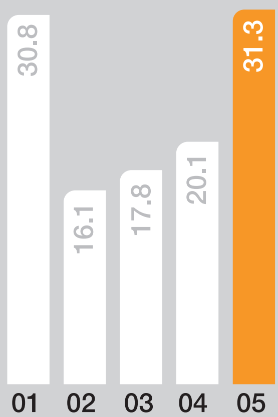
	2005 £'000	2004 £'000	change
Turnover	**154,095**	127,701	+21%
Operating profit	**28,824**	18,053	+60%
Profit before taxation	**31,250**	20,146	+55%
Taxation	**6,250**	4,023	+55%
Profit after taxation	**25,000**	16,123	+55%
Earnings per share (basic and diluted)	**34.3p**	22.1p	+55%
Dividend per share	**19.8p**	18.0p	+10%



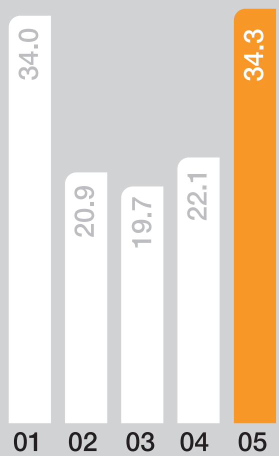
Turnover
£ million



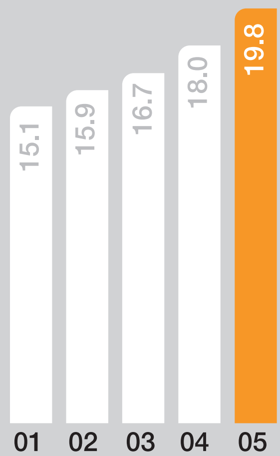
Profit before taxation
£ million



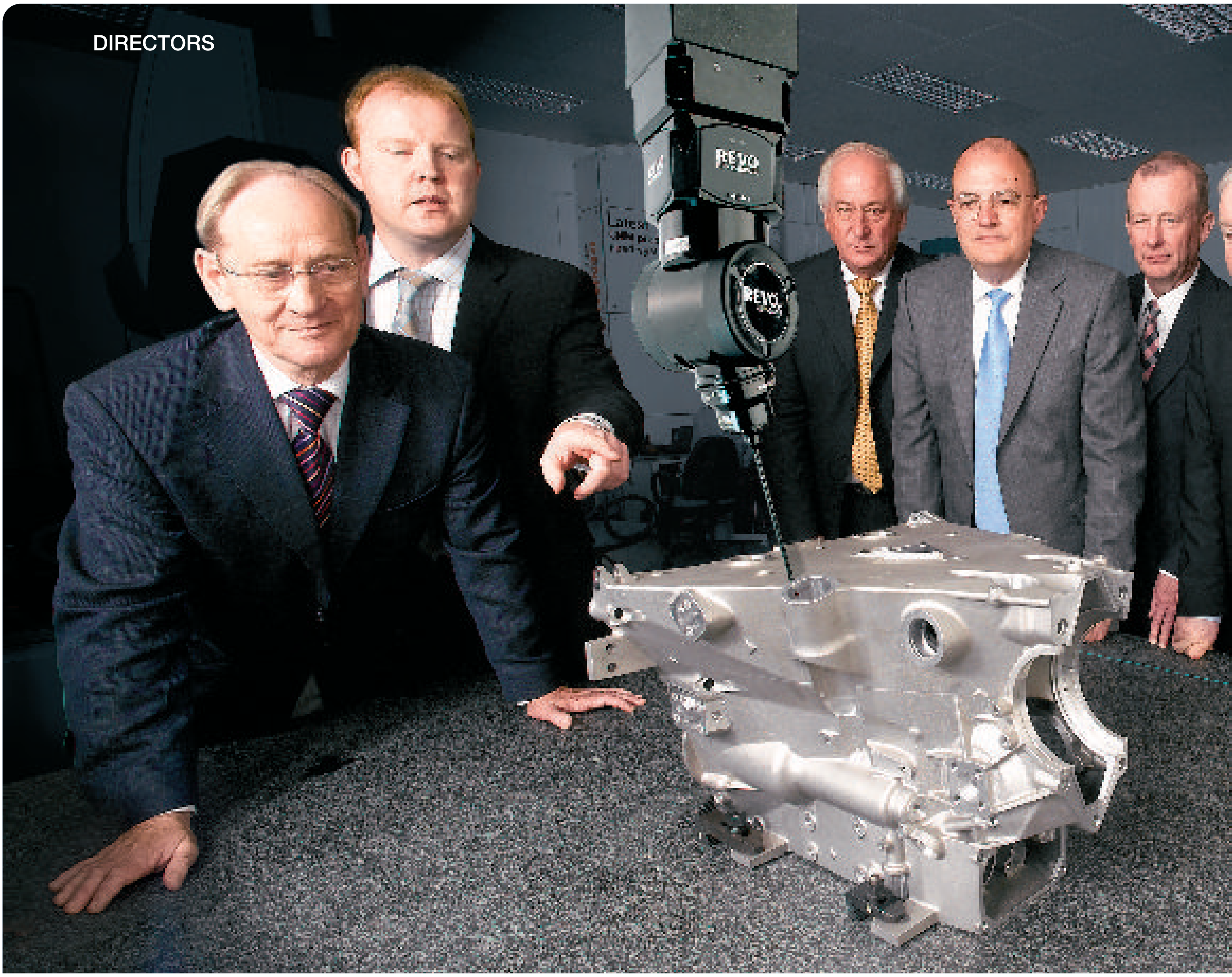
Earnings per share
Pence



Dividend per share
Pence



DIRECTORS



Sir David McMurtry
CBE, RDI, CEng, FIMechE, FREng
Chairman and Chief Executive, age 65, 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, Sir 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. Sir 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, Sir David also has responsibility for group technology.

John Deer
Deputy Chairman, age 67, 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.

Ben Taylor
Assistant Chief Executive, age 56, 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. He serves on various metrology committees and other professional associations and is responsible for group marketing, international operations and human resources.

Allen Roberts, FCA
Group Finance Director, age 56, 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.

Geoff McFarland
Group Engineering Director, age 37, graduated with a BEng in computer aided mechanical engineering at Heriot-Watt University, where he subsequently worked for several years as a research associate.

From left: Sir David McMurtry, Geoff McFarland, Allen Roberts, Ben Taylor, Terry Garthwaite, Joe McGeehan, David Snowden and John Deer

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, CBE, FIEE, FREng
Non-executive director, age 59, 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
The senior independent non-executive director, age 58, is a chartered accountant, who, after qualifying, joined 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. Terry is a non-executive director of Brammer plc and Wilmington Group plc. He was appointed a director of Renishaw plc on 1st July 2003 and is the chairman of the audit committee.

David Snowden, FCA
Non-executive director, age 68, 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


01

"I am delighted to announce record results for the year to 30th June 2005, both in turnover and profitability."

Trading

Turnover increased by 21% to £154.1m (2004 £127.7m), with growth in all geographical markets and product lines. There was significant growth in the Far East, especially Japan, the USA and Europe, including the UK. Above-average product line growth was seen in digitising (including dental), machine tool and co-ordinate measuring machine products. Turnover would have been £3.2m higher at previous year currency exchange rates.

Operating profit increased by 60% to £28.8m (2004 £18.1m). Profit before tax rose by 55% to £31.3m (2004 £20.1m), lifting earnings per ordinary share by 55% to 34.3p (2004 22.1p).

Manufacturing

Capital expenditure during the year has been largely associated with manufacturing – both new plant and machinery, and the premises to house them. Significant progress has been made in preparing the new Stonehouse factory (acquired for £5 million during the year) for the transfer of facilities from New Mills. The new anodising plant has been installed and when commissioned will commence operation in September. Total capital expenditure amounted to £16.0m (2004 £15.6m), of which £6.0m was freehold property.

01 The new Stonehouse factory
02 Sir David McMurtry with the new REVO™ system
03 incise™ dental scanner

Research and development

There have been a number of new products successfully introduced during the year, in particular the REVO™ and RENSCAN5™ providing unique 5-axis scanning technology for use on co-ordinate measuring machines, which offer a step change in the level of accuracy and speed of measurement. We have also introduced the SiGNUM™ RELM, a high-accuracy linear scale with *IN-TRAC*™ optical reference mark, Procera® Forte and incise™ dental scanners, TRS1, a tool breakage detection system, OMP60 spindle probe, RP120 interpolator and DX10 USB interface for our laser interferometer. Total research and development expenditure during the year, including engineering costs, amounted to £25.4m (2004 £22.0m).

Marketing

New offices have been opened in India (Delhi and Pune) and Russia (St Petersburg and Perm) and our staff in Nagoya, Japan have completed their move to a larger office. The Group now has 33 offices operating in 27 countries. During this current fiscal year, further investment will be made in India, China and Turkey.

The Group has continued to participate in exhibitions throughout the world, demonstrating and introducing the Group's product range. The REVO™, referred to above, was particularly well received at the Control Show in Sinsheim, Germany in April.

Visits to the Renishaw websites during the year have more than doubled, often reaching over 160,000 per month.

Balance sheet

The Group continues to maintain significant cash balances at £30.1m (2004 £32.8m) after further substantial capital expenditure of £16.0m and increasing stock levels of £5.1m to support the growing turnover.

Following significant changes to the assumptions applied to the triennial actuarial valuation at 30th June 2005, the pension fund liability net of deferred tax, as required to be measured under the specific rules for FRS17, has increased to £14.8m (2004 £8.4m).

Personnel

Total staff numbers have grown by 6% during the year and currently stand at 1,865. Recruitment has principally been directed at assembly and manufacturing in the UK, and overseas sales and marketing, especially in the Far East and India.

Personnel are our prime resource without whom Renishaw's progress would not be possible. I give my sincere thanks and warm appreciation to them all.

Prospects and dividend

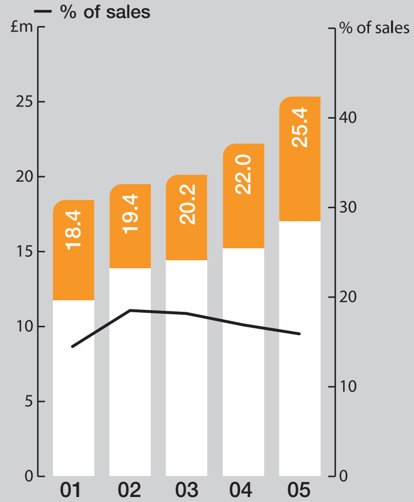
The current year has started well, although as is typical, forward visibility is limited with an order book of less than one month's activity. Although we participate in cyclical business areas, the Board is confident, at this early stage, about the prospects for the current year and the Group's long-term future.

Your board proposes a final dividend of 13.7p per share, giving a total for the year of 19.8p (2004 18.0p).

Sir David R McMurtry
CBE, RDI, CEng, FIMechE, FREng
Chairman and Chief Executive
28th July 2005

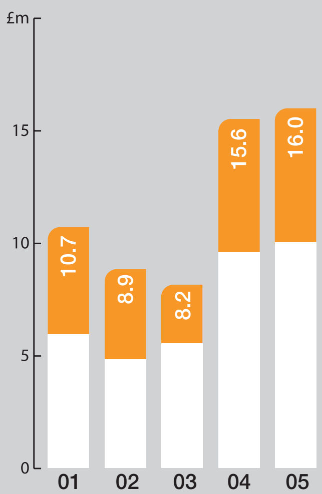
Engineering costs
£ million

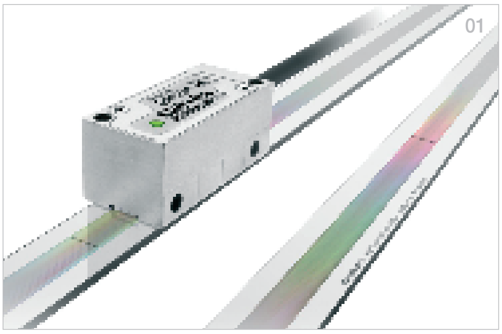
Other
Research and development
— % of sales



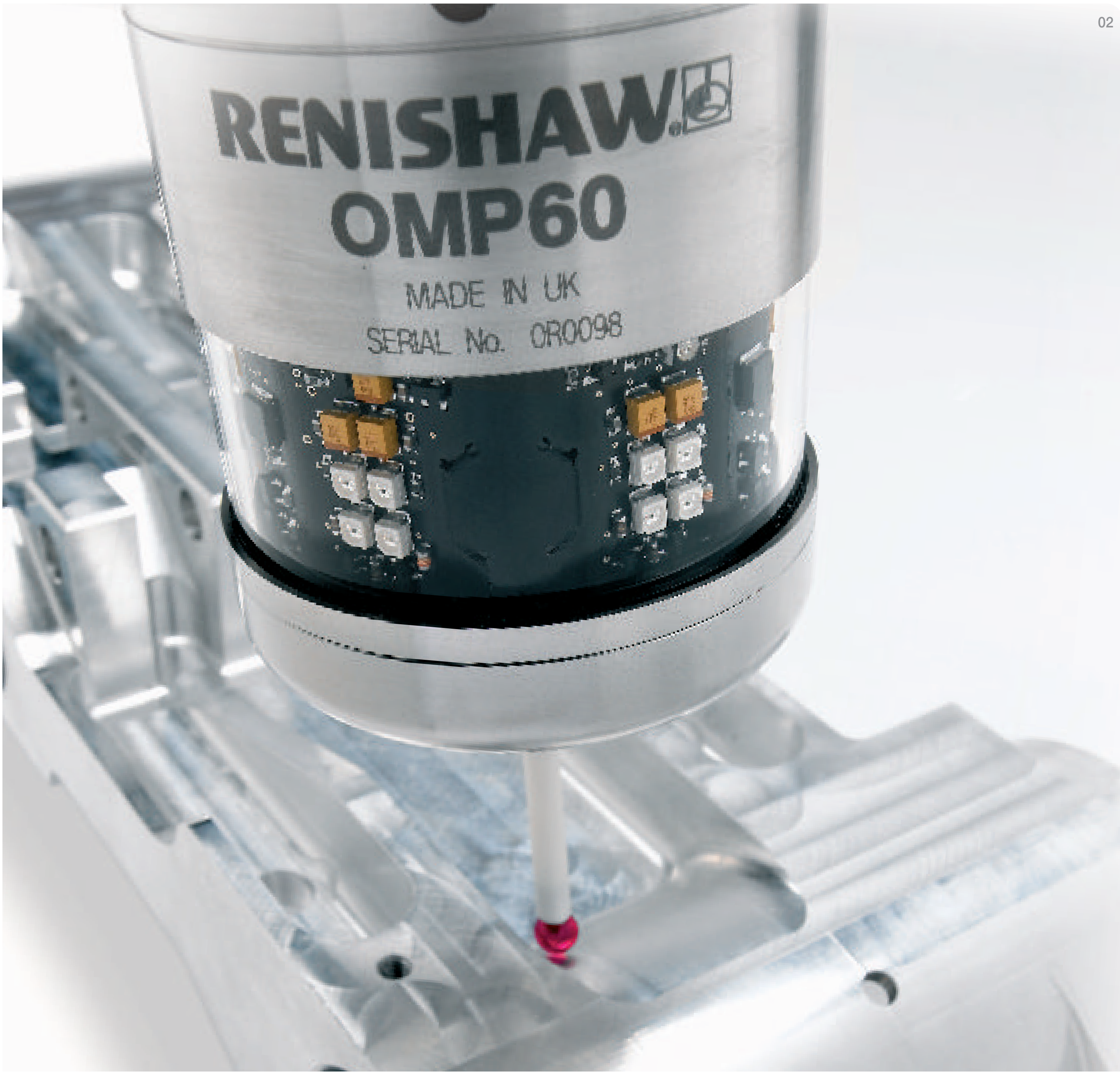
Capital expenditure
£ million

Land and buildings
Plant and vehicles





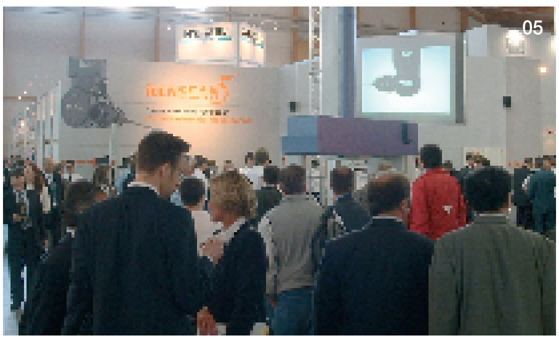
01 SiGNUM™ high-accuracy linear scale with *IN-TRAC*™ optical reference mark
02 OMP60 machine tool spindle probe
03 The new anodising plant being installed at the Stonehouse facility
04 TRS1 tool breakage detection system
05 The successful launch of REVO™ at Control, Sinsheim, Germany



02


03


04


05

Business outline

Renishaw's business is metrology, the science of measurement. The Group manufactures a comprehensive range of highly accurate probing systems, accessories, calibration and measuring systems and other innovative products which enable customers worldwide to carry out dimensional measurements to traceable standards.

The Group's products comprise:

- Co-ordinate measuring machine ("CMM") probes and accessories, which are used for accurate post-process inspection of components on CMMs. With Renishaw's range of controllers, high-speed collection of data can be undertaken using either continuous contact or analogue scanning.
- Machine tool probes and tool setting systems, used for automated component identification, and workpiece and tool setting and inspection, which can be fitted on CNC turning and milling machines. To remain competitive, companies need to automate production whilst maintaining tight control of the dimensions and finish of their manufactured components. The acceptance of quality control in the production environment means that probing is considered essential and allows the complete manufacturing process to be monitored and made self-correcting.
- Laser interferometers and the QC10 ballbar, used to determine the accuracy of CMMs, machine tools and other industrial and scientific equipment. Regular use of these systems increases knowledge of the production process and thus helps increase product quality, reduce scrap and machine down-time.
- Linear and rotary encoder systems, for precise linear and rotary motion control. These systems offer precision feedback for a variety of applications, ranging from long-axis machine tools to X-Y wafer inspection systems.
- Dental and other scanning and digitising systems, used in the process of gathering data from 3D surfaces, specifically for certain dental processes and in other fields such as jewellery, coin, shoe and automotive manufacture. These systems are used where high rates of data capture with high accuracy from fine detail impression dies is required.
- Spectroscopy products, including the Raman microscope, used to identify the composition and structure of materials and which can be applied in many different fields, such as pharmaceutical, forensic, semiconductor and chemical industries.
- Styli and custom products, to meet the business opportunities for styli and accessories and for customised products, where the standard Renishaw product does not address the customer's specialised requirements.

The Group manufactures its products in the UK and Ireland and markets and distributes them to customers around the world, with sales outside the UK representing over 90% of total group sales.

The Group has established overseas marketing and distribution subsidiaries in the USA, Japan, Germany, France, Italy, Spain, Switzerland, Hong Kong, Brazil, The Netherlands, India, Australia, the Czech Republic, Poland, Russia, Sweden, Austria, South Korea, Canada and Israel. These subsidiaries provide support to customers in our major markets.

There are also representative offices in The People's Republic of China, Singapore, Taiwan and Hungary, and we have a partnership company, 50% owned, in Slovenia.

Business strategy

The Group's business plan is to develop technologies that provide patented products and processes which support our product strategies. These products and processes 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 is developing other market opportunities, in addition to the more traditional manufacturing sector, which has provided the major customers for Renishaw products in the past. These other market opportunities 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.

During this financial year, amongst the new products launched were the REVO™ and RENSCAN5™ scanning system for use on co-ordinate measuring machines, the SiGNUM™ RELM high-accuracy linear scale with *IN-TRAC*™ optical reference mark, the OMP60 spindle probe and the incise™ dental scanner for the dental market, all significant examples of the new patented technologies being developed to ensure the continued growth of the Group in the future.

The Group also plans to develop geographic markets, with ongoing investment in Eastern Europe, Russia and South East Asia, especially China and India.

In order to improve the Group's ability to design, manufacture and support its products, more investment has been made in manufacturing facilities in the UK at Wotton-under-Edge and Woodchester. More recently, work has started on refurbishing the property at Stonehouse, purchased during the year and which is located 15 miles from the New Mills site. It is intended to transfer the machine shop, raw materials stores and post-manufacturing processes to this site during the 2006 financial year.

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.

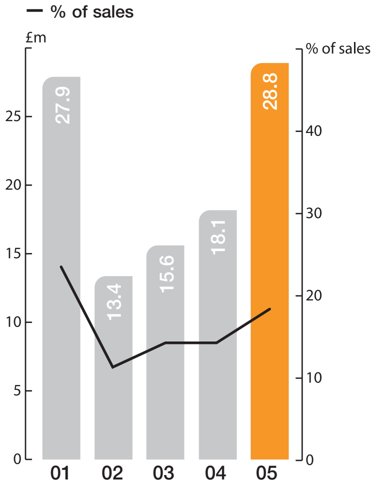
Operating review

In the year to 30th June 2005, group sales increased by 21% over the previous year, from £127.7m to £154.1m. This was after adverse currency movements which had the effect of reducing group sales by £3.2m, when compared with the previous year's exchange rates. At the previous year's exchange rates, sales would have increased by 23%.

All our major geographical markets showed good growth during the year. Continental Europe continues to be our major market area, where sales increased by 17%, from £49.0m last year to £57.4m this year. Sales to Japan and the Far East rose to £42.7m (2004 £34.1m), an increase of 25%. North and South America increased by 19%, from £33.3m to £39.5m, while sales to the UK and Ireland saw sales up from £8.8m to £10.4m, a rise of 17%.

The following table shows the analysis of turnover by geographical market and the effect of exchange rate changes.

Operating profit



Geographical market	2005 at actual exchange rates £'000	2005 at 2004 exchange rates £'000	2004 at actual exchange rates £'000
Continental Europe	57,408	57,120	48,983
Far East, including Japan and Australia	42,719	44,292	34,099
North and South America	39,531	41,438	33,305
United Kingdom and Ireland	10,361	10,361	8,820
Other regions	4,076	4,096	2,494
Total group turnover	154,095	157,307	127,701

We continued to invest in research and development, with total engineering costs increasing by 15%, from £22.0m in 2004 to £25.4m this year. A significant proportion of this spend is eligible for the UK research and development tax relief, which results in a reduction of approximately £0.9m in the UK corporation tax charge for the year.

The group workforce expanded during the year, from 1,754 at June 2004 to 1,865 at June 2005. The increase of 111 people is shared between 100 in manufacturing and engineering, where we have continued to invest in research, development and production facilities, both personnel and equipment, to support the increasing growth in our business, and 11 in our overseas marketing subsidiaries, where we have been adding resources to expand and support our overseas markets, especially in India and the Far East.

Total labour costs increased to £64.2m from £57.7m in 2004, a rise of 11%.

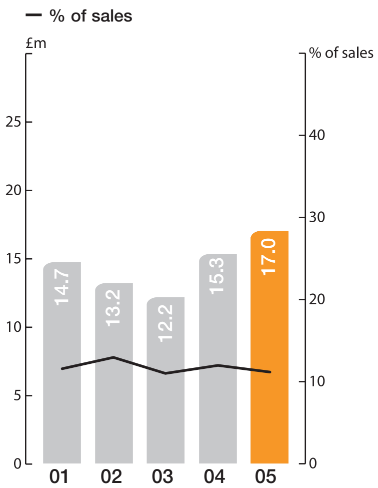
Operating profit for the year was £28.8m, 60% above the £18.1m for the previous year. This was after foreign exchange gains on forward contracts of £0.7m, compared with £0.4m in 2004. These foreign exchange gains are included within administrative expenses.

With slightly increased interest income, due to rising interest rates and similarly, a small increase in other finance income relating to the Group's defined benefit pension schemes, profit before tax rose by 55%, from £20.1m in 2004 to £31.3m in 2005.

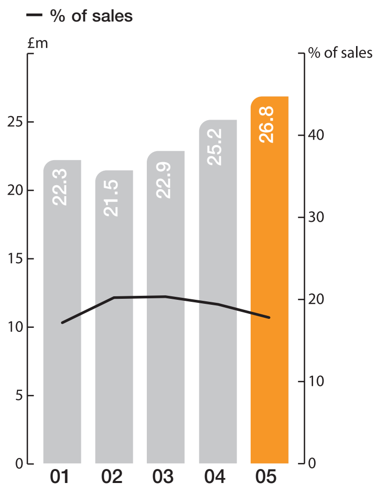
The overall effective rate of tax, a combination of the varying tax rates applicable throughout the countries in which the Group has subsidiaries, was 20%, which is at a similar level to the previous year. Hence, profit after tax and earnings per share (basic and diluted) were also 55% higher, with earnings per share of 34.3p, compared with 22.1p in the previous year.

The proposed total dividend per share for the year is increased by 10%, from 18.0p to 19.8p, giving a total dividend of £14.4m (2004 £13.1m) for the year.

Administrative expenses



Distribution costs



Balance sheet

The Group has made substantial investment in fixed assets during the year, with capital expenditure of £16.0m compared with £15.6m during the previous year.

Included in this figure is £5.0m for the purchase of our new manufacturing site in Stonehouse and £9.2m on plant and equipment, mainly investment in production machinery and IT hardware and software.

The net book value of fixed assets was £66.7m at June 2005, compared with £58.5m at June 2004, an increase of £8.2m.

In order to ensure future deliveries to customers and to support the growing business activity, stock has risen to £27.4m, from £22.3m at June 2004.

Cash balances decreased during the year and were £30.1m at June 2005, £2.7m lower than the £32.8m at June 2004. Net cash inflow from operating activities was £29.0m compared with £22.2m in the previous year, but significant capital expenditure, dividend payments and the increase in stock levels has resulted in the lower year end cash balance.

The Company has continued to make additional contributions to its UK defined benefit pension scheme, in line with recommendations from the scheme's actuaries. There has been an increase of £13.3m in the valuation of the assets of the Group's schemes, but the schemes' liabilities have also increased due to changes in assumptions, such as the discount rate for the discounting of the liabilities and new mortality tables used in the latest actuarial valuation. As a result, the overall deficit, which was £8.4m net of deferred tax at June 2004, increased to £14.8m, net of deferred tax, at the end of the year.

As a guide to sensitivity of the value of the liabilities, currently £69.7m, a decrease or increase in the discount rate of 0.1% would increase or decrease liabilities by approximately £1.9m. An increase or decrease in the salary rate or pension rate of 0.1% would increase or decrease liabilities by approximately £1.0m.

Treasury policies

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 19 on page 33 for an analysis of cash balances and currency borrowings at the year end.

During the second half of the year, there were forward contracts in place to hedge against the major part of the Group's estimated US Dollar, Japanese Yen and Euro income streams.

International financial reporting standards

International financial reporting standards ("IFRS") will be mandatory for the Group's accounts for the year ending 30th June 2006, with the comparative 2005 accounts restated to conform with these new standards.

The major areas which will affect the Group's accounts will be the capitalisation of certain research and development costs, segmental reporting, dividend accounting and, potentially, unrecognised gains or losses on currency hedges.

It is intended to publish restated 2005 accounts in advance of the 2006 interim results.

Investment for the future

The Group has continued to invest heavily in its research and development programme, with 16% of turnover being spent on research and development, including associated engineering costs. The Group 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.

We also will continue to invest in manufacturing, to improve efficiencies in production and ensure capacity for the future.

The Group will also continue to extend its presence around the world by opening offices in new territories and expanding existing offices where considered appropriate.

A C G Roberts FCA

Group Finance Director

28th July 2005

The directors have pleasure in presenting their 32nd Annual report, together with the audited financial statements for the year ended 30th June 2005 as set out on pages 20 to 35.

Trading results

The group results for the year were:-	2005	2004
	£'000	£'000
Profit on ordinary activities before taxation	**31,250**	20,146
Taxation on profit on ordinary activities	**6,250**	4,023
Profit for the financial year	**25,000**	16,123
Dividends	**14,412**	13,100
Retained profit for the year	**10,588**	3,023

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 13.7p per share (2004 12.39p) which, together with the interim dividend of 6.1p (2004 5.61p), makes a total of 19.8p for the year, compared to 18.0p for the previous year. The final dividend will be paid on 17th October 2005 to shareholders on the register on 16th September 2005.

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 the end of the year, were:-

	Ordinary shares of 20p each	
	2005	2004
D R McMurtry	**26,377,291**	26,377,291
D J Deer	**12,393,040**	12,393,040
B R Taylor	**10,147**	10,147
A C G Roberts	**5,165**	5,165
G McFarland	**-**	-
J P McGeehan	**900**	900
T D Snowden	**5,000**	5,000
T B Garthwaite	**3,000**	-

All the above holdings were beneficially held with the exception of 2,320,311 shares (2004 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 2005 to 28th July 2005.

D R McMurtry and D J Deer, neither of whom has a service contract, retire by rotation and being eligible, offer themselves for re-election. Biographical details of the directors are shown on pages 4 and 5.

Related party transaction

On 27th June 2005, the Company sold two parcels of land, one of which is subject to an agricultural tenancy, to D R McMurtry. The land was valued at £80,000 by a firm of independent chartered surveyors, which was the purchase price paid by D R McMurtry. The sale includes a provision requiring payment of an additional amount if the land is disposed of within 25 years of the sale with the benefit of planning permission for a use other than agricultural use. The sale was reviewed and approved by the Board. D R McMurtry did not take part in the discussions and abstained from voting on the matter.

Environmental control

The Group operates in an environmentally-responsible manner, adopting the most appropriate technologies and practices to minimise its impact on the environment.

Manufacturing processes are designed with environment preservation in mind and waste is recycled wherever feasible. A new anodising process is scheduled to be introduced in the latter part of 2005, which will provide still better environmental performance, in line with best practice for this type of process.

From a design perspective, the effort to eliminate unnecessary packaging continues, whilst also systematically eliminating non-recyclable materials. A system is being developed to monitor more closely the chemical content of the components and materials used in Renishaw products, in order to ensure adherence to the recommendations for elimination of non-preferred chemicals.

Although the requirements of the RoHS Directive (restriction of the use of certain hazardous substances) do not apply to Renishaw products, the Group has nonetheless voluntarily undertaken a programme to reduce the use of the regulated substances to the lowest possible levels through best practice. A lead-free process is therefore being validated and planned to be used in production from the end of 2005, to be progressively extended henceforth to the various products of the Group.

The Group is continuing its programme of refurbishment of the newly acquired sites and is doing so with the objective of bringing the building specifications in line with the best achievable environmental performance levels. In particular, effort is made to minimise energy consumption, both through the use of energy-efficient temperature control systems and tight control of energy usage.

An environmental team has been constituted and work is under way to consolidate the various environmental control procedures in force in the business into an environmental management system that complies with the requirements of the ISO 14401:2000 standard.

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

Special business
The notice of meeting on page 37 sets out two resolutions which the directors have resolved should be proposed as special business during the course of the meeting.

(i) - 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. 7 at the annual general meeting to give the required authority until the earlier of the conclusion of the 2006 annual general meeting and 31st December 2006. 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.

(ii) - Amendment to the articles of association - The directors wish to amend the articles of association by removing the exemption from retirement by rotation given in article 82.2 and propose a special resolution accordingly.

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, in August, the Assistant Chief Executive presents the final results, following their publication, to all employees.

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

Creditor payment policy
The Company has a variety of payment terms:

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

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

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 2005 was approximately 30 days (2004 30 days).

Substantial shareholdings
Apart from the shareholdings of Sir David McMurtry and John Deer (36.2% and 17% respectively), the only shareholding notified to the directors, which represents 3% or more of the issued share capital of the Company, as at 28th July 2005, is the Aegon UK plc group of companies, which holds 3,645,018 shares (5.01%).

During the year, the Company received notification from -

(i) - HBOS plc and its subsidiaries, of the reduction in their holding of shares in the Company to less than 3%; and

(ii) - Zurich Financial Services Group, of its acquisition of 2,258,888 shares (3.1%) and its subsequent disposal of shares to a holding of less than 3%.

Donations and community involvement
During the year the Group made charitable donations of £62,541 (2004 £101,661). 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 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 during the year (2004 £nil).

By order of the Board

A C G Roberts FCA

Secretary

28th July 2005

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

This report, together with the Directors' remuneration report on page 18 sets out how the Company has applied the principles of the Combined Code on Corporate Governance (the "Code") issued by the Financial Reporting Council.

Directors

The Board

The Board comprises five executive and three non-executive directors. The Board focuses on formulation of strategy, management of effective business controls and review of business performance. There is a formal schedule of matters specifically reserved to it for decision. These include the approval of annual and interim results, acquisitions and disposals, major capital expenditure, borrowings, material agreements, senior executive appointments and removals (including the company secretary), any patent-related dispute and other material litigation, forecasts and major product development projects.

The Board meets as often as is necessary to discharge its duties effectively. In the financial year ended 30th June 2005, the Board met 7 times and the directors' attendance record at Board and committee meetings is set out at the end of this report. The non-executive directors met a number of times without executive directors present.

The Board has two formally constituted committees, the audit committee and the remuneration and nomination committee. There is an executive committee known as the Executive Board that is responsible for the executive management of the Group's businesses. It is chaired by the Chairman and includes the executive directors of Renishaw plc and the President of Renishaw Inc.

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

Chairman and Chief Executive

The role of Chairman and Chief Executive is a combined role and thus contrary to the recommendations of the Code. However, the Board considers that there is still a clear division of responsibilities at Board level to ensure an appropriate balance of power and authority.

Board balance and independence

Each of the three non-executive directors is considered by the Board to be independent in character and judgement and there are no relationships or circumstances that are likely to affect a non-executive director's judgement.

The Code recommends that at least half the board, excluding the chairman, should comprise independent non-executive directors. The Board does not comply with this requirement as it considers the balance of the Board to be appropriate for the size of business.

The senior independent director role is rotated between the non-executive directors on an annual basis. The senior independent director for the year ended 30th June 2005 was David Snowden and the senior independent director for the year beginning 1st July 2005 is Terry Garthwaite.

The directors holding office at the date of this report and their biographical details are given on pages 4 and 5.

Appointments to the Board

The remuneration and nomination committee is the committee responsible for reviewing the structure and composition of the Board and nominating candidates for appointment to the Board. All the members of this committee are non-executive directors and a list of membership and the chair of the committee is set out on page 5. The terms of reference of this committee are published on the Company's website.

No new appointments to the Board have been made during the year. The terms of appointment of the non-executive directors are available for inspection at the annual general meeting and at the registered office upon written request.

Information and professional development

The Board receives appropriate documentation, management accounts, forecasts and commentaries thereon in advance of each Board meeting to enable its members to review the financial performance of the Group, current trading and key business initiatives.

Directors are offered the opportunity to attend formal training courses to update their knowledge of their duties as directors. Guidance notes on changes to law and regulations are provided as appropriate. Non-executive directors are invited to attend internal conferences, which provide information to the Group on new product development and marketing initiatives.

All directors have access to the company secretary and to independent professional advice at the Company's expense where necessary to discharge their responsibilities as director.

Performance evaluation

The Board has established a formal process, led by the senior independent director, for the annual evaluation of the performance of the Board and the Chairman. This included the completion of a questionnaire designed and approved by the Board to provide a framework for the evaluation process.

The senior independent director summarised the responses and discussed them with the individual directors and with the Board as a whole. The exercise was viewed positively by the Board.

Re-election

In the past, in accordance with the articles of association of the Company, all directors apart from the Chairman and Chief Executive and the Deputy Chairman have offered themselves up for re-election at intervals of no more than three years. To comply with the Code the re-election process must apply to all directors. It is intended that the articles of association will be amended by special resolution at the forthcoming annual general meeting at which both the Chairman and Chief Executive and the Deputy Chairman will offer themselves up for re-election. The biographical details of the Chairman and Chief Executive and the Deputy Chairman are set out on page 4.

Directors' remuneration

The Directors' remuneration report set out on page 18 explains how the Company applies the Code principles relating to remuneration.

Accountability and audit

Financial reporting

The respective responsibilities of the directors and auditors in connection with the financial statements are explained in the Statement of directors' responsibilities and the Auditors' report.

Going concern

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

Internal control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness.

There is an ongoing process for the review of business risks throughout the Group. These are reported on a monthly basis by senior management and by overseas subsidiaries. These reports are reviewed by the Board at each of their meetings.

The Board undertakes an annual formal review of the effectiveness of the Group's system of internal controls and an updated risk and controls analysis for the Group. The review covers all material controls, including financial, operational and compliance controls and risk management systems.

The Board considers that there is an ongoing process for identifying, evaluating and managing the significant risks facing the Group that has been in place during the year, and which is regularly reviewed and accords with the Turnbull guidance.

Audit committee and auditors

The audit committee comprises non-executive directors. A list of members and the chairman is set out on page 5. The Board is satisfied that at least two members of the committee have recent and relevant financial experience, being T B Garthwaite and T D Snowden. The terms of reference of this committee were reviewed during the year and are available on the Company's website at www.renishaw.com.

The committee reviews the accounting policies and procedures of the Group, its annual and interim financial statements before submission to the Board and its compliance with statutory requirements. It also reviews the scope, remit and effectiveness of the internal audit function.

The committee has primary responsibility for making the recommendation on the appointment, reappointment and removal of external auditors which the Board puts to shareholders for approval at the annual general meeting. It keeps under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors. The auditors provide a confirmation of independence on an annual basis.

The committee reviews the nature and extent of the non-audit services supplied by the auditors, receiving regular reports on the balance of audit to non-audit fees.

The committee monitors the integrity of the Group's financial statements and announcements relating to financial performance and reviews the significant reporting judgements contained therein.

The committee reviews the policy by which employees of the Company may, in confidence, raise matters of concern, including possible improprieties in financial reporting or other matters.

The committee meets at least three times a year with the Group Finance Director, the Group Audit Manager and the external auditors in attendance. At least one meeting, or part, is held with the external auditors without executive directors present.

Relations with shareholders

Dialogue with institutional shareholders

Presentations are given to institutional investors following publication of the half-year and full-year results, when interim and annual reports are delivered to all shareholders. Institutional investors are actively encouraged to visit the Company's headquarters and manufacturing sites where they will meet at least one of the executive directors and have the opportunity of discussing any issues with them. Meetings with investors, analysts and media are reported at each Board meeting so that all the Board develop an understanding of the views of investors and others.

If requested, non-executive directors are available to attend meetings with major shareholders.

All directors attend the annual general meeting at which they have the opportunity to meet with shareholders.

Constructive use of the annual general meeting

The annual general meeting takes place at the Company's headquarters and formal notification is sent to the shareholders at least 20 working days before the meeting. A business presentation is given at the meeting and all directors are available for questions during and after the meeting. Tours of the Company's research and development and manufacturing facilities are offered.

The Company reports to shareholders attending the annual general meeting and by publication on its website following the meeting, on the number of proxy votes lodged on each resolution, the balance for and against each resolution and the number of abstentions after the resolution has been dealt with on a show of hands.

Board and committee membership attendance record

Shown against each director's name is the number of meetings of the Board and its committees at which the director was present and, in brackets, the number of meetings that the director was eligible to attend during the year.

Director	Board	AC*	R&NC*
D R McMurtry	7 (7)	-	-
D J Deer	7 (7)	-	-
B R Taylor	7 (7)	-	-
A C G Roberts	7 (7)	-	-
G McFarland	7 (7)	-	-
J P McGeehan	6 (7)	3 (3)	4 (5)
T D Snowden	6 (7)	3 (3)	5 (5)
T B Garthwaite	7 (7)	3 (3)	5 (5)

* AC - Audit committee; R&NC - Remuneration and nomination committee

Compliance statement

The Board considers that it has complied with the requirements of the Code except in relation to the following matters (the reasons for non-compliance are stated in the report above):

- the combined role of chairman and chief executive;
- in accordance with the articles of association, the Chairman and Chief Executive and the Deputy Chairman were not subject to re-election by shareholders. It is proposed that the articles of association are amended at the annual general meeting to be held in October 2005;
- at least half the board, excluding the chairman, does not comprise independent non-executive directors.

A C G Roberts FCA

Secretary

28th July 2005

Remuneration policy

The remuneration and nomination committee is responsible for setting the Company's framework of executive remuneration and setting remuneration packages for each of the executive directors.

The committee's policy is to motivate and retain executive directors by rewarding them with competitive salary and benefit packages and incentives. These are linked to personal performance and the overall performance of the Group and, in turn, to the interests of the shareholders. The committee reviews annually all aspects of the executive directors' remuneration, performance and employment.

Remuneration and nomination committee

All the members of this committee are non-executive directors and a list of membership and the chair of the committee is set out on page 5. The terms of reference of this committee are published on the Company's website.

Mercer Human Resource Consulting provides advice in relation to certain benefits for the directors and on the Company's pension scheme.

The remuneration of the non-executive directors is determined by the executive directors.

Remuneration packages

The committee reviews basic salaries 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.

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.

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
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 scheme.

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.

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

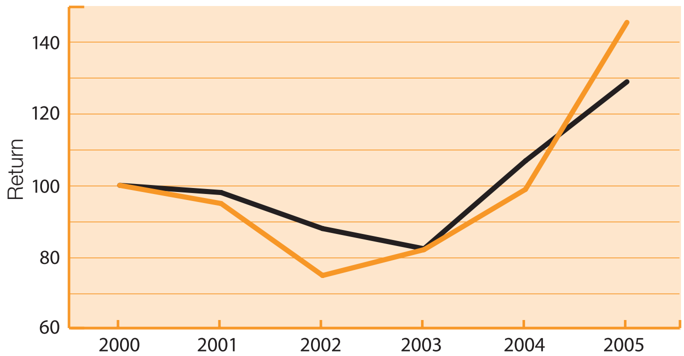
Details of directors' remuneration (including pensions) which form the audited section of this report are shown in note 4 on page 26.

Service contracts and compensation

No director has a service contract although the committee is working on the implementation of executive service contracts (including the compensation implications of early termination) which is expected to be completed in the next financial year.
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.

Performance graph

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.



Rebased to 100 at 30th June 2000
Renishaw FTSE mid 250

The report was approved by the Board of directors on 28th July 2005 and has been signed on its behalf by:-

T D Snowden FCA

Chairman, Remuneration and nomination committee

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 corporate governance statement on page 17 reflects the Company's compliance with the nine provisions of the 2003 FRC 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 and the part of the Directors' remuneration report to be audited.

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 2005 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
28th July 2005

Marlborough House
Fitzalan Court
Cardiff
CF24 0TE

for the year ended 30th June 2005

	Notes	**2005 £'000**	2004 £'000
Turnover	2	**154,095**	127,701
Cost of sales		**81,445**	69,188
Gross profit		**72,650**	58,513
Distribution costs		**26,790**	25,201
Administrative expenses		**17,036**	15,259
		43,826	40,460
Operating profit	3	**28,824**	18,053
Interest receivable less payable	5	**2,116**	2,043
Other finance income	6	**310**	50
Profit on ordinary activities before taxation		**31,250**	20,146
Tax on profit on ordinary activities	7	**6,250**	4,023
Profit for the financial year		**25,000**	16,123
Dividends	8	**14,412**	13,100
Retained profit for the financial year	17	**10,588**	3,023
		pence	pence
Earnings per share (basic and diluted)	9	**34.3**	22.1
Dividend per share	8	**19.8**	18.0

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.

at 30th June 2005

	Notes	The Group 2005	The Group 2004	The Company 2005	The Company 2004
		£'000	£'000	**£'000**	£'000
Fixed assets					
Tangible assets	10	**66,740**	58,496	**44,453**	36,165
Investments	11	**-**	-	**216**	25
		66,740	58,496	**44,669**	36,190
Current assets					
Stocks	12	**27,396**	22,288	**17,724**	14,300
Debtors	13	**37,384**	32,820	**260,018**	268,235
Cash at bank	20	**30,072**	32,833	**9,719**	7,512
		94,852	87,941	**287,461**	290,047
Creditors					
Amounts falling due within one year	14	**29,445**	26,031	**59,392**	49,485
Net current assets					
Due within one year		**65,407**	61,910	**37,794**	38,319
Due after more than one year	13	**-**	-	**190,275**	202,243
		65,407	61,910	**228,069**	240,562
Total assets less current liabilities		**132,147**	120,406	**272,738**	276,752
Provisions for liabilities and charges	15	**(5,154)**	(4,306)	**(5,040)**	(3,953)
Net assets excluding pension liability		**126,993**	116,100	**267,698**	272,799
Pension liability	18	**(14,830)**	(8,390)	**(13,300)**	(8,000)
Net assets including pension liability		**112,163**	107,710	**254,398**	264,799
Capital and reserves					
Called up share capital	16	**14,558**	14,558	**14,558**	14,558
Share premium account	16	**42**	42	**42**	42
Profit and loss account	17	**97,563**	93,110	**239,798**	250,199
Shareholders' funds – equity		**112,163**	107,710	**254,398**	264,799

The financial statements on pages 20 to 35 were approved by the Board of directors on 28th July 2005 and were signed on its behalf by:-

Sir D R McMurtry

A C G Roberts

Directors

for the year ended 30th June 2005

	Notes	2005 £'000	2004 £'000
Net cash inflow from operating activities	20	**28,960**	22,159
Returns on investments and servicing of finance			
Interest received		**2,235**	2,066
Interest paid		**(106)**	(40)
		2,129	2,026
Tax paid		**(4,487)**	(3,096)
Capital expenditure			
Purchase of tangible fixed assets		**(16,390)**	(14,899)
Proceeds from the sale of tangible fixed assets		**325**	163
		(16,065)	(14,736)
Equity dividends paid		**(13,459)**	(12,351)
Cash outflow before management of liquid resources		**(2,922)**	(5,998)
Management of liquid resources			
Decrease in bank deposits		**2,052**	1,322
Decrease in cash in the year		**(870)**	(4,676)

Reconciliation of net cash flow to movement in net funds
for the year ended 30th June 2005

	Notes	2005 £'000	2004 £'000
Decrease in cash in the year		**(870)**	(4,676)
Cash inflow from movement in liquid resources		**(2,052)**	(1,322)
Changes in net funds resulting from cash flows		**(2,922)**	(5,998)
Currency differences		**161**	1,596
Movement in net funds in the year		**(2,761)**	(4,402)
Net funds at 1st July		**32,833**	37,235
Net funds at 30th June	20	**30,072**	32,833

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 30th June 2005

	2005 £'000	2004 £'000
Profit for the financial year	**25,000**	16,123
Currency translation differences on foreign currency net investments	**655**	(299)
Actuarial loss recognised in the pension schemes	**(9,370)**	(240)
Deferred tax thereon	**2,580**	-
	(6,790)	(240)
Total recognised gains and losses for the financial year	**18,865**	15,584

Analysis of actuarial loss recognised in the consolidated statement of total recognised gains and losses:	2005 £'000	2004 £'000
Actual return less expected return on pension scheme assets	**4,600**	2,550
Experience gains and losses arising on the scheme liabilities	**1,120**	-
Changes in assumptions underlying the present value of scheme liabilities	**(15,090)**	(2,790)
Actuarial loss recognised in the statement above	**(9,370)**	(240)

RECONCILIATIONS OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 30th June 2005

	The Group		The Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Profit for the financial year	**25,000**	16,123	**9,611**	249,971
Dividends	**(14,412)**	(13,100)	**(14,412)**	(13,100)
Retained profit for the year	**10,588**	3,023	**(4,801)**	236,871
Currency translation differences	**655**	(299)	**-**	-
Actuarial (loss)/gain net of deferred tax	**(6,790)**	(240)	**(5,600)**	70
Net addition to/(reduction in) shareholders' funds	**4,453**	2,484	**(10,401)**	236,941
Shareholders' funds at 1st July	**107,710**	105,226	**264,799**	27,858
Shareholders' funds at 30th June	**112,163**	107,710	**254,398**	264,799

(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 22.

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

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.

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.

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 three 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.

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 are treated as movements on reserves and are reported in the consolidated statement of total recognised gains and losses.

Where forward exchange contracts are entered into, to hedge foreign currency income streams, any profits or losses arising on maturity of the contracts are accounted for in the profit and loss account at the time of maturity. Profits and losses arising on currency borrowings used to hedge the foreign currency exposure on the net assets of the overseas subsidiaries, are accounted for directly in reserves, to the extent that the level of currency borrowings match the net assets and are included in the consolidated statement of total recognised gains and losses.

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, apart from Ireland, because of the smaller number of foreign employees.

2. Turnover

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

	2005 £'000	2004 £'000
Continental Europe	**57,408**	48,983
Far East, including Japan and Australia	**42,719**	34,099
North and South America	**39,531**	33,305
Other overseas regions	**4,076**	2,494
United Kingdom and Ireland	**10,361**	8,820
Total group turnover	**154,095**	127,701

Substantially all sales originate from products manufactured in the UK and Ireland. A geographical analysis by origin of 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.

The Group operates in only one business class and therefore does not present an analysis by business segment.

3. Operating profit

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

	2005 £'000	2004 £'000
Research and development	**17,143**	15,503
Depreciation	**7,674**	6,779
Foreign exchange gains	**(704)**	(415)
Profit on disposal of fixed assets	**(61)**	(10)
Auditors' remuneration - audit for the Group	**164**	142
- audit for the Company	**41**	36
Other fees paid to the auditors and their associates - tax	**251**	257
- other	**24**	34

Staff numbers and costs:-

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

	2005 Number	2004 Number
United Kingdom	**1,328**	1,220
Overseas	**483**	459
	1,811	1,679

The aggregate payroll costs of the above were:-

	2005 £'000	2004 £'000
Wages and salaries	**53,509**	48,053
Social security costs	**5,942**	5,436
Other pension costs (note 18)	**4,758**	4,208
	64,209	57,697

4. Directors' remuneration and share options

The total remuneration of the directors was:-

	2005 £'000	2004 £'000
Salaries and fees	**1,452**	1,271
Benefits	**135**	132
Appreciation award	**684**	400
Pension contributions	**252**	316
	2,523	2,119

	Salary & fees £'000	Benefits £'000	Appreciation award £'000	**Total 2005 £'000**	Total 2004 £'000	Pension contributions **2005 £'000**	Pension contributions 2004 £'000
Chairman							
D R McMurtry	398	8	223	**629**	522	**152**	141
Other executive directors							
D J Deer	302	34	136	**472**	341	**-**	86
B R Taylor	337	46	157	**540**	441	**51**	47
A C G Roberts	200	29	93	**322**	245	**30**	25
G McFarland	161	18	75	**254**	200	**19**	17
Non-executives							
J P McGeehan	18	-	-	**18**	18	**-**	-
T D Snowden	18	-	-	**18**	18	**-**	-
T B Garthwaite	18	-	-	**18**	18	**-**	-
	1,452	135	684	**2,271**	1,803	**252**	316

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.

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 are those paid to the Company's defined benefit scheme, in which he participates. The values required to be reported in respect of G McFarland were:-

AB* at 24th July 2004 £ p.a.	Increase in AB excluding inflation (A) £	Increase in AB including inflation £	Transfer value of (A) less director's contribution £	Transfer value of AB at 30th July 2004 £	Transfer value of AB at 30th June 2005 £	Increase in transfer value less director's contribution £
19,360	1,830	2,360	2,710	90,300	134,360	37,890

* AB = Accrued benefits

5. Interest receivable less payable

	2005 £'000	2004 £'000
Bank interest receivable	**2,222**	2,083
Bank interest payable	**(106)**	(40)
	2,116	2,043

6. Other finance income

	2005 £'000	2004 £'000
Expected return on pension fund assets	**3,510**	2,350
Interest on pension fund liabilities	**(3,200)**	(2,300)
	310	50

7. Tax on profit on ordinary activities

	2005 £'000	2004 £'000
UK corporation tax	**1,138**	-
Foreign tax	**4,200**	3,124
Total current tax	**5,338**	3,124
Deferred tax – origination and reversal of timing differences	**912**	899
Tax on profit on ordinary activities	**6,250**	4,023

The tax for the year is lower than the UK standard rate of corporation tax of 30% (2004 30%). The differences are explained as follows:-

	2005 £'000	2004 £'000
Tax at 30% (2004 30%) on the profit on ordinary activities	**9,375**	6,044
Effects of:-		
Different tax rates applicable in overseas subsidiaries	**(2,437)**	(2,246)
Research and development tax credit	**(900)**	(900)
Companies with brought forward tax losses relieved in the year	**(752)**	(509)
Capital allowances in excess of depreciation	**(378)**	(444)
Expenses not deductible for tax purposes	**63**	90
Companies with unrelieved tax losses in the year	**145**	266
Tax relating to pension fund liability	**(150)**	(210)
Other timing differences	**372**	1,033
Current tax charge for the year	**5,338**	3,124

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

8. Dividends

	2005 £'000	2004 £'000
Interim dividend paid of 6.10p (2004 5.61p)	**4,440**	4,081
Final dividend proposed of 13.70p (2004 12.39p)	**9,972**	9,019
	14,412	13,100

9. Earnings per share

Basic and diluted earnings per share are calculated on earnings of £25,000,000 (2004 £16,123,000) and on 72,788,543 shares, being the number of shares in issue during both years.

10. Tangible assets

The Group	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1st July 2004	43,375	47,613	4,080	2,735	**97,803**
Additions	5,256	5,506	790	4,416	**15,968**
Transfers	1,774	2,854	-	(4,628)	**-**
Disposals	(65)	(539)	(942)	-	**(1,546)**
Currency adjustment	156	93	48	-	**297**
At 30th June 2005	**50,496**	**55,527**	**3,976**	**2,523**	**112,522**
Depreciation					
At 1st July 2004	6,052	30,729	2,526	-	**39,307**
Charge for the year	1,186	5,796	692	-	**7,674**
Released on disposals	(12)	(478)	(793)	-	**(1,283)**
Currency adjustment	18	55	11	-	**84**
At 30th June 2005	**7,244**	**36,102**	**2,436**	**-**	**45,782**
Net book value					
At 30th June 2005	**43,252**	**19,425**	**1,540**	**2,523**	**66,740**
At 30th June 2004	37,323	16,884	1,554	2,735	58,496

The Company	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1st July 2004	22,267	40,048	2,407	2,735	**67,457**
Additions	5,181	4,535	311	4,416	**14,443**
Transfers	1,774	2,854	-	(4,628)	**-**
Disposals	(44)	(49)	(498)	-	**(591)**
At 30th June 2005	**29,178**	**47,388**	**2,220**	**2,523**	**81,309**
Depreciation					
At 1st July 2004	4,048	25,515	1,729	-	**31,292**
Charge for the year	582	5,143	366	-	**6,091**
Released on disposals	(12)	(32)	(483)	-	**(527)**
At 30th June 2005	**4,618**	**30,626**	**1,612**	**-**	**36,856**
Net book value					
At 30th June 2005	**24,560**	**16,762**	**608**	**2,523**	**44,453**
At 30th June 2004	18,219	14,533	678	2,735	36,165

For both the Group and the Company, additions to assets in the course of construction of £4,416,000 comprise £724,000 for freehold land and buildings and £3,692,000 for plant and machinery.

11. Investments

The Company

Shares at cost in subsidiary undertakings.

Movements during the year were:-	**2005 £'000**	2004 £'000
At 1st July	**25**	25
Additions during the year following group reorganisation	**191**	-
At 30th June	**216**	25

Details of subsidiary undertakings are shown in note 22.

12. Stocks

	The Group		The Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Raw materials	**14,562**	11,086	**11,727**	8,933
Work in progress	**2,479**	1,999	**2,378**	1,933
Finished goods	**10,355**	9,203	**3,619**	3,434
	27,396	22,288	**17,724**	14,300

13. Debtors

	The Group		The Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Due within one year				
Trade debtors	**34,594**	30,298	**5,312**	4,097
Amounts owed by group undertakings	**-**	-	**62,719**	60,424
Prepayments	**2,790**	2,522	**1,712**	1,471
	37,384	32,820	**69,743**	65,992
Amounts due after more than one year				
Amounts owed by group undertakings	**-**	-	**190,275**	202,243
	37,384	32,820	**260,018**	268,235

14. Creditors

Amounts falling due within one year

	The Group		The Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Trade creditors	**9,473**	8,755	**7,913**	7,209
Amounts owed to group undertakings	**-**	-	**35,723**	29,833
Corporation tax	**2,262**	1,427	**1,865**	174
Other taxes and social security	**3,066**	2,446	**1,069**	832
Other creditors	**4,672**	4,384	**2,850**	2,418
Proposed dividend payable	**9,972**	9,019	**9,972**	9,019
	29,445	26,031	**59,392**	49,485

15. Provisions for liabilities and charges

Movements during the year were:-

	The Group			The Company		
	At 1st July 2004 £'000	Changes in the year £'000	**At 30th June 2005 £'000**	At 1st July 2004 £'000	Changes in the year £'000	**At 30th June 2005 £'000**
Deferred taxation	3,760	762	**4,522**	3,500	1,000	**4,500**
Warranty provisions	546	86	**632**	453	87	**540**
	4,306	848	**5,154**	3,953	1,087	**5,040**

Deferred taxation is represented by:-

	The Group		The Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Difference between accumulated depreciation and capital allowances	**4,416**	4,038	**3,975**	3,750
Reserves of overseas subsidiaries to be remitted	**1,486**	628	**-**	-
Other timing differences	**(1,380)**	(906)	**525**	(250)
	4,522	3,760	**4,500**	3,500
Deferred tax asset on pension schemes (note 18)	**(5,870)**	(3,440)	**(5,700)**	(3,400)
At 30th June	**(1,348)**	320	**(1,200)**	100

The movements in the deferred tax balance were:-

	The Group		The Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
At 1st July	**320**	(579)	**100**	100
Amount charged to/(released from) profit and loss account	**912**	899	**1,130**	(230)
Amount reflected through the statement of total recognised gains and losses	**(2,580)**	-	**(2,430)**	230
At 30th June	**(1,348)**	320	**(1,200)**	100

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 three years of the balance sheet date.

16. Share capital and Share premium

Share capital	2005 £'000	2004 £'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	2005 £'000	2004 £'000
Balance at 30th June	**42**	42

The middle market price of the shares at 30th June 2005 was 736.5p (2004 516p). The range during the year was 498.5p to 759.5p.

17. Profit and loss account

Movements during the year were:-

	The Group		The Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
At 1st July	**93,110**	90,626	**250,199**	13,258
Retained profit/(loss) for the year	**10,588**	3,023	**(4,801)**	236,871
Currency translation difference on foreign currency net investments	**655**	(299)	**-**	-
Actuarial (loss)/gain on pension schemes (note 18)	**(9,370)**	(240)	**(8,030)**	100
Deferred tax thereon	**2,580**	-	**2,430**	(30)
	(6,790)	(240)	**(5,600)**	70
At 30th June	**97,563**	93,110	**239,798**	250,199

The profit and loss account reserve in the Company of £239,798,000 (2004 £250,199,000) includes £190,275,000 (2004 £202,243,000) which is currently non-distributable.

The Group profit and loss account reserve includes a deficit of £14,830,000 (2004 £8,390,000) net of a deferred tax credit of £5,870,000 (2004 £3,440,000) in respect of pension fund deficits of the Group's defined benefit 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 (2004 £1,913,000).

18. 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 £4,758,000 (2004 £4,208,000), of which £252,000 (2004 £316,000) related to directors and £1,181,000 (2004 £981,000) 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 2004 and updated to 30th June 2005 by a qualified independent actuary. The major assumptions used by the actuary for the UK scheme were:-

	30th June 2005	30th June 2004	30th June 2003
Rate of increase in pensionable salaries	**3.7%**	4.0%	3.5%
Rate of increase in pension payments	**2.5%**	2.8%	2.2%
Discount rate	**5.0%**	5.8%	5.5%
Inflation rate	**2.7%**	3.0%	2.5%
Expected return on equities	**8.5%**	8.5%	8.0%
Expected return on cash	**4.0%**	4.0%	5.0%
Expected return on bonds	**4.7%**	5.4%	5.0%
Retirement age	**65**	65	65

The assets and liabilities in the schemes were:-

	The Group			The Company		
	30th June 2005 £'000	30th June 2004 £'000	30th June 2003 £'000	**30th June 2005 £'000**	30th June 2004 £'000	30th June 2003 £'000
Market value of assets:						
Equities	**52,450**	39,400	29,230	**50,050**	37,600	27,900
Bonds and cash	**1,350**	1,110	960	**650**	500	300
	53,800	40,510	30,190	**50,700**	38,100	28,200
Actuarial value of liabilities	**74,500**	52,340	42,460	**69,700**	49,500	40,300
Deficit in the scheme	**(20,700)**	(11,830)	(12,270)	**(19,000)**	(11,400)	(12,100)
Deferred tax thereon	**5,870**	3,440	3,650	**5,700**	3,400	3,630
Net pension liability	**(14,830)**	(8,390)	(8,620)	**(13,300)**	(8,000)	(8,470)

The history of experience gains and losses is:-

	Year ended 30th June 2005	Year ended 30th June 2004	Year ended 30th June 2003	Year ended 30th June 2002	Year ended 30th June 2001
Difference between the expected and actual return on scheme assets					
amount (£'000)	**4,600**	2,550	(4,110)	(7,370)	(4,100)
percentage of scheme assets	**9%**	6%	(14%)	(5%)	(14%)
Experience gains and losses on scheme liabilities					
amount (£'000)	**1,120**	-	(270)	180	(200)
percentage of present value of scheme liabilities	**2%**	-	(1%)	1%	(1%)
Total amount recognised in the consolidated statement of total recognised gains and losses					
amount (£'000)	**(9,370)**	(240)	(6,680)	(8,590)	(1,650)
percentage of present value of scheme liabilities	**(13%)**	-	(16%)	(25%)	(6%)

18. Pension schemes (continued)

The movements in the schemes' deficit were:-	The Group		The Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Deficit in schemes at 1st July	**(11,830)**	(12,270)	**(11,400)**	(12,100)
Current and past service cost (included in operating profit)	**(3,980)**	(3,350)	**(3,810)**	(3,200)
Contributions paid	**4,170**	3,980	**3,940**	3,800
Other finance income	**310**	50	**300**	30
Actuarial (loss)/gain	**(9,370)**	(240)	**(8,030)**	70
Deficit in schemes at 30th June	**(20,700)**	(11,830)	**(19,000)**	(11,400)

At the date of the latest full actuarial valuation (30th June 2004), the market value of the assets of the UK scheme was £39,349,000 (including AVCs of £1,410,000 and money purchase transfers-in of £1,266,000) and this value of the assets was sufficient to cover 65% of the benefits that had accrued to members after allowing for expected future increases in earnings.

19. 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 2005 £'000**	Net cash balance at 30th June 2004 £'000
Pounds Sterling	**66,208**	69,101
US Dollar	**(11,253)**	(11,836)
Japanese Yen	**(10,605)**	(9,296)
Euro	**(13,642)**	(14,230)
Other	**(636)**	(906)
	30,072	32,833

The carrying value approximates to fair value because of the short maturities of the deposits and borrowings, all of which are less than one year. 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 12, the Group maintains foreign currency borrowings as a method of providing hedging against the currency translation risk of the net assets of its overseas subsidiaries. The level of hedging in place at the year end for the major currencies and their relative base borrowing interest rates, were as follows:-

Currency	Net assets of subsidiary £'000	Currency borrowing £'000	Base borrowing interest rate %
US Dollar	16,182	15,140	3.2%
Japanese Yen	12,069	12,215	0.1%
Euro	17,629	17,070	2.0%

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.

19. 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 2004	-
Gains arising in previous years that were recognised in 2005	-
Gains arising in 2005 that were not recognised in the year	5,994
Unrecognised gains on hedges at 30th June 2005	5,994

Gains and losses on instruments used as hedges are not recognised in the financial statements until the hedged position matures.

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.

20. Notes to the consolidated cash flow statement

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

	2005 £'000	2004 £'000
Operating profit	**28,824**	18,053
Depreciation charges	**7,674**	6,779
Profit on sale of tangible fixed assets	**(61)**	(10)
Increase in stocks	**(5,108)**	(2,117)
Additional pension contributions in excess of service cost	**(190)**	(630)
Increase in debtors	**(4,222)**	(4,273)
Increase in creditors	**1,957**	4,243
Increase in provisions	**86**	114
Net cash inflow from operating activities	**28,960**	22,159

Analysis of net funds:-

	Net cash at bank £'000	Bank deposits £'000	Net funds £'000
At 1st July 2004	9,899	22,934	32,833
Cash flows	(870)	(2,052)	(2,922)
Currency	161	-	161
At 30th June 2005	9,190	20,882	30,072

21. Commitments

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

	The Group		The Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Authorised and committed	**3,250**	2,667	**3,011**	2,486

Group annual commitments under non-cancellable operating leases (all of which relate to land and buildings in subsidiary companies) were £618,000 (2004 £275,000), of which £381,000 (2004 £217,000) expires within one year and £237,000 (2004 £58,000) expires in the second to fifth years inclusive. The Company has no material annual commitments under non-cancellable operating leases.

22. Subsidiary undertakings

The following are the 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 Holdings Limited	Holding and investment company.
Renishaw Finance Limited*	Finance company.
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 KK (Japan)*

Renishaw GmbH (Germany)*

Renishaw S.p.A. (Italy)*

Renishaw Iberica S.A. (Spain)*

Renishaw A.G. (Switzerland)*

Renishaw (Hong Kong) Limited (Hong Kong)*

Renishaw Latino Americana Ltda. (Brazil)*

Renishaw Metrology Systems Private Limited (India)*

Renishaw Benelux BV (The Netherlands)*

Renishaw Oceania Pty Limited (Australia)*

Renishaw s.r.o. (Czech Republic)*

Renishaw Sp. z o.o. (Poland)*

OOO Renishaw (Russia)*

Renishaw AB (Sweden)*

Renishaw (Austria) GmbH (Austria)*

Renishaw (Korea) Limited (South Korea)*

Renishaw (Canada) Limited (Canada)*

Renishaw (Israel) Limited (Israel)*

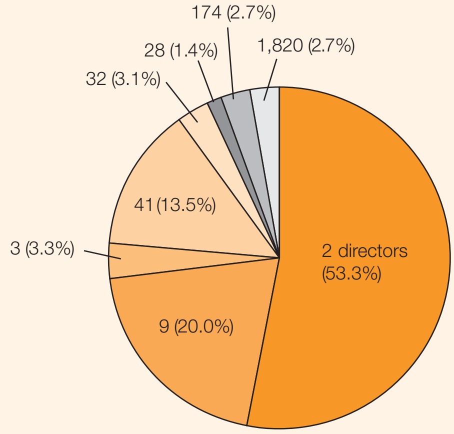
23. Related party transaction

On 27th June 2005, the Company sold two parcels of land, one of which is subject to an agricultural tenancy, to D R McMurtry. The land was valued at £80,000 by a firm of independent chartered surveyors, which was the purchase price paid by D R McMurtry. The sale includes a provision requiring payment of an additional amount if the land is disposed of within 25 years of the sale with the benefit of planning permission for a use other than agricultural use. The sale was reviewed and approved by the Board. D R McMurtry did not take part in the discussions and abstained from voting on the matter.

Number of shareholders in each shareholding range

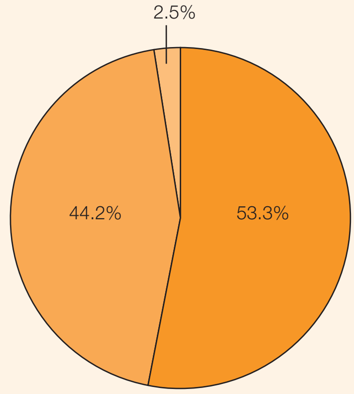
Shareholdings

- 1 – 5,000
- 5,001 – 25,000
- 25,001 – 50,000
- 50,001 – 100,000
- 100,001 – 500,000
- 500,001 – 1,000,000
- 1,000,001 – 3,000,000
- more than 3,000,000



Categories of shareholders

- Directors
- Institutions
- Individuals



The above information was compiled from the register as at 5th July 2005.

FINANCIAL CALENDAR

Annual general meeting

14th October 2005

Dividends

Final dividend

Payment date	17th October 2005
Record date	16th September 2005
Ex-div date	14th September 2005

Interim dividend (provisional)

Payment date	10th April 2006
Record date	10th March 2006
Ex-div date	8th March 2006

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.

NOTICE IS HEREBY GIVEN that the 32nd annual general meeting of the Company will be held at New Mills, Wotton-under-Edge, Gloucestershire, GL12 8JR on Friday 14th October 2005 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 2005.

2. To declare a final dividend.

3. To re-elect as a director of the Company D R McMurtry, who is retiring by rotation.

4. To re-elect as a director of the Company D J Deer, who is retiring by rotation.

5. To approve the Directors' remuneration report contained in the Annual report 2005.

6. To re-appoint KPMG Audit Plc as auditor of the Company and to authorise the directors to determine their remuneration.

7. 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 2006 and 31st December 2006 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.

8. To consider as special business and, if thought fit, to pass the following resolution, which will be proposed as a special resolution:-

   THAT the articles of association be hereby amended by the deletion of article 82.2.

By order of the Board	New Mills
A C G Roberts FCA	Wotton-under-Edge
Secretary	Gloucestershire
	GL12 8JR

19th August 2005

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 12th October 2005 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 12th October 2005 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.

Results

	2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000	** 2000 £'000	1999 £'000	1998 £'000	1997 £'000	1996 £'000
Overseas sales	**143,734**	118,881	100,969	94,769	113,133	94,106	85,958	82,684	72,063	69,633
UK and Ireland sales	**10,361**	8,820	9,671	9,721	12,215	11,488	10,361	9,665	9,338	7,444
Total sales	**154,095**	127,701	110,640	104,490	125,348	105,594	96,319	92,349	81,401	77,077
Operating profit	**28,824**	18,053	15,644	13,448	27,943	25,677	23,339	20,859	14,247	17,636
Profit on ordinary activities before tax	**31,250**	20,146	17,799	16,062	30,795	28,261	25,829	22,380	18,034	20,115
Taxation	**6,250**	4,023	3,454	880	6,082	7,065	6,716	6,280	4,653	4,207
Profit for the financial year	**25,000**	16,123	14,345	15,182	24,713	21,196	19,113	16,100	13,381	15,908
Dividends	**14,412**	13,100	12,156	11,573	11,020	9,572	8,184	7,242	6,292	5,242
Retained profit for the year	**10,588**	3,023	2,189	3,609	13,693	11,624	10,929	8,858	7,089	10,666

Capital employed

	2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000	1998 £'000	1997 £'000	1996 £'000
Share capital	**14,558**	14,558	14,558	14,558	14,558	14,558	14,558	14,557	14,548	12,123
Share premium	**42**	42	42	42	42	42	42	40	4	66
Revenue reserves	**97,563**	93,110	90,626	93,085	94,722	82,498	70,443	59,712	52,797	52,044
Shareholders' funds	**112,163**	107,710	105,226	107,685	109,322	97,098	85,043	74,309	67,349	64,233
Deferred taxation	**4,522**	3,760	3,071	2,548	2,380	4,175	3,775	3,110	3,003	2,209
Capital employed	**116,685**	111,470	108,297	110,233	111,702	101,273	88,818	77,419	70,352	66,442

Statistics

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Overseas sales as a percentage of total sales	**93.3%**	93.1%	91.3%	90.7%	90.3%	89.1%	89.2%	89.5%	88.5%	90.3%
Basic earnings per share *	**34.3p**	22.1p	19.7p	20.9p	34.0p	29.1p	26.3p	22.1p	18.4p	21.9p
Dividend per share *	**19.80p**	18.00p	16.70p	15.90p	15.14p	13.16p	11.44p	9.95p	8.65p	7.21p

* Figures for 1996 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 1996 to 1999 have not been restated.

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