RENISHAW
apply innovation™

the need for speed

Annual report **2007**

CONTENTS

Company secretary and registered office
A C G Roberts, FCA
New Mills, Wotton-under-Edge
Gloucestershire GL12 8JR
Registered number: 1106260
Telephone: +44 (0) 1453 524524
Facsimile: +44 (0) 1453 524401
email: uk@renishaw.com
Internet: www.renishaw.com

Registrars and transfer office
Lloyds TSB Registrars
The Causeway, Worthing
West Sussex BN99 6DA
Telephone: 0870 6003970 (UK)
+44 121 4157047 (overseas)

Auditors
KPMG Audit Plc

Solicitors
Norton Rose

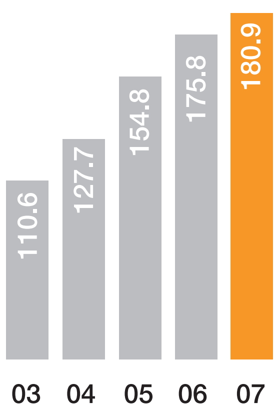
Stockbrokers
UBS

Principal bankers
Lloyds TSB

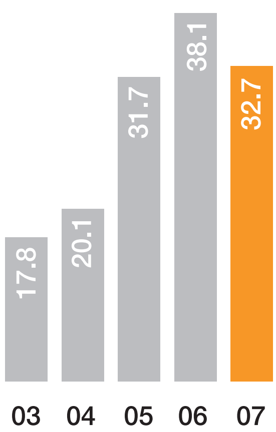
	2007 £'000	2006 £'000	change
Revenue	**180,883**	175,835	+3%
Operating profit excluding exceptional item	**29,729**	35,468	-16%
Profit before taxation excluding exceptional item	**32,672**	38,102	-14%
Adjusted earnings per share	**35.9p**	41.9p	-14%
Proposed dividend per share	**22.87p**	21.78p	+5%

The exceptional item comprises the pension curtailment credit of £19,460,000. The results above exclude this exceptional item.

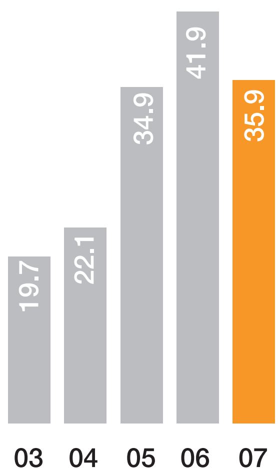
Revenue
£ million



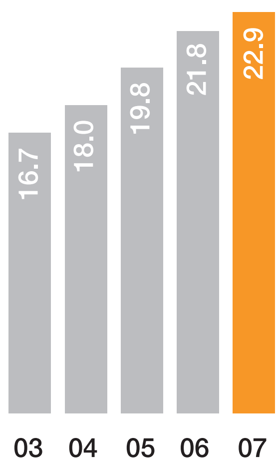
Profit before tax before exceptional
£ million



Adjusted earnings per share
Pence



Proposed dividend per share
Pence



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

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

Chairman and Chief Executive, age 67, 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 Filton in Bristol. After inventing the original probe in the early 1970s, Sir David founded Renishaw in 1973 with John Deer. 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 69, 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 the 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, CEng, FIMechE

Assistant Chief Executive, age 58, has been involved in the field of metrology all his working life, after graduating in mechanical engineering and design from Pennsylvania State University. Before joining Renishaw Inc as President in 1985, he was the Director of Engineering at Sheffield Measurement, USA. Ben was appointed to the Board of Renishaw plc in 1987 and is responsible for group marketing, international operations and human resources. He serves on various metrology committees and other professional associations and is a Chartered Engineer, a fellow of the Institute of Mechanical Engineers and a Liveryman of The Worshipful Company of Scientific Instrument Makers.

Allen Roberts, FCA

Group Finance Director, age 58, 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 Ltd and is the Company Secretary.

Geoff McFarland

Group Engineering Director, age 39, graduated with a BEng in computer aided mechanical engineering at Heriot-Watt University, where he subsequently worked for several years as a research associate. After working briefly in the high-volume manufacturing electronic sector, Geoff joined Renishaw's research and development facility in Edinburgh in 1994, before moving to Renishaw's headquarters to become Director and General Manager of the CMM Products Division. Geoff was appointed to the Board in July 2002. He heads the group engineering function and is also responsible for group patents. Geoff is a non-executive director of Delcam plc.

the board

Joe McGeehan, CBE, FIEE, FREng

the senior independent non-executive director, age 61, is Managing Director of Toshiba Research Ltd: Telecommunications Research Laboratory, Bristol. After obtaining the degrees of BEng and PhD in electrical and electronic engineering from the University of Liverpool, he spent several years involved in industrial research before entering academia. Since 1985, he has held a number of senior positions at the University of Bristol. In 2003 he was awarded the degree of DEng by the University of Liverpool for his major contribution to mobile communications research, much of which has formed the basis of international standards. He is a Fellow of the Institution of Electrical Engineers and a Fellow of the Royal Academy of Engineering. Joe was appointed as a director in January 2001.

Terry Garthwaite, FCA

non-executive director, age 60, is a chartered accountant, who after qualifying, joined Price Waterhouse in London. He held a number of senior finance positions within Foseco plc including Director of Corporate Finance, prior to spending eleven years as Group Finance Director at the multinational engineering group Senior plc. He is a non-executive director of Brammer plc and Wilmington Group plc. Terry was appointed a director of Renishaw plc on 1st July 2003 and is chairman of the Audit committee.

David Snowden, FCA

non-executive director, age 70, 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 (Chairman)
Joe McGeehan
David Snowden

Remuneration and nomination committee:

David Snowden (Chairman)
Terry Garthwaite
Joe McGeehan

01: XL-80 high-speed compact laser calibration system for analysis of high-speed systems and small, high frequency movements, with maximum linear speed of 4 m/s and 1 nm resolution

02: Sir David McMurtry, Chairman and Chief Executive

01

I report the Company's results for the year ended 30th June 2007.

Revenue and trading

Revenue for the year increased by 3% to £180.9m (2006 £175.8m) which represents growth of 8% at constant exchange rates.

With the exception of co-ordinate measuring machine (CMM) products, where one of our major customers in Japan has been subject to an export ban, there was growth in all product line revenue – in particular, machine tool and dental. Geographically, there was substantial growth in Europe.

Profit

Operating profit for the year, excluding an exceptional non-cash pension curtailment credit, reduced to £29.7m (2006 £35.5m), due to a number of factors, particularly exchange rate movements, primarily the US Dollar and Japanese Yen (with an adverse profit effect of £7m) and difficulties in the CMM market. Profit before tax and exceptional item was £32.7m (2006 £38.1m), resulting in earnings per share of 35.9p (2006 41.9p).

Sales and marketing

The Group's worldwide marketing programmes continue, with the many new offices growing and prospering as they have become fully established, particularly in the Far East, including China and India.

The Group participates worldwide in excess of 100 exhibitions annually which contribute significantly to the recognition of the Group's products and to sales.

Manufacturing

The Group's UK manufacturing facilities at Stonehouse, Woodchester (including the new automated stores), New Mills and also in Ireland have continued to invest in additional equipment to improve efficiencies and are preparing for the introduction of a new manufacturing Enterprise Resource Planning (ERP) business system. At Pune in India, the production facilities are now fully operational and the range of products being manufactured there is being extended.

Research and development

Research and development during the year amounted to £31.1m including associated engineering costs (2006 £29.3m) prior to the capitalisation of development costs (net of amortisation) of £1.6m (2006 £1.8m) giving a net profit and loss charge of £29.5m (2006 £27.5m).

REVO™ is now in production and is being extensively tested and integrated by OEMs and major end user customers worldwide. Several REVOs are being used in their production and are delivering significant improvements for them in throughput and productivity.

A number of new products have been introduced during the year. In addition to those referred to in the interim statement, recent products include the XL-80 laser and XC-80 compensator, which provide significant improvements to the product offerings in the laser and calibration market. The TRS2 tool recognition system has been introduced, which provides rapid broken tool detection on a wide range of machine tools. Our spectroscopy product line has recently introduced StreamLine™ technology, which enables very fast production of Raman chemical images.

Investments

During the year, the Group acquired, for £6.1m, a 20% interest in Delcam plc, which specialises in advanced CAD/CAM software product development solutions for the manufacturing industry. Delcam is listed on the London Stock Exchange's AIM market. Renishaw and Delcam have worked together for many years and share common metrology interests and customers. Renishaw believes that closer cooperation with Delcam will enhance the sales of both companies and will provide opportunities for developing software to support Renishaw's products.

03: StreamLine™ high-speed imaging technology is available as an option for Renishaw inVia Raman microscopes

04: Sir David McMurtry receives the Queen's Award for Enterprise: Innovation 2007 commemorative rose bowl from Henry Elwes - Her Majesty The Queen's Lord Lieutenant of Gloucestershire

05: TRS2 tool recognition system, for cost effective, high-speed broken tool detection on a wide range of machine tools and tool types

03

04

Since the year end, Renishaw has acquired a 75% interest in D3 Technologies Limited ("D3"), a company set up in collaboration with the University of Strathclyde and others to exploit certain patents related to Surface Enhanced Raman Spectroscopy ("SERS") and to develop SERS for molecular diagnostics and trace detection. The investment in D3 will comprise cash of £1.85m and the supply of instrumentation, with a combined value of approximately £5m over the next 5 years.

Part of the D3 investment has been used to purchase for £850,000 the business and assets of the analytical business unit ("ABU") operated by Mesophotonics Limited, a spin-out company from the University of Southampton. The ABU develops and manufactures substrates used in SERS applications.

Balance sheet

Capital expenditure during the year on tangible fixed assets was £9.7m (2006 £13.2m). Net cash balances, after the capital expenditure during the year, the investment in Delcam plc and increase in working capital, were £20.8m (2006 £30.7m).

Pension fund

Following the announcement with the interim results and completion of the consultation process with fund members, future accrual for current members of the UK pension scheme ceased on 5th April 2007. A new defined contribution pension scheme was established on 6th April 2007. As a result of the changes, an exceptional non-cash curtailment credit of £19.5m has been incorporated in the Consolidated income statement as required by IAS 19.

The Queen's Award for Enterprise 2007

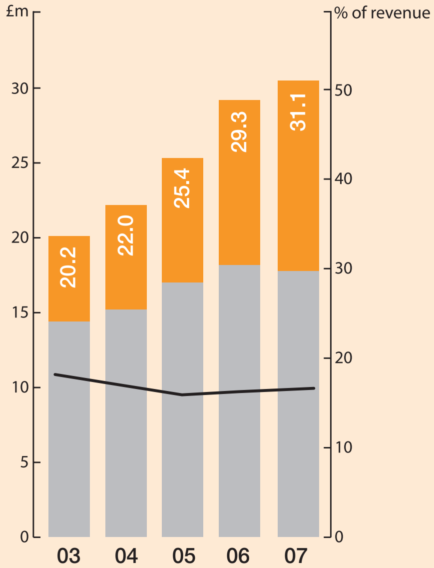
On 21st April 2007, the birthday of Her Majesty the Queen, it was announced that Renishaw had been honoured with a Queen's Award for Enterprise: Innovation 2007 for the RMP60 and RMI probe system. This is the 12th Queen's Award in the Company's history.

The award was made to the Company for the development of a radio transmission spindle probe system used on computer numerically controlled (CNC) machine tools. The systems are able to measure work pieces, provide off-set fixtures, control in-cycle processes and inspect work being machined automatically.

05

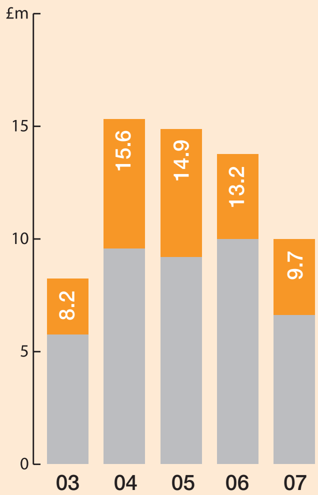
Engineering costs
£ million

Other
Research and development
— % of revenue



Capital expenditure
£ million

Land and buildings
Plant and vehicles



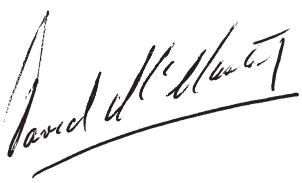
Personnel

The numbers of those employed by the Group in the UK and overseas increased by 150 to 2,154 (2006 2,004). I thank all our employees for their contribution to the Group during this challenging year.

Prospects and dividend

For the purposes of budgeting for the financial year, we are not expecting to see any benefit from an improvement in foreign exchange rates. Nevertheless, if current rates of order intake continue we would expect to see sales growth approaching double digits, assisted by the anticipated recommencement of business in the second half of the current financial year with our Japanese customer whose export activities have been restricted in the past year. In view of last year's trading performance we are also taking steps to address the cost base of the Group, with the objective of restoring our operating margin to its previous level. I am optimistic about the prospects for continuing long-term growth.

Your Board proposes a final dividend of 15.82p per share giving a total for the year of 22.87p (2006 21.78p).



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

25th July 2007

01: Sandra Kiriasis and her brakeman, Romy Logsch, speeding their way towards the gold medal at the FIBT Women's Bobsleigh World Championship by a margin of over two seconds

02: The REVO™ five-axis measuring head, capable of high-accuracy inspection at scanning speeds of up to 500 mm/s

03: Renishaw's revolutionary REVO™ five-axis measuring head was used to scan the original blades, quickly capturing many thousands of data points to enable the form to be defined in great detail

04: The OMP400 strain gauge touch probe performing on-machine measurement following machining

05: Sandra Kiriasis

01

bladerunner

What does it take to become a World and Olympic bobsleigh champion? Dedication, a gruelling training programme and nerves of steel. You also need technology – specifically, blades created using Renishaw technology.

02

03

04

05

Team Kiriasis found itself under huge pressure following the FIBT's (International Federation of Bobsleigh and Tobogganing) ruling in October 2006, which standardised the material used in the manufacture of bobsleigh blades for the following season.

With no electronic data available for her trusted hand-made blades, reigning Olympic women's two-man bobsleigh champion, Sandra Kiriasis had to act quickly. She appealed to industry for help and leading metrology company Renishaw rose to the challenge.

With partners Siemens, Sescoi and Iscar, Renishaw came up with a 'reverse engineering' solution which not only saw off fierce industry competition but helped Kiriasis and her brakeman, Romy Logsch, leave competitors in their wake as they sped to a record-breaking season.

The existing blades were sent to Renishaw's UK research facility, where its revolutionary REVO™ five-axis measuring head captured detailed data. Using the data, Sescoi developed a CAD/CAM program for a Siemens Sinumerik controller.

These blades were then fitted to a milling machine at tooling manufacturer Iscar's factory, before the finished blades were returned to Renishaw and checked for form by its ultra-fast and highly accurate OMP400 touch probe. All in perfect time for pre-season training.

Following her domination of both the World Cup and World Championship, an ecstatic Kiriasis acknowledged the contribution made by the new blades, telling the world's media, "the fact that we were using perfect blades is a core factor in our success".

On the back of this success, Team Kiriasis has signed a one-year technical support package with Renishaw. Managing Director of Renishaw GmbH, Rainer Lotz said, "through our success in international motor sport, we're all too aware of the small margins between success and failure. We're delighted to be playing a key role in the continued success of Sandra and Team Kiriasis".

01: RM22 non-contact, compact, high-speed rotary magnetic encoder
02: The RM22 encoder being fitted on a clutch shaft
03: Petri Mäkinen, Salakazi engineer, who has integrated the Renishaw encoders into the KTM dragster

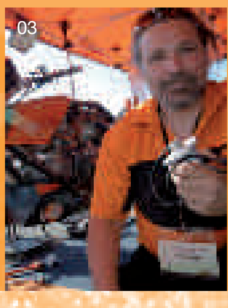
04: The KTM dragster, built by Salakazi Racing, completes the quarter mile in 6.7 seconds
05: NC4, a fast, non-contact tool setting and tool breakage detection system
06: Fulvio Abbondi, Manufacturing Technology Specialist at Ducati Motor

07: Desmodromic camshaft
08: The Ducati 1098
09: NC4 system

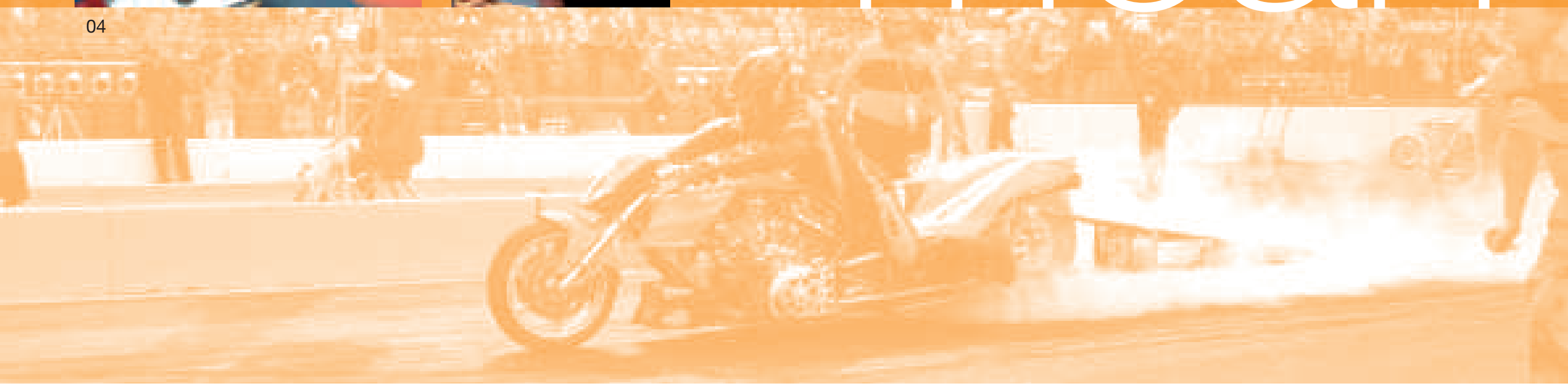
01

From a fearless flying Finn on a souped-up rocket to the most desirable road machines on the planet, Renishaw Group technology is essential for innovation on two wheels.


02


03

mean

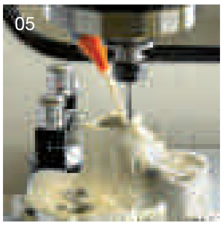

04

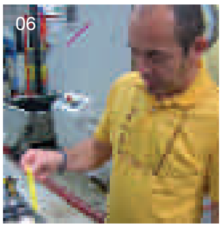
Not many people would even consider sitting astride a snarling 300 kg, 1500 horsepower engine travelling at over 300 km per hour. But Jaska Salakazi from Finland has made a very successful career of it, becoming the first person in the world to break the magical seven-second barrier over a quarter of a mile on a Super Twin Top Fuel bike. So what gives him the confidence to take the bike to its limits, whatever the conditions?

Since 2000, the speed-obsessed six-man team at Salakazi Racing has continually designed, built and refined its KTM Super twin powered Dragster. The latest modification is the addition of two RM22 compact high-speed rotary magnetic encoders, produced by RLS d.o.o., Renishaw's Slovenian partner company. These measure clutch speed and monitor the position of the engine's crankshaft, helping to take the bike to unsurpassed speeds. Within a split second the 1995 cc engine screams to 7,500 rpm.

Clutch slippage, traction and road conditions can all be precisely determined by comparing values from the encoders, providing the team's technicians with the vital data to pre-program the bike and make final adjustments to the first stage counterweights before the race begins. Where milliseconds are crucial, the encoders enable the team to optimise clutch engagement and maximise speed and acceleration on the spot.

The team's technology guru, Petri Mäkinen, is quick to recognise the importance of the Renishaw encoders. "We need to read the clutch speed even before the rear tyre has completed its first full rotation. The data they provide us with beforehand is critically important – we couldn't obtain it or preset the clutch any other way. They've been such a success that during the next two years we'll also use the encoders to control the ignition advance and adjust the cams".


05


06


07


08

machines

While a nitro-fuelled dragster undoubtedly has the edge when it comes to raw power, the combined speed and finesse of the Ducati is unsurpassed – considered by many who know about these things to be the biker's dream. Years of proven design, engineering and testing have gone into the development of the bikes since the company first used its unique and elaborate Desmodromic engines in 1972.

At its factory in Bologna, Italy, two Stama machining centres work continually throughout the year to produce the Desmodromic camshaft for all the different Ducati engines. As this is the most critical stage of the process, maintaining precision throughout and avoiding tool breakages and wear is vital. That's why the company has turned to Renishaw and its innovative NC4 non-contact, laser tool setting and tool breakage detection system.

A broken or worn tool at this stage of the production process would have serious consequences for the company – scrap, expensive re-machining and wasted time. There could also be serious damage to the machine spindle, which, added to the cost of specialist tools, would add up to €'000s. With an NC4 fitted to both machine tools a single operator can manage both machines simultaneously. If any potential problems arise, the Renishaw system will trigger an alarm and alert the operator.

Fulvio Abbondi, Manufacturing Technology Specialist at Ducati Motor, explains. "A broken tool or a chipped cutting edge during production could potentially cost the company a great deal, so it's essential that we can check throughout the process. While breakages escape the attention of most detection systems, the NC4 systems have enabled us to ensure consistency and precision at all times – vital if the engine is to operate properly".


09

01: Linear measurement using the XL-80 high-speed, compact high-accuracy laser calibration system

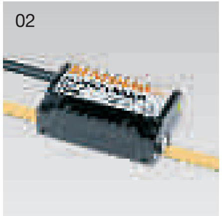
02: RGH22 encoder system – open, non-contact readhead and unique flexible tapescale

03: XL-80 laser calibration system

04: Dr. Will Eve, Technical Director, Inca Digital Printers Ltd

05: Inca's Spyder 320 digital press

02



03

01

speed+

William Caxton could never have imagined it. More than 500 years after England's printing pioneer produced the country's first books, we live in a world obsessed with the printed image, where product packaging, billboards, shop window displays, bus shelters and almost every available product and public space is taken up with a high-resolution visual image or photograph. Such is our insatiable appetite for fresh visual stimulation that the people and the companies who produce these images need printers that are built both for speed and, if they want to stop us in our tracks, for high-quality.

Inca Digital Printers Ltd develops and manufactures digital flatbed inkjet printers aimed at companies wanting to respond efficiently to market needs for short-run prints, particularly high-quality, full-colour images produced on a variety of rigid or flexible substrates.

"Today's printing companies want a combination of speed, quality and repeatability," says Inca's Director of Technology, Dr. Will Eve. "They also want print at large sizes, which makes the other three more difficult to attain. To help us achieve all four, we use Renishaw position encoders and check all of our printers with a Renishaw XL-80 laser." Building on the success of the ML10 laser system, the new compact XL-80 has greatly improved dynamic measurement performance, including a maximum linear measurement speed of 4 m/s.

"We use the XL-80 for both static and dynamic measurements," says Dr. Eve. "When we're building our machines, we take measurements along the length of the main rails – some of them up to 11.5 m – to make sure the chassis is aligned when it arrives from the fabricator. Then, when the machine is built, powered up and tested, we use the Renishaw XL-80 to measure the accuracy of the moving machine. We couldn't use our previous ML10 laser at the machine's full speed because the table moves too quickly. Any positional anomalies we discover are saved in a file in the control system, which uses the values as the basis for its dynamic compensation." Even the tiniest misalignment in the machine's chassis can be amplified, which would cause banding and other registration errors to show up in the image.

04

Like other technologies, it’s taken for granted. But, modern printing is a miracle of engineering precision, where producing a beautiful print is almost as complex as building a beautiful car. Thanks to Renishaw position encoders and laser measurement technology, one company’s large-scale printers are considered the safe bet for consistency, reliability and stunning images.

repeatability

Amongst other things, the new XL-80 was conceived with portability in mind. “The fact that the whole system fits into a relatively small case, which one man can carry comfortably, is a great attribute. Especially as, from time to time, we also take the laser on site to recalibrate a customer’s machine,” adds Dr. Eve.

Inca Digital printers can be relied upon for their incredible accuracy and repeatability, thanks in large part to the company’s use of Renishaw’s position encoders, which have an established reputation for being easy to install and set up. “We use Renishaw linear encoders on our Spyder machines to provide a more precise and faster motion platform with zero mechanical error,” says Inca’s Control Team Leader, Wei Chan.

“Renishaw’s optical encoders are very easy to use thanks to their set-up LEDs,” says Wei Chan. “There’s no need for complex equipment,” he says, “the drive performance and the 1 µm (micrometre) resolution allow very reliable control of the position and velocity servo loop, even at low speeds. There’s also minimum interpolation error because of the short 20 µm signal pitch.”

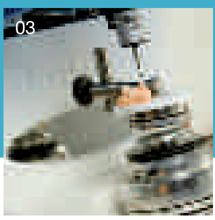
All of which adds up to a beautiful, pin-sharp image, time after time.

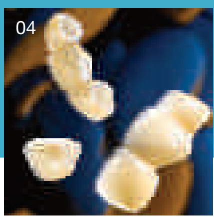
05

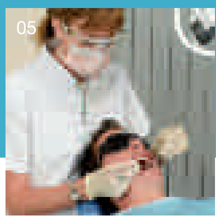
01: incise™ scanning machine
02: Dentist and patient consultation
03: Scanning a stone model
04: Zirconia frameworks
05: Final fitting of restoration
06: StreamLine™ technology available as an option for Renishaw inVia Raman microscopes
07: StreamLine™ image of section of a pharmaceutical tablet (size 18 mm x 7 mm), acquired in 30 minutes
08: Renishaw inVia Raman microscopes in production
09: inVia Reflex Raman microscope


01

incise™ means less chair time for patients and more throughput and profit for the dentist.


03


04


05

02

Perhaps a name more familiar in engineering circles, Renishaw is making a name for itself in a diverse range of other areas. What could one of the world's leading metrology companies possibly offer dentists and dental laboratories?

With the enormous advance in aesthetic and implant dentistry, there has never been a more exciting time to be a dentist – or someone needing a crown or bridge. More and more people now think of beautiful fully-functioning teeth as much in terms of fashion as health. If they're to feel as great as they look, then accuracy is critical.

Combining Renishaw's renowned measurement and manufacturing technology with pioneering research into clinical and laboratory processes, a revolutionary dental system, incise™, uses precision measuring at every stage of the process – from first impression to final fitting – to enable dental teams to manufacture ceramic restorations which also provide greater strength and longevity.

incise™ uses CAD/CAM technology and contact scanning to provide a unique scientifically-validated process through which the dentist and dental laboratory can be confident the stone model accurately represents the actual clinical situation. It also gives them the freedom to work with hard, strong, biocompatible materials, such as zirconia, which allow for thinner copings and connectors and therefore reduced micro leakages, more conservative tooth preparation and superb aesthetic qualities.

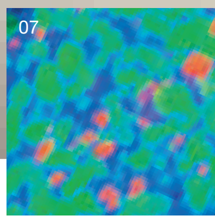
An impression is sent to the laboratory to be prepared using a recommended stone material which is then scanned using an incise™ scanning machine. The results are sent to Renishaw where a zirconia framework is manufactured before being sent to the laboratory for porcelain build-up and characterisation. Finally, the new crown or bridge is returned to the dentist for fitting.

This 'right first time, every time' solution means there is no need for time-consuming and costly re-working, so the patient spends less time in the chair and the dentist has more time to see other clients – smiles all round!

Renishaw's breakthrough imaging technology allows Raman chemical imaging to be performed at incredible speeds. What once took hours now takes a matter of minutes.

06

makers


07


08

Compared to competing spectroscopic techniques, Raman offers a compelling range of capabilities, requiring no sample preparation and offering superior chemical specificity, combined with excellent spatial resolution. However, the speed at which chemical images can be acquired has been orders of magnitude slower than alternative imaging techniques. The speed advantage enabled by StreamLine™ will elevate Raman to become the technique of choice in a wide range of new and existing applications.

Chemical imaging allows the composition and distribution of chemical species to be mapped and characterised. In the pharmaceutical industry, where previously, slow mapping speeds meant that only small portions of a tablet were imaged, StreamLine™ imaging can be used to determine component type and distribution for a complete tablet. In bio-medical applications, StreamLine™ facilitates the imaging of complete biopsies, allowing the diagnosis of cancers and its precursors in unparalleled detail and at incredible speed.

When laser light hits certain materials, a tiny fraction of the light is shifted in frequency. This is known as the Raman effect. Analysis of the frequency shifts (spectrum) reveals the characteristic vibration frequencies of the atoms and hence the chemical composition and structure of the material on a scale as small as one micrometre.

The inVia Raman microscope has become established as the benchmark for research grade micro-Raman systems. Its market-leading flexibility has been further enhanced by the addition of StreamLine™ imaging capabilities, permitting rapid Raman analysis on micro and macro scales in all fields of application.

09

01: Deep Brain Stimulation electrode introducer kit

02: Professor Gill with Registrar performing Deep Brain Stimulation procedure, courtesy of NHS, North Bristol Trust

03: Illustration of drug delivery within the central nervous system

04: Dual chamber MRI phantom

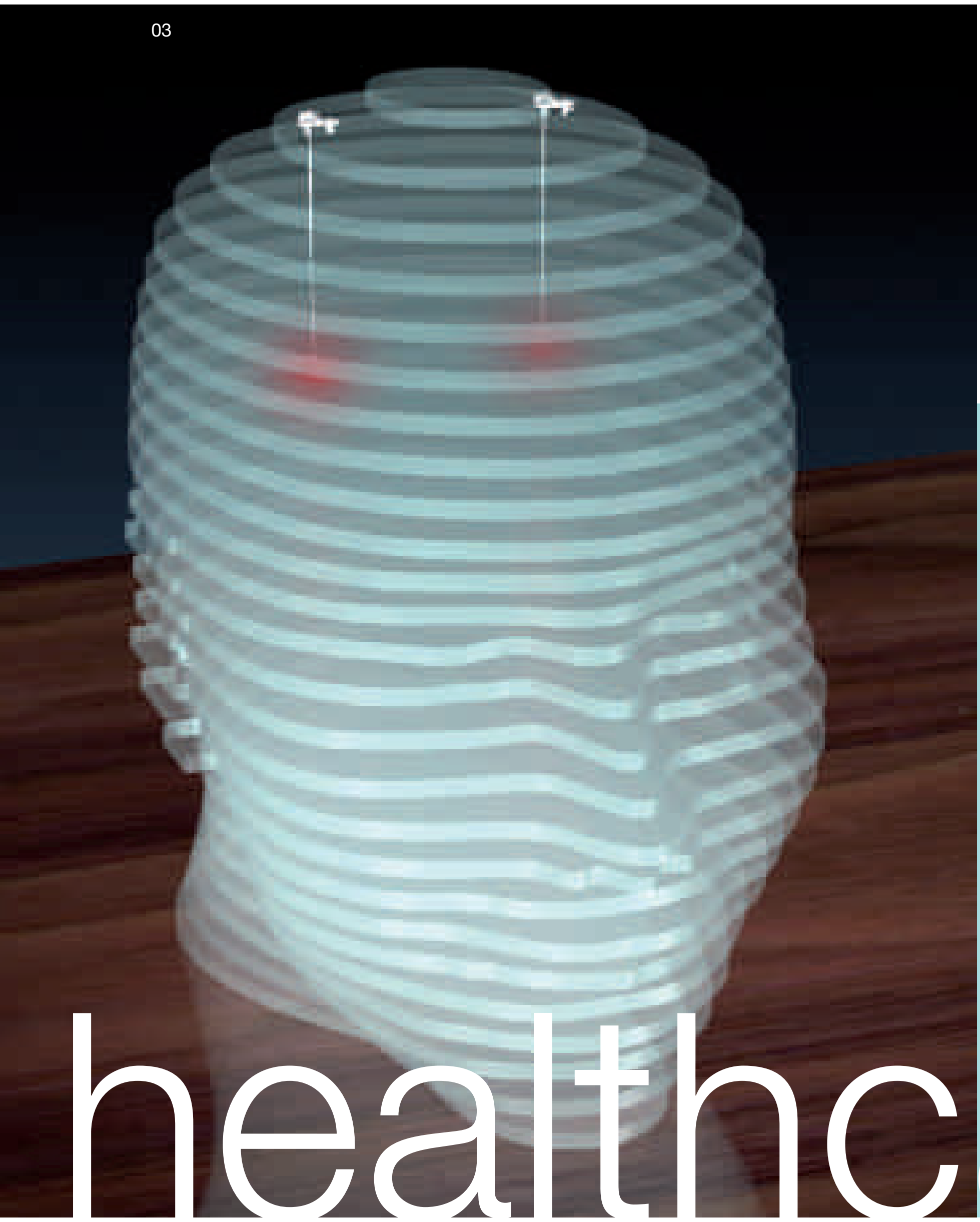
05: Radio frequency coil used for investigation of obesity by carbon spectroscopy of the leg

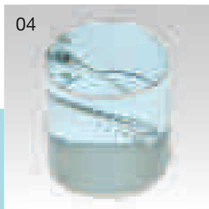
01

A growing and ageing population is placing unprecedented demand on healthcare resources across the world. Renishaw and PulseTeq are developing devices that will allow surgeons, radiologists and scientists involved in drug development to deliver improved therapy to their patients.

precise

02





healthcare

Developments in medical imaging technologies and understanding how the brain works is leading to the development of therapies that provide high levels of symptomatic control or potential cures for neurodegenerative disease and brain cancers.

Renishaw is developing neurological products that aim to improve surgical accuracy in the implantation of therapeutic delivery devices and precise, controlled infusion of newly-developed drugs.

If successful, these devices and systems will revolutionise co-ordinate positioning within the central nervous system and allow the delivery of cutting-edge therapeutics for the treatment of conditions such as Parkinson's disease and brain tumours such as malignant glioma.

Over the coming months, Renishaw will grow the sales of its Deep Brain Stimulation electrode introducer kits and proceed with the development of advanced micro-fluidic devices, surgical planning software and stereotactic systems prior to moving on to clinical trials.

Medical imaging has become one of the cornerstones of drug development, clinical diagnosis and surgical planning. Renishaw's partner company, PulseTeq, which designs and manufactures radio frequency coils, electronics and other Magnetic Resonance Imaging (MRI) scanner enhancements, has been working closely with Renishaw and leading UK academic institutions. PulseTeq is focussing on the development of techniques and technologies using traditional and non-traditional MRI elements such as hydrogen, carbon 13 and sodium. These products will allow information to be collected which can be used by scientists seeking to understand the causes and progression of disease and by clinicians in the planning of treatment and surgery.

01: EOS P385 'rapid prototyping' laser sintering system has the capability for low-volume production

02: Close-up of the print head from an Objet 3-Dimensional printing system for the rapid production of working parts for evaluation

03: OTS, Renishaw's first tool setting probe with optical signal transmission undergoing a visual check. The OTS system is one of the first products to be produced using the "nursery cell" assembly philosophy

04: RAMTIC (Renishaw's Automated Milling, Turning and Inspection Centre) production line at the Stonehouse facility

05: Hänel LeanLift systems installed in the warehouse at Woodchester

06: The OTS tool setting and broken tool detection system for vertical machining centres

Renishaw continues to focus on reducing lead-times to market, from the faster evaluation of product concepts, through to the first supply of fully functioning products to customers.

To create a concurrent engineering environment, Renishaw's Rapid Manufacturing Centre (RMC), Development Machine Shop and pre-production assembly facilities are located next to each other at the New Mills site and also in close proximity to Renishaw's design teams.

Investments have continued in rapid prototyping facilities to enable the faster testing of concept components. Within the RMC, the purchase of an EOS P385 'rapid prototyping' (RP) machine has added laser sintering facilities and capability for low-volume production, ranging from fixture parts to components for final products.

The EOS machine gives the flexibility and versatility required for a variety of tasks which encourages designers to take full advantage of the geometries which can be produced using its sintering techniques.

The Development Machine Shop (DMS) provides three key services to Renishaw:

- engineering of machined components for new products;
- manufacture of tooling for all development, assembly, machining and test operations; and
- development of new manufacturing processes and technologies to bring step-change improvements to productivity.

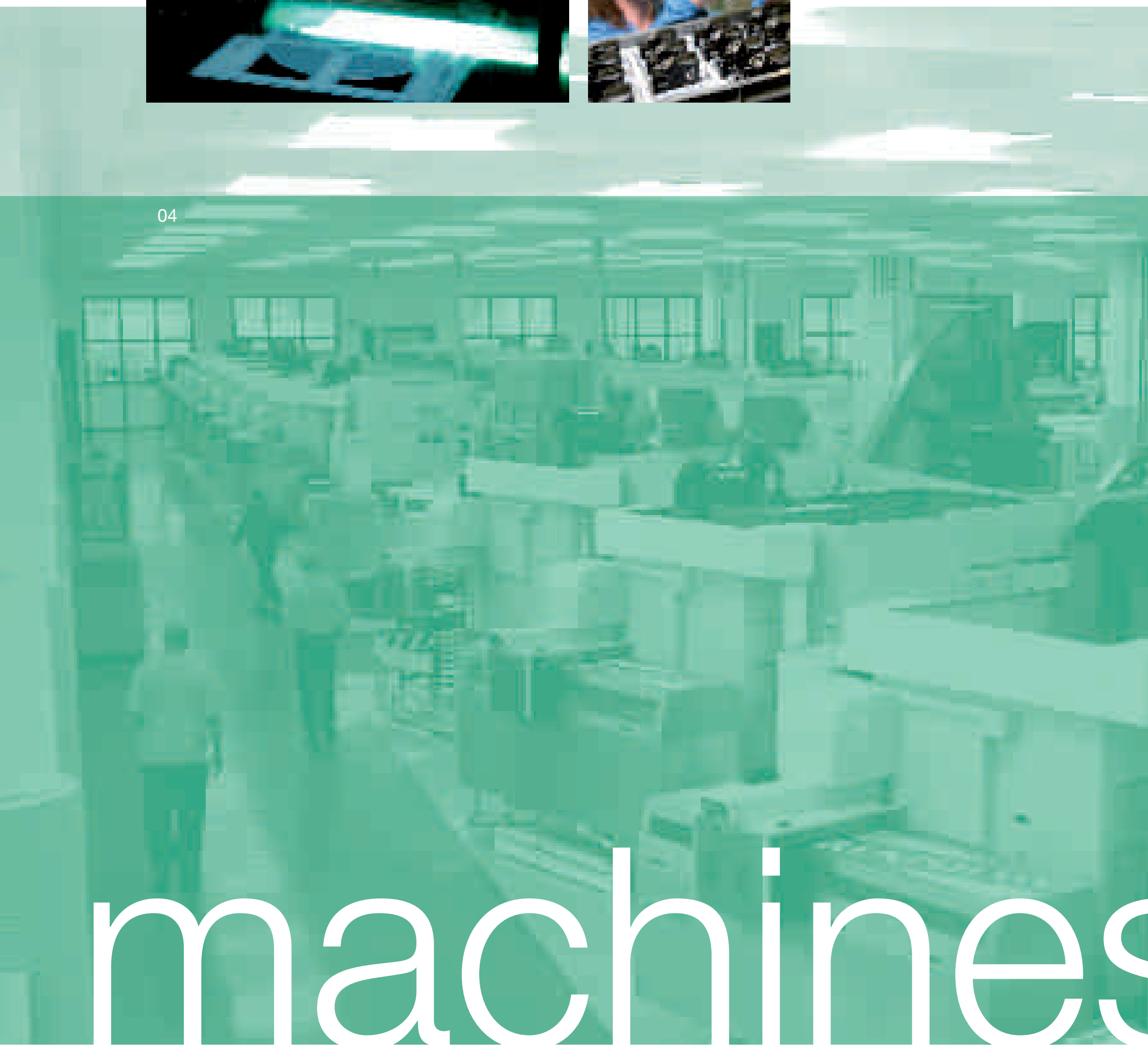
All new components are produced on machine tools identical to those at Stonehouse, ensuring that hand-over from development to full production is achieved without any loss to productivity or quality.

The pre-production assembly area follows the same philosophy as the DMS, mirroring on a smaller scale, the assembly processes in place at Renishaw's main assembly operation at Woodchester. These include surface mount machinery, automated test equipment and mechanical assembly 'nursery cells', where products are assembled in low volumes prior to transfer to 'full-scale' production.

To speed up despatching processes, seven Hänel LeanLift automated storage and retrieval systems have been installed within Renishaw's finished goods warehouse. These have reduced picking and put-away times and improved stocking accuracy. With each unit standing at 8.5 metres, the systems also maximise floor space utilisation and will allow for long-term growth within the existing facility.

02

03



04

05

machines

Innovative design, rapid prototyping and sophisticated manufacturing gets products to the market quickly so customers can take full advantage of the time and cost savings that Renishaw technology brings.

06

The Financial review has been prepared for the purpose of assisting members of the Company to assess the strategies adopted by the Company and the potential for those strategies to succeed and no-one, including members of the Company, may rely on it for any other purpose. The directors owe their duties only to members of the Company as a whole and they undertake no duty of care to individual members, other stakeholders or potential investors.

This review has been prepared on the basis of the knowledge and information available to the directors at that time. Given the nature of some forward-looking information, which has been given in good faith, members should treat this information with due caution.

Business outline

Renishaw's business is metrology, the science of measurement. The Group manufactures a comprehensive range of high-precision 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 new Renscan5™ 5-axis scanning technology, manufacturers can inspect complex components at unprecedented speed without compromising measurement accuracy.
- Machine tool probes and tool setting systems, used for automated component identification, workpiece and tool setting and component 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 calibration systems and the QC10 ballbar, used to determine the accuracy of CMMs, machine tools and other industrial and scientific equipment. Regular use of these systems improves the precision of the production process and thus helps increase product quality, reduce scrap and machine down-time.
- Linear and angle 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.
- Scanning and digitising systems, used to gather 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 a Raman microscope, used to identify the composition and structure of materials, which can be applied in many different fields, such as pharmaceutical, forensic, semiconductor and chemical industries.
- A broad range of styli for CMM and machine tool probes, enabling precision measurement in any application.
- Custom products, where Renishaw's standard product does not address the customer's specialised requirements.

The Group principally manufactures its products in the UK, Ireland, in India where a manufacturing facility was opened during the year and more recently in Gemany following the acquisition of itp GmbH.

The Group markets and distributes its products to customers around the world, with sales outside the UK representing over 93% 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, Czech Republic, Poland, Russia, Sweden, Austria, South Korea, Canada, Israel, The People's Republic of China and Singapore. These subsidiaries provide support to customers in our major markets.

There are also representative offices in Taiwan, Hungary, Turkey, Malaysia and Thailand, and an associate company, 50%-owned, in Slovenia.

Business strategy

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

The Group is developing other market opportunities, diversifying from our traditional manufacturing sector. 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. Also, in the medical field, the Group is developing systems for precision functional neurosurgery.

The Group also plans to develop further geographic markets, with ongoing investment mainly in South East Asia, especially China and India, whilst recent investments in Central & Eastern Europe have resulted in good growth.

To improve the Group's ability to design, manufacture and support its products, more investment has been made in manufacturing facilities in the UK and in India.

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.

Opportunities and risks

The Group invests heavily in research and development, to develop new products and processes to maintain the long-term growth of the Group. This research and development encompasses new innovative products within our core metrology business, as well as looking into new areas, such as dental and specific applications in the medical field.

In April 2007, the Company purchased 20% of the shares of Delcam plc, a company listed on the AIM market, which specialises in the supply of CAD/CAM systems and services for the design and manufacture of and tooling for products with complex shapes. Working together with Delcam on software development programmes will help the Group to remain at the forefront of the metrology business.

As mentioned in the Chairman's statement, the UK defined benefit pension scheme has been closed for future accruals to all existing members, with a new defined contribution scheme replacing the defined benefit scheme going forward. This will limit the risks in the future, where the value of the defined benefit scheme can be subject to large fluctuations resulting from changes in performance and actuarial assumptions.

With the concentration of manufacturing in the UK and Ireland, there is inevitably an exposure to fluctuating currencies on export sales, largely in respect of the US Dollar, Euro and Japanese Yen. This year has seen some adverse movements in exchange rates which have resulted in a £7m lower profit when the results of overseas operations have been translated into Sterling. The Group was hedged throughout the year for a significant amount of its exposure to changes in the Euro, but the US Dollar and Japanese Yen were unhedged in expectation of these currencies strengthening against Sterling. The Group continues to be hedged against the Euro for the 2008 financial year but there are continuing risks associated with the US Dollar and Japanese Yen. The policy relating to the Group's hedging practices is noted within the treasury policies on page 24.

Sales of CMM products have been affected by a court case brought by the Japanese government against one of our major customers, for export control irregularities. A temporary ceasing of export business by this customer throughout the year resulted in lower sales in this product line. This company will be able to export to approved identified end users from January 2008.

International Financial Reporting Standards ("IFRS")

In accordance with EU law, the consolidated financial statements of the Company are prepared in accordance with IFRS adopted by the EU, for all accounting periods beginning on or after 1st January 2005. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP.

Operating review

In the year to 30th June 2007, group revenue increased by 3% over the previous year, from £175.8m to £180.9m. The Group suffered from the weakening of the US Dollar and Japanese Yen and sales would have increased by a further £9.3m, or 8%, if translated at the previous year's exchange rates.

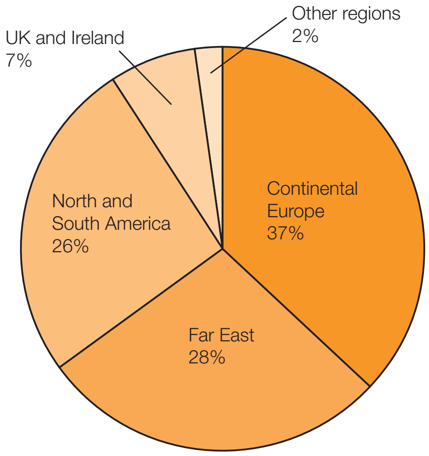
Sales of CMM products were reduced by the export embargo affecting one of our major customers as noted above, along with difficult market conditions for this product line.

Europe has seen the best growth in sales, increasing by 14%. For both the Americas and Far East, sales in local currency showed a smaller growth but this has been eliminated when the results have been translated into Sterling.

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

Geographical analysis	2007 sales at actual exchange rates £'000	Change from 2006 %	2007 sales at 2006 exchange rates £'000	Change from 2006 %	2006 sales at actual exchange rates £'000
Continental Europe	67,196	+14%	67,005	+14%	58,945
Far East, including Japan and Australia	50,736	-5%	56,185	+6%	53,130
North and South America	46,160	-1%	50,193	+7%	46,708
United Kingdom and Ireland	11,789	+2%	11,789	+2%	11,513
Other regions	5,002	-10%	5,031	-9%	5,539
Total group revenue	180,883	+3%	190,203	+8%	175,835

Revenue by geographical market



The number of personnel in the Group rose during the year, with head count increasing by 150, from 2,004 at June 2006 to 2,154 at June 2007. Head count increases have been focused mainly in manufacturing, both to support increasing sales and to establish the manufacturing facility in India, as well as in marketing, especially in the Far East.

Labour costs increased by £4.7m, from £70.4m last year to £75.1m, an increase of 7%.

As mentioned above, the Group continued to invest in research and development which amounted to a gross expenditure of £31.1m, before the capitalisation of development costs (net of amortisation charges) of £1.6m, giving a net charge in the Consolidated income statement of £29.5m. This compares with a gross figure of £29.3m, capitalised costs of £1.8m and a net charge of £27.5m last year.

Due to changes in the UK defined benefit pension scheme, there is an exceptional pension curtailment credit disclosed in the Consolidated income statement. This amounted to £19.5m, with an associated tax charge of £5.4m.

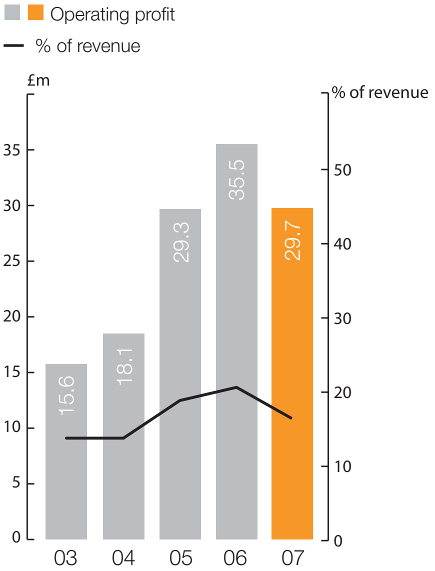
Excluding the exceptional item, the operating profit was £29.7m, a decrease of 16% from the previous year.

Profit before tax, excluding the exceptional item, was £32.7m, compared with £38.1m in the previous year.

The overall effective rate of tax, a combination of the varying tax rates applicable throughout the countries in which the Group has operations, was 23%. This comprises a deferred tax rate of 28% on the exceptional item and an average of 20% on the rest of the profit. The comparable rate for the previous year was 20%.

Adjusted earnings per share, which excludes the exceptional item, decreased by 14%, from 41.9p to 35.9p.

Operating profit before exceptional item



Balance sheet

The Group spent £9.7m on tangible fixed assets during the year, mainly relating to developing our manufacturing facilities. The facility in India is now manufacturing products and the last stage of refurbishment at Woodchester has been completed. Overall, net tangible fixed assets increased by £0.4m during the year.

Intangible fixed assets, mainly comprising development costs and software licences, grew by £1.3m during the year from £12.5m to £13.8m. The principal increase was the capitalisation of development costs, which, net of amortisation charges, amounted to £1.6m.

During the year the Company invested £6.1m in a 20% shareholding in Delcam plc. The investment was at a price of £4.00 per share. At 30th June 2007, the share price was £4.15. Investments in associates increased from £0.9m at 30th June 2006 to £7.0m at 30th June 2007.

Inventories have increased by 28% during the year, up from £28.4m to £36.2m. This was as a result of the initial stocking of the India manufacturing facility and a revised policy put in place during the year to maintain a certain level of finished goods around the world.

The investment in Delcam, increased inventory and increased dividends paid during the year have contributed to a lower cash balance at the end of the year. Cash at 30th June 2007 stood at £20.8m, down £9.9m from the £30.7m held at 30th June 2006. Cash flows from operating activities reduced to £22.4m, from £34.1m last year, largely due to the increase in inventories.

The curtailment of the UK defined benefit pension scheme, with effect from April 2007, along with increases in the pension fund assets, has resulted in the defined benefit pension funds showing a surplus at the end of the year of £5.6m, compared with a deficit of £18.8m at 30th June 2006. Defined benefit pension fund assets at 30th June 2007 were £91.5m with liabilities of £85.9m.

For the UK defined benefit scheme, a guide to the sensitivity of the value of the liabilities is:

Valuation sensitivity	Variation	Approx. effect on liabilities
Discount rate	Decrease by 0.1%	Increase £2.6m
Inflation	Increase by 0.1%	Increase £1.0m
Assumed retirement age	Decrease by 1 year	Increase £5.6m
Mortality	Increase to med. cohort	Increase £1.6m

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 overseas subsidiaries and on the translation of the net assets of these 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 cash inflows.

Also, currency swaps are used to minimise the interest cost of maintaining the currency borrowings. The foreign currency borrowings are short-term with floating interest rates. The Group does not speculate with derivative financial instruments.

See note 20 on page 52 for an analysis of cash balances and currency borrowings at the year end.

During the year, there were forward contracts in place to hedge against the major part of the Group's Euro cash inflows for the year. This resulted in a profit for the year of £2.0m on maturity of these contracts, compared with £1.4m in the previous year. Forward contracts are also in place as a hedge against a major part of the Group's estimated Euro cash inflows from July 2007 through to June 2008.

Investment for the future

The Group has continued to invest heavily in innovative products and processes, with 17% of revenue 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 will also continue to invest in manufacturing, to improve efficiencies in production and ensure capacity for the future, and extend our 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
25th July 2007

The directors have pleasure in presenting their 34th Annual report, together with the audited financial statements for the year ended 30th June 2007 as set out on pages 34 to 61.

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 Financial review. Segmental information by geographical market is given in note 2 to the financial statements.

The Companies Act requires the Directors' report to include a business review. Certain information that fulfils the requirements of the business review can be found in the Financial review on pages 22 to 24 of this Annual report.

Further information is also available on the Company's website: www.renishaw.com

Dividends

The directors propose a final dividend of 15.82p per share (2006 15.07p) which, together with the interim dividend of 7.05p (2006 6.71p), makes a total of 22.87p for the year, compared to 21.78p for the previous year. Subject to shareholder approval, the final dividend will be paid on 15th October 2007 to shareholders on the register on 14th September 2007, with an ex-dividend date of 12th September 2007.

Directors and their interests

The directors who served during the year and their interests in the share capital of the Company (with the equivalent number of voting rights), at the beginning and the end of the year, were:-

	Ordinary shares of 20p each	
	2007	2006
D R McMurtry	26,377,291	26,377,291
D J Deer	12,533,040	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	3,000

All the above holdings were beneficially held with the exception of 2,420,311 shares (2006 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 2007 to 25th July 2007.

T D Snowden and T B Garthwaite, both of whom provide services under a letter of appointment with the Company, retire by rotation and being eligible, offer themselves for re-election.

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

Environmental control

The Company recognises the fundamental importance of carrying out its business in an ethical manner and, within this framework, the Group strives to minimise the environmental impact of its activities. This is carried out through tight process control, a series of improvement projects and the education and involvement of all personnel.

The Company has been continuing its efforts to ensure that its activities generate the minimum amount of waste possible. The machining operations use state-of-the-art techniques to collect, filter, compact and return waste metal for re-processing. Systematic recycling takes place across the Group for a variety of materials. The Group has successfully put in place a plan for compliance with the requirements of the Waste Electrical and Electronic Equipment Regulations ("the WEEE Regulations").

Additionally, although only a number of the Company's products strictly fall within the scope of the requirements of the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Regulations 2004 ("the RoHS Regulations"), the Company has undertaken a programme of conversion of its assembly processes to lead-free techniques wherever possible.

The Group has been actively pursuing a strategy of systematic reduction of its use of natural resources by adopting more efficient processes and evaluating innovative energy-saving technologies. This includes the installation of geo-thermal heating technology in our Indian subsidiary and in one of the buildings at the UK headquarters, the investigation of rain water harvesting and the investigation of the use of wind turbines to provide electrical energy.

The Company closely monitors energy consumption and where possible has introduced energy efficient measures, such as replacing existing equipment with more energy efficient machinery, improving the efficiency of our production processes, installing light sensors and fitting temperature control devices. The Company has continued the rollout of its energy-saving pilot lighting plan to all UK sites. Also, the anodising plant has been reviewed for improved process efficiency, resulting in a 30% reduction in chemical usage.

Post balance sheet event

In July 2007, the Company invested £1,500,000 in the purchase of a 75% shareholding in D3 Technologies Limited, a company registered in Scotland. This company has been newly incorporated, to exploit certain patents related to Raman spectroscopy and, to pursue this, it has used £850,000 of the investment to purchase the business and assets of the analytical business unit operated by Mesophotonics Limited, a spin-out company from the University of Southampton.

Auditors

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

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Special business

The notice of meeting on page 31 sets out the following special business:

A resolution relating to the 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 2008 annual general meeting and 31st December 2008. There is at present no intention to purchase shares and, if granted, the authority would only be exercised if an improvement in earnings per share were expected to result.

Employees

The maintenance of a highly skilled workforce is essential to the future of the business and the directors place great emphasis on the continuation of the Company's approved training policy. Health and safety matters are given special attention by the directors and well established systems of safety management are in place throughout the Group to safeguard employees, customers and visitors.

Employment policies are designed to provide equal opportunities irrespective of race, colour, religion, sex, age, disability or sexual orientation. 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 February and August, the Assistant Chief Executive presents the interim results and final results respectively, to all employees following their publication.

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, Raman spectroscopy systems, dental and certain areas in the medical field.

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 2007 was approximately 30 days (2006 30 days).

Substantial shareholdings

Apart from the shareholdings (and corresponding voting rights) of Sir David McMurtry and John Deer (36.2% and 17.2% respectively), the following are the voting rights notified to the directors, which represent 3% or more of the voting rights attached to issued shares in the Company, as at 25th July 2007:

Holder of voting rights	Number of voting rights held	Percentage
Standard Life Investments Limited	3,593,580	4.94%

Donations and community involvement

During the year the Group made charitable donations of £64,000 (2006 £105,000). 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 area. 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 (2006 £nil).

By order of the Board

A C G Roberts FCA

Secretary

25th July 2007

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

This report, together with the Directors' remuneration report on page 30 sets out how the Company has applied the principles of the Combined Code on Corporate Governance (the "Code") issued by the Financial Reporting Council.

A. Directors

The Board

The Board comprises five executive and three non-executive directors. The directors holding office at the date of this report and their biographical details are given on pages 4 and 5.

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 2007, the Board met 8 times and the directors' attendance record at Board and committee meetings is set out at the end of this report. In addition, 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.

The Company maintains liability insurance for its directors and officers.

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 its business.

In the past, the senior independent director role has been rotated between the non-executive directors on an annual basis. The senior independent director for the year ended 30th June 2007 was Joe McGeehan and the Board has agreed that he should remain as senior independent director for the year beginning 1st July 2007 and for future years until decided otherwise.

The senior independent director is available to discuss concerns with shareholders should the normal channels of the Chairman and Chief Executive or the Group Finance Director fail to resolve such concerns or for which such contact is inappropriate.

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 independent 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.

None of the executive directors holds a directorship in a FTSE 100 company.

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 includes the completion of a questionnaire designed and approved by the Board to provide a framework for the evaluation process.

It is the role of the senior independent director to summarise the responses and discuss them with individual directors and with the Board as a whole.

Re-election

In accordance with the articles of association of the Company, the directors who offer themselves up for re-election at the annual general meeting to be held in October 2007 will be David Snowden and Terry Garthwaite.

Both directors have been non-executive directors for four years, having been appointed in July 2003. Subject to re-election, at the annual general meeting to be held in October 2007, if they continue in office until they next are required to offer themselves up for re-election in 2010, they will have held office for eight years at that time. The Board has considered each of David Snowden's and Terry Garthwaite's performance as a non-executive director of the Company and believes that their performance continues to be effective and they demonstrate a commitment to their respective roles at Renishaw.

B. Directors' remuneration

The Directors' remuneration report set out on page 30 explains how the Company applies the Code principles relating to remuneration.

C. 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 Independent 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.

Any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

There are defined lines of responsibility and delegation of authorities. There are also established and centrally documented control procedures, including, for example, capital and other expenditure, information and technology security, and legal and regulatory compliance. These are applied throughout the Group.

The Group internal audit function provides independent and objective assurance that the procedures are appropriate and effectively applied. The Group Audit Manager attends Audit committee meetings to present annual internal audit plans and the results of such internal audits. Actions are monitored by the Audit committee on an ongoing basis.

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. The Board confirms that necessary action has been or is being taken to remedy any significant failings or weaknesses identified from its review.

Audit committee and auditors

The Audit committee comprises the three non-executive directors. A list of the 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 Terry Garthwaite and David Snowden. The terms of reference of this committee were reviewed during the year and are available on the Company's website.

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. 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.

It also reviews the scope, remit and effectiveness of the internal control systems and 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 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 Financial Controller, 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.

D. 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 and analysts' and brokers' reports circulated so that the Board develops 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 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. This information is provided to the shareholders attending the annual general meeting and published on the Company's website following the meeting.

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	8 (8)	-	-
D J Deer	8 (8)	-	-
B R Taylor	7 (8)	-	-
A C G Roberts	7 (8)	-	-
G McFarland	8 (8)	-	-
J P McGeehan	7 (8)	2 (3)	2 (3)
T D Snowden	7 (8)	3 (3)	3 (3)
T B Garthwaite	8 (8)	3 (3)	3 (3)

* 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; and
- at least half the board, excluding the chairman, does not comprise independent non-executive directors.

A C G Roberts FCA

Secretary

25th July 2007

Remuneration policy

The Remuneration and nomination committee is responsible for deciding 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. KPMG, who were appointed by the Company, provide 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. There was no award to directors in relation to the financial year ended 30th June 2007. The non-executive directors do not participate in the appreciation award scheme.

The Company makes annual contributions of 15% of current basic salary to individual pension policies for Ben Taylor and Allen Roberts.

Geoff McFarland participated in the Company's defined benefit scheme which was terminated as at 5th April 2007 and since that date, in the Company's defined contribution scheme and more details are given in note 8 on page 44.

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 44.

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

In April 2007, Geoff McFarland was appointed as a non-executive director of Delcam plc, in respect of which no remuneration is payable by Delcam plc.

Details of directors' remuneration (including pensions) which form the audited section of this report are shown in note 8 on page 44.

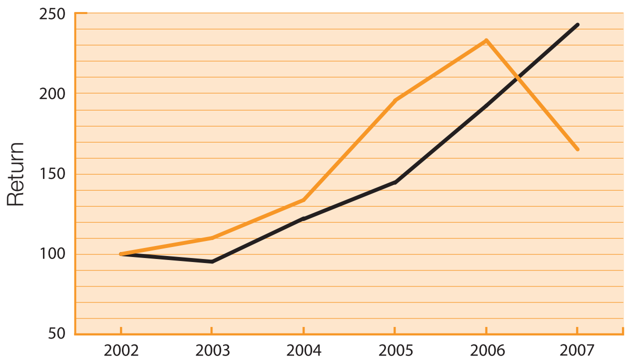
Service contracts and compensation

The executive directors have each entered into a service contract with the Company. The contracts do not contain any specific provisions governing the payment of compensation upon termination of the contract by the Company. The notice period for termination of the contract is 12 months to be given by either the Company or the director.

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 2002

Renishaw FTSE mid 250

The report was approved by the Board of directors on 25th July 2007 and has been signed on its behalf by:-

T D Snowden FCA

Chairman, Remuneration and nomination committee

NOTICE IS HEREBY GIVEN that the 34th annual general meeting of the Company will be held at New Mills, Wotton-under-Edge, Gloucestershire, GL12 8JR on Friday 12th October 2007 at noon to transact the following as ordinary business:-

1. To receive and adopt the reports of the directors and auditors and the financial statements for the year ended 30th June 2007;
2. To declare a final dividend;
3. To re-elect as a director of the Company T B Garthwaite, who is retiring by rotation;
4. To re-elect as a director of the Company T D Snowden, who is retiring by rotation;
5. To approve the Directors' remuneration report contained in the Annual report 2007;
6. To re-appoint KPMG Audit Plc as auditor of the Company and to authorise the directors to determine their remuneration;

and the following as special business:-

7. To consider 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 2008 and 31st December 2008 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;

By order of the Board

A C G Roberts FCA
Secretary

25th July 2007

New Mills
Wotton-under-Edge
Gloucestershire
GL12 8JR

Notes:

(a) 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 6pm on 10th October 2007 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 6pm on 10th October 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(b) A member entitled to attend and vote is entitled to appoint a proxy or proxies to exercise the member's rights to attend and to speak and vote at the meeting. 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.

(c) If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes the subject of those proxies are cast, and the voting rights in respect of those discretionary proxies, when added to the voting rights in the Company already held by the Chairman, result in the Chairman having a notifiable obligation under the Financial Services Authority's Disclosure Rules and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority. As a result, any member holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure Rules and Transparency Rules, need not make a separate notification to the Company and to the Financial Services Authority.

(d) The following documents will be available for inspection at the registered office of the Company during normal business hours (8.00am until 4.15pm) and at the place of the meeting from 11.30am until the meeting closes:

- register of directors' interests; and
- copies of the executive directors' service contracts and letters of appointment of non-executive directors.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual report and the group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK GAAP).

The group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and the performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company 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;
- for the group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We have audited the group and parent company financial statements (the "financial statements") of Renishaw plc for the year ended 30th June 2007 which comprise the Consolidated income statement, the group and parent company Balance sheets, the Consolidated statement of cash flow, the Consolidated statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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 auditors' 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' responsibilities for preparing the Annual report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU, and for preparing the parent company financial statements and the Directors' remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities on page 32.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

The information given in the Directors' report includes that specific information presented in the Chairman's statement and the Financial review that is cross-referred from the Principal activities and review of the business section of the Directors' report.

In addition, we report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate governance report reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and Company'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 group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 30th June 2007 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30th June 2007;
- the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
25th July 2007

Marlborough House
Fitzalan Court
Cardiff
CF24 0TE

for the year ended 30th June 2007

	Notes	**2007 £'000**	2006 £'000
Revenue	2	**180,883**	175,835
Cost of sales		**(97,899)**	(90,901)
Gross profit		**82,984**	84,934
Distribution costs		**(32,911)**	(30,782)
Administrative expenses		**(20,344)**	(18,684)
Exceptional pension curtailment credit	4	**19,460**	-
Operating profit		**49,189**	35,468
Financial income	5	**8,180**	6,507
Financial expenses	5	**(5,237)**	(3,873)
Profit before tax	6	**52,132**	38,102
Income tax expense	7	**(11,981)**	(7,621)
Profit for the year attributable to the equity holders of the parent company	19	**40,151**	30,481

		pence	pence
Dividend per share arising in respect of the year		**22.87**	21.78
Dividend per share paid in the year	19	**22.12**	20.41
Earnings per share (basic and diluted)	9	**55.2**	41.9

at 30th June 2007

	Notes	2007 £'000	2006 £'000
Assets			
Property, plant and equipment	10	**69,460**	69,081
Intangible assets	11	**13,811**	12,543
Investments in associates	12	**6,972**	908
Deferred tax assets	13	**4,733**	10,606
Employee benefits	14	**5,562**	-
Total non-current assets		**100,538**	93,138
Current assets			
Inventories	15	**36,178**	28,359
Trade receivables	20	**37,880**	37,717
Current tax		**323**	183
Other receivables		**6,482**	6,320
Cash and cash equivalents	16,20	**20,761**	30,728
Total current assets		**101,624**	103,307
Current liabilities			
Trade payables		**11,223**	10,692
Current tax		**1,315**	1,402
Provisions	17	**693**	793
Other payables	18	**8,779**	10,239
Total current liabilities		**22,010**	23,126
Net current assets		**79,614**	80,181
Non-current liabilities			
Employee benefits	14	**-**	18,838
Deferred tax liabilities	13	**12,152**	11,745
Total non-current liabilities		**12,152**	30,583
Total assets less total liabilities		**168,000**	142,736
Equity			
Share capital	19	**14,558**	14,558
Share premium	19	**42**	42
Currency translation reserve	19	**(210)**	265
Cash flow hedging reserve	19	**1,845**	2,007
Retained earnings	19	**151,765**	125,864
Total equity attributable to the equity holders of the parent company		**168,000**	142,736

These financial statements were approved by the Board of directors on 25th July 2007 and were signed on its behalf by:-

Sir D R McMurtry

A C G Roberts

Directors

for the year ended 30th June 2007

	Notes	2007 £'000	2006 £'000
Cash flows from operating activities			
Profit for the year		**40,151**	30,481
Adjustments for:			
Amortisation of development costs	11	**2,038**	1,397
Amortisation of other intangibles	11,12	**1,286**	733
Depreciation	10	**7,874**	7,840
Profit on sale of fixed assets		**(25)**	(51)
Share of profits from associates	12	**(64)**	(10)
Exceptional pension curtailment credit	4	**(19,460)**	-
Financial income	5	**(8,180)**	(6,507)
Financial expenses	5	**5,237**	3,873
Tax expense	7	**11,981**	7,621
		687	14,896
Increase in inventories	15	**(7,819)**	(963)
Increase in trade and other receivables		**(2,936)**	(4,289)
Increase in trade and other payables		**(336)**	2,644
Difference between pension service cost and contributions	14	**(266)**	(1,261)
(Decrease)/increase in provisions	17	**(100)**	161
		(11,457)	(3,708)
Income taxes paid		**(7,021)**	(7,605)
Cash flows from operating activities		**22,360**	34,064
Investing activities			
Purchase of tangible fixed assets		**(10,037)**	(12,816)
Development costs capitalised	11	**(3,624)**	(3,227)
Purchase of other intangibles	11	**(865)**	(4,217)
Investment in associate	12	**(6,110)**	(928)
Sale of tangible fixed assets		**187**	399
Interest received		**1,710**	1,911
Cash flows from investing activities		**(18,739)**	(18,878)
Financing activities			
Interest paid		**(297)**	(15)
Dividends paid	19	**(16,101)**	(14,853)
Cash flows from financing activities		**(16,398)**	(14,868)
Net (decrease)/increase in cash and cash equivalents		**(12,777)**	318
Cash and cash equivalents at the beginning of the year		**30,728**	30,072
Effect of exchange rate fluctuations on cash held		**2,810**	338
Cash and cash equivalents at the end of the year	20	**20,761**	30,728

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 30th June 2007

	Notes	**2007 £'000**	2006 £'000
Foreign exchange translation differences	19	**(475)**	(390)
Actuarial gain/(loss) in the pension schemes	14	**3,144**	(147)
Effective portion of changes in fair value of cash flow hedges, net of recycling		**(304)**	(326)
Deferred tax on income and expense recognised in equity		**(1,151)**	280
Profit/(loss) recognised directly in equity		**1,214**	(583)
Profit for the year		**40,151**	30,481
Total recognised income and expense for the year attributable to the equity holders of the parent company		**41,365**	29,898

(forming part of the financial statements)

1. Accounting policies

Basis of preparation

Renishaw plc (the "Company") is a company incorporated in the UK.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates.

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 54 to 61.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are noted below.

Basis of accounting

The financial statements have been prepared under the historical cost convention, subject to items referred to in the derivative financial instruments note below. The accounting policies set out below have been consistently applied in preparing both the 2007 and 2006 financial statements.

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The key area where estimates have been used and the assumptions applied is in calculating the defined benefit pension scheme liabilities (note 14).

IFRS adopted by the EU not yet applied

The following IFRS adopted by the EU which were available for early adoption, but have not been applied by the Group in these financial statements, were:

IFRS 7: Financial Instruments: Disclosures

IAS 23 (amended): Borrowing Costs

IAS 1 (amended): Presentation of Financial Statements - Capital disclosures

It is not anticipated that there will be any significant financial impact on the financial statements. The Group plans to adopt these standards in 2008.

Consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised income and expense of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

Revenue

Revenue from the sale of goods is recognised in the Consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer, which is considered to be at the time of despatch.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or the possible return of goods.

Foreign currencies

Overseas results are translated into Sterling at weighted average exchange rates for the year, which is effected by translating each overseas subsidiary's monthly results at exchange rates applicable to each of the respective months. Overseas assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Sterling at the foreign exchange rate ruling at that date. Differences on exchange resulting from the translation of overseas assets and liabilities are recognised directly in equity.

Gains 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 equity, to the extent that the level of currency borrowings match the net assets and are included in the Consolidated statement of recognised income and expense. See the note on derivative financial instruments below, for the accounting policies for forward exchange contracts and currency borrowings.

Derivative financial instruments

From time to time, the Group uses derivative financial instruments to hedge its exposure to foreign exchange rate risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting would be accounted for as trading instruments.

Where forward exchange contracts are entered into for the purpose of hedging foreign currency cash inflows, any gains or losses arising on the contracts are accounted for in the Consolidated income statement at the time of maturity.

Derivative financial instruments are recognised initially at fair value. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see cash flow hedges below).

The fair value of forward exchange contracts is their quoted market price at the balance sheet date. Movements in fair value of contracts which have not matured at the year end are recognised in the Consolidated statement of income and expense.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity and the fair value of the instrument is accounted for under other receivables or other payables in the Consolidated balance sheet.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the Consolidated income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. An ineffective part of any gain or loss is recognised immediately in the Consolidated income statement.

The effectiveness of cash flow hedges is tested on a regular basis at maturity by comparing the cash inflows with the hedging amounts.

If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Consolidated income statement.

Hedge of net investment in foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. Any ineffective portion is recognised immediately in the Consolidated income statement. The effectiveness of the hedging is tested monthly.

Goodwill and other intangible assets

Business combinations are accounted for by applying the purchase method. In respect of business acquisitions, goodwill arising on acquisition represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired, net of deferred tax. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. It is not amortised but is tested annually for impairment.

The annual impairment review involves comparing the carrying amount to the estimated recoverable amount and recognising an impairment loss if the recoverable amount is lower. Impairment losses are recognised through the Consolidated income statement.

Intangible assets such as customer lists, patents, trademarks, know how and intellectual property that are acquired by the Group are stated at cost less amortisation and impairment losses. Amortisation is charged to the Consolidated income statement on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful lives of the intangible assets included in the Consolidated balance sheet reflect the benefit derived by the Group and vary from 5 to 10 years.

Intangible assets – research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the Consolidated income statement as an expense as incurred. Development costs incurred after the point at which the commercial and technical feasibility of the product has been proven, and the decision to complete the development has been taken and resources made available, are capitalised. The expenditure capitalised includes the cost of materials, direct labour and direct overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Development expenditure has an estimated useful life of 5 years and is written off over that period, based on forecast unit sales, subject to changes in expectations.

Intangible assets – software licences

Intangible assets comprising software licences, that are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful life of the assets. The useful life of each of these assets is assessed on an individual basis and they range from 2 to 10 years.

Property, plant and equipment

Freehold land is not depreciated. Other 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
Vehicles	3 to 4 years

Warranty provisions

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 financial statements, which is calculated on the basis of historical returns and internal quality reports.

Employee benefits

The Group operates contributory pension schemes, which, for UK employees, was of the defined benefit type up to 5th April 2007, at which time it ceased any future accrual for existing members and was closed to new members. UK employees are now covered by a defined contribution scheme. The Group continues to operate a defined benefit scheme for employees of its Irish subsidiary.

The schemes are administered by trustees who 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 financial income and financial expenses respectively. The Group recognises actuarial gains and losses in full in the Consolidated statement of recognised income and expense. 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 Consolidated balance sheet.

Foreign-based employees are covered by state, defined benefit and private pension schemes in their countries of residence. Actuarial valuations of foreign pension schemes were not obtained, apart from Ireland, because of the smaller number of foreign employees.

For defined contribution schemes, the amount charged to the Consolidated income statement represents the contributions payable to the schemes in respect of the accounting period.

Accruals are made for holiday pay, based on a calculation of the number of days holiday earned during the year, but not yet taken.

Inventory and work in progress

Inventory and work in progress is valued at the lower of cost, on a 'first in, first out' basis and net realisable value. In respect of work in progress and finished goods, cost includes all production overheads and the attributable proportion of indirect overhead expenses which are required to bring inventories to their present location and condition. This basis reflects accurately the cost of inventory held.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term (with an original maturity of less than three months) deposits. Bank overdrafts that are repayable on demand form part of cash and cash equivalents for the purpose of the Consolidated statement of cash flow.

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately declared and authorised and no longer at the discretion of the Company. Unpaid dividends that do not meet this criteria are disclosed in the notes to the financial statements.

Taxation

Tax on the profit for the year comprises current and deferred tax. Tax is recognised in the Consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the Consolidated statement of recognised income and expense.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

2. Segmental analysis

The primary format used for segmental reporting is by geographic segment, as the Group operates in only one business segment. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated expenses comprise corporate expenses. Intragroup trading is determined on an arm's length basis.

Geographic segments

The Group operates in the following geographic segments:

Continental Europe (excluding the United Kingdom and Ireland)
Far East, including Japan and Australasia
Americas (North and South)
United Kingdom and Ireland
Rest of the World ("ROW")

Analysis by geographic segment:

Revenue	Continental Europe £'000	Far East £'000	Americas £'000	UK and Ireland £'000	ROW £'000	Eliminations £'000	Total £'000
Year ended 30th June 2007							
Revenue	**67,196**	**50,736**	**46,160**	**11,789**	**5,002**	**-**	**180,883**
Inter-segment revenue	**458**	**-**	**-**	**141,758**	**677**	**(142,893)**	**-**
Total revenue	**67,654**	**50,736**	**46,160**	**153,547**	**5,679**	**(142,893)**	**180,883**
Year ended 30th June 2006							
Revenue	58,945	53,130	46,708	11,513	5,539	-	175,835
Inter-segment revenue	-	-	-	130,547	-	(130,547)	-
Total revenue	58,945	53,130	46,708	142,060	5,539	(130,547)	175,835
Segment result							
Year ended 30th June 2007							
Segment result	**12,407**	**2,860**	**2,585**	**34,230**	**173**	**-**	**52,255**
Unallocated central costs							**(3,066)**
Net financial income							**2,943**
Profit before tax							**52,132**
Year ended 30th June 2006							
Segment result	6,629	2,943	3,467	24,781	1,380	-	39,200
Unallocated central costs							(3,732)
Net financial income							2,634
Profit before tax							38,102
Assets							
Year ended 30th June 2007							
Assets by location	**30,687**	**25,408**	**22,626**	**137,982**	**3,969**	**(49,109)**	**171,563**
Corporate items not allocated							**30,599**
Total assets							**202,162**
Year ended 30th June 2006							
Assets by location	32,461	27,356	21,405	136,006	1,796	(68,710)	150,314
Corporate items not allocated							46,131
Total assets							196,445

2. Segmental analysis (continued)

Liabilities	Continental Europe £'000	Far East £'000	Americas £'000	UK and Ireland £'000	ROW £'000	Eliminations £'000	Total £'000
Year ended 30th June 2007							
Liabilities by location	**12,426**	**11,366**	**3,314**	**41,125**	**943**	**(35,012)**	**34,162**
Year ended 30th June 2006							
Liabilities by location	13,700	11,359	2,794	80,644	572	(55,360)	53,709
Depreciation and amortisation							
Year ended 30th June 2007	**930**	**284**	**330**	**9,450**	**204**	**-**	**11,198**
Year ended 30th June 2006	1,001	331	354	8,235	49	-	9,970
Capital spend							
Year ended 30th June 2007	**429**	**161**	**259**	**12,118**	**1,236**	**-**	**14,203**
Year ended 30th June 2006	4,972	130	215	14,185	1,132	-	20,634

3. Personnel expenses

	2007 £'000	2006 £'000
The aggregate payroll costs for the year were:		
Wages and salaries (including annual appreciation award)	**62,073**	58,519
Compulsory social security contributions	**6,598**	5,847
Current service cost for defined benefit plans (note 14)	**5,004**	5,008
Contributions to defined contribution plans	**1,447**	1,042
	75,122	70,416

	Number	Number
The average number of persons employed by the Group during the year was:		
Continental Europe	**186**	158
Far East	**119**	107
Americas	**113**	102
United Kingdom and Ireland	**1,609**	1,522
ROW	**76**	32
	2,103	1,921

4. Exceptional pension curtailment credit

In April 2007, the UK defined benefit pension scheme was closed for future accrual for existing members. The exceptional credit is in respect of the change in pension fund liabilities arising from the revised basis of the calculation of future salary increases. The curtailment credit was £19,460,000, with a related deferred tax charge of £5,449,000.

5. Financial income and expenses

Financial income	2007 £'000	2006 £'000
Expected return on assets in the pension schemes (note 14)	**6,470**	4,606
Bank interest receivable	**1,710**	1,901
	8,180	6,507

5. Financial income and expenses (continued)

Financial expenses	2007 £'000	2006 £'000
Interest on pension fund liabilities (note 14)	**4,940**	3,858
Bank interest payable	**297**	15
	5,237	3,873

6. Profit before tax

Included in the profit before tax are the following:	Notes	2007 £'000	2006 £'000
Depreciation of tangible fixed assets	(a)	**7,874**	7,840
Amortisation of intangibles	(a)	**3,324**	2,130
Research and development expenditure	(b)	**19,803**	18,074
Exchange gains realised	(c)	**(2,004)**	(1,445)
Auditors:			
Fees payable to the Company's auditor for audit of the Company's annual accounts	(d)	**74**	71
Audit of subsidiary undertakings pursuant to legislation	(d)	**108**	106
Tax services	(d)	**90**	81
Fees in respect of pension schemes - audit	(d)	**9**	9
- advisory	(d)	**90**	98
Other services	(d)	**25**	108

These costs can be found under the following headings in the Consolidated income statement: (a) within cost of sales, distribution costs and administrative expenses; (b) within cost of sales; (c) within revenue; and (d) within administrative expenses

7. Income tax expense

	2007 £'000	2006 £'000
Current tax:		
UK corporation tax on profits for the year	**2,165**	926
Overseas tax on profits for the year	**4,662**	4,897
Adjustments for prior years	**-**	472
Total current tax	**6,827**	6,295
Deferred tax:		
Origination and reversal of other timing differences	**5,154**	2,526
Adjustments for prior years	**-**	(1,200)
Total deferred tax	**5,154**	1,326
Tax charge on profit	**11,981**	7,621
Effective tax rate (based on profit before tax)	**23%**	20%

The tax for the year is lower (2006 lower) than the UK standard rate of corporation tax of 30%. The differences are explained as follows:

	2007 £'000	2006 £'000
Profit before tax	**52,132**	38,102
Tax at 30%	**15,640**	11,431
Effects of:		
Different tax rates applicable in overseas subsidiaries	**(2,063)**	(2,254)
Research and development tax credit	**(1,140)**	(960)
Decrease in UK corporation tax rate to 28%	**(694)**	-
Adjustments for prior years	**-**	(728)
Expenses not deductible for tax purposes	**56**	55
Companies with unrelieved tax losses	**206**	129
Other differences	**(24)**	(52)
Tax charge on profit	**11,981**	7,621

8. Directors' remuneration and share options

The total remuneration of the directors was:-	**2007 £'000**	2006 £'000
Salaries and fees	**1,849**	1,683
Benefits	**60**	118
Appreciation award	**-**	933
Pension contributions	**126**	114
	2,035	2,848

	2007					2006				
	Salary & fees £'000	**Benefits £'000**	**Appreciation award £'000**	**Pension contributions £'000**	**Total £'000**	Salary and fees £'000	Benefits £'000	Appreciation award £'000	Pension contributions £'000	Total £'000
Chairman										
D R McMurtry	**562**	**2**	**-**	**-**	**564**	523	4	300	-	827
Other executive directors										
D J Deer	**339**	**28**	**-**	**-**	**367**	315	32	181	-	528
B R Taylor	**389**	**6**	**-**	**58**	**453**	361	45	208	54	668
A C G Roberts	**235**	**23**	**-**	**36**	**294**	219	23	126	33	401
G McFarland	**249**	**1**	**-**	**32**	**282**	205	14	118	27	364
Non-executive										
J P McGeehan	**25**	**-**	**-**	**-**	**25**	20	-	-	-	20
T D Snowden	**25**	**-**	**-**	**-**	**25**	20	-	-	-	20
T B Garthwaite	**25**	**-**	**-**	**-**	**25**	20	-	-	-	20
	1,849	**60**	**-**	**126**	**2,035**	1,683	118	933	114	2,848

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

Year ended 30th June 2007

AB* at 30th June 2007 £ 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 June 2006 £	Transfer value of AB at 30th June 2007 £	Increase in transfer value less director's contribution £
23,078	424	1,358	(2,613)	156,750	161,095	(631)

Year ended 30th June 2006

AB* at 30th June 2006 £ 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 June 2005 £	Transfer value of AB at 30th June 2006 £	Increase in transfer value less director's contribution £
21,720	1,720	2,360	3,480	134,360	156,750	16,050

* AB = Accrued benefits

9. Earnings per share

Basic and diluted earnings per share are calculated on earnings of £40,151,000 (2006 £30,481,000) and on 72,788,543 shares, being the number of shares in issue during both years.

10. Property, plant and equipment

Year ended 30th June 2007	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 2006	54,096	58,283	4,296	984	117,659
Additions	976	4,374	591	3,773	9,714
Transfers	1,065	2,734	-	(3,799)	-
Disposals	-	(457)	(466)	-	(923)
Currency adjustment	(1,419)	(374)	(73)	-	(1,866)
At 30th June 2007	**54,718**	**64,560**	**4,348**	**958**	**124,584**
Depreciation					
At 1st July 2006	8,501	37,423	2,654	-	48,578
Charge for the year	1,151	5,980	743	-	7,874
Released on disposals	-	(346)	(416)	-	(762)
Currency adjustment	(234)	(288)	(44)	-	(566)
At 30th June 2007	**9,418**	**42,769**	**2,937**	**-**	**55,124**
Net book value					
At 30th June 2007	**45,300**	**21,791**	**1,411**	**958**	**69,460**
At 30th June 2006	45,595	20,860	1,642	984	69,081

Since the year end, properties with a net book value at 30th June 2007 of £25,100,000 (2006 £nil) were charged to secure the UK defined benefit pension scheme liabilities.

Additions to assets in the course of construction of £3,773,000 (2006 £4,537,000) comprise £2,100,000 (2006 £2,206,000) for freehold land and buildings and £1,673,000 (2006 £2,331,000) for plant and equipment.

Year ended 30th June 2006	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 2005	50,496	50,138	3,976	1,983	106,593
Additions	1,214	6,575	864	4,537	13,190
Transfers	2,607	2,929	-	(5,536)	-
Disposals	-	(1,373)	(550)	-	(1,923)
Currency adjustment	(221)	14	6	-	(201)
At 30th June 2006	54,096	58,283	4,296	984	117,659
Depreciation					
At 1st July 2005	7,244	32,576	2,436	-	42,256
Charge for the year	1,234	5,893	713	-	7,840
Released on disposals	-	(1,081)	(495)	-	(1,576)
Currency adjustment	23	35	-	-	58
At 30th June 2006	8,501	37,423	2,654	-	48,578
Net book value					
At 30th June 2006	45,595	20,860	1,642	984	69,081
At 30th June 2005	43,252	17,562	1,540	1,983	64,337

11. Intangible assets

Year ended 30th June 2007	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences In use £'000	Software licences In the course of acquisition £'000	Total £'000
Cost						
At 1st July 2006	2,372	1,308	13,234	6,407	44	23,365
Additions	-	75	3,624	586	204	4,489
Transfers	(561)	561	-	209	(209)	-
Disposals	-	-	-	(7)	-	(7)
Currency adjustment	-	-	-	(20)	-	(20)
At 30th June 2007	**1,811**	**1,944**	**16,858**	**7,175**	**39**	**27,827**
Amortisation						
At 1st July 2006	-	20	6,615	4,187	-	10,822
Charge for the year	-	245	2,038	931	-	3,214
Released on disposals	-	-	-	(6)	-	(6)
Currency adjustment	-	-	-	(14)	-	(14)
At 30th June 2007	**-**	**265**	**8,653**	**5,098**	**-**	**14,016**
Net book value						
At 30th June 2007	**1,811**	**1,679**	**8,205**	**2,077**	**39**	**13,811**
At 30th June 2006	2,372	1,288	6,619	2,220	44	12,543

Goodwill acquired has an indeterminable useful life, therefore it is not amortised but is tested for impairment annually and at any point during the year when an indicator of impairment exists.

Year ended 30th June 2006	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences In use £'000	Software licences In the course of acquisition £'000	Total £'000
Cost						
At 1st July 2005	-	-	10,007	5,389	540	15,936
Additions	2,372	1,308	3,227	121	416	7,444
Transfers	-	-	-	912	(912)	-
Disposals	-	-	-	(20)	-	(20)
Currency adjustment	-	-	-	5	-	5
At 30th June 2006	2,372	1,308	13,234	6,407	44	23,365
Amortisation						
At 1st July 2005	-	-	5,218	3,526	-	8,744
Charge for the year	-	20	1,397	683	-	2,100
Released on disposals	-	-	-	(20)	-	(20)
Currency adjustment	-	-	-	(2)	-	(2)
At 30th June 2006	-	20	6,615	4,187	-	10,822
Net book value						
At 30th June 2006	2,372	1,288	6,619	2,220	44	12,543
At 30th June 2005	-	-	4,789	1,863	540	7,192

12. Investments in associates

The Group has the following investments in associates (all investments being in the ordinary share capital of the associate):

	Country of incorporation	**Ownership 2007 %**	Ownership 2006 %
RLS merilna tehnika d.o.o.	Slovenia	**50**	50
Metrology Software Products Limited	England & Wales	**50**	50
PulseTeq Limited	England & Wales	**50**	50
Delcam plc (investment acquired on 24th April 2007)	England & Wales	**20**	-

Movements during the year were:	**2007 £'000**	2006 £'000
Balance at the beginning of the year	**908**	-
Investments made during the year	**6,110**	604
Reallocation of balance previously treated as a subsidiary	**-**	324
	7,018	928
Share of profits from associates for the year	**64**	10
Amortisation of intangibles	**(110)**	(30)
Balance at the end of the year	**6,972**	908

Summarised aggregated financial information for associates:	**2007 £'000**	2006 £'000
Revenue	**1,685**	798
Profit for the period	**64**	10
Assets	**5,142**	594
Liabilities	**1,629**	194

In April 2007, the Company acquired a 20% shareholding in Delcam plc, for a cash consideration of £6,110,000 (including legal costs of £14,000).

The provisional fair value of net assets acquired was:

	Book value £'000	Adjustments £'000	Fair value £'000
Tangible fixed assets	6,480	-	6,480
Intangible fixed assets	2,292	15,000	17,292
Inventories	194	-	194
Debtors and prepayments	6,675	-	6,675
Creditors	(8,906)	-	(8,906)
Cash	8,025	-	8,025
Total net assets	14,760	15,000	29,760
20% of fair value of net assets acquired			5,952
Goodwill			158
Consideration paid			6,110

Identified intangible assets acquired consist of certain software products of the company, which form the basis of the company's products available for sale.

At 30th June 2007, the share price of Delcam plc, which is listed on AIM at the London Stock Exchange, was £4.15.

13. Deferred tax assets and liabilities

Balances at the end of the year were:	**2007** Assets £'000	**2007** Liabilities £'000	**2007** Net £'000	2006 Assets £'000	2006 Liabilities £'000	2006 Net £'000
Property, plant and equipment	**-**	**(5,126)**	**(5,126)**	-	(5,362)	(5,362)
Intangible assets	**-**	**(2,297)**	**(2,297)**	-	(1,980)	(1,980)
Intragroup trading (inventory)	**4,733**	**-**	**4,733**	4,539	-	4,539
Pension fund	**-**	**(1,791)**	**(1,791)**	5,451	-	5,451
Other	**-**	**(2,938)**	**(2,938)**	616	(4,403)	(3,787)
Balance at the end of the year	**4,733**	**(12,152)**	**(7,419)**	10,606	(11,745)	(1,139)

The movements in the deferred tax balance during the year were:	**2007 £'000**	2006 £'000
Balance at the beginning of the year	**(1,139)**	601
Changes in the year	**962**	(1,321)
Movement in relation to the pension fund schemes	**(7,242)**	(419)
Balance at the end of the year	**(7,419)**	(1,139)

No deferred tax has been recognised in respect of tax losses carried forward of £663,000 (2006 £742,000) due to the uncertainty over their recoverability.

14. Employee benefits

The Group operates a number of pension schemes throughout the world. The major scheme, which covers the UK-based employees, was of the defined benefit type. In April 2007, this scheme ceased any future accrual for current members and was closed to new members. UK employees are now covered by a defined contribution scheme.

The total pension cost of the Group for the year was £6,451,000 (2006 £6,050,000), of which £126,000 (2006 £114,000) related to directors and £1,213,000 (2006 £1,239,000) related to overseas schemes. The pension cost relating to the UK defined benefit scheme for the period up to April 2007 has been 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 UK defined benefit scheme was carried out at September 2006 and updated to 30th June 2007 by a qualified independent actuary. The major assumptions used by the actuary were:

	30th June 2007	30th June 2006	30th June 2005
Rate of increase in pensionable salaries	**n/a**	4.5%	3.7%
Rate of increase in pension payments	**3.1%**	3.0%	2.5%
Discount rate	**5.7%**	5.3%	5.0%
Inflation rate	**3.4%**	3.0%	2.5%
Expected return on equities	**8.2%**	8.5%	8.5%
Expected return on cash	**4.75%**	4.0%	4.0%
Expected return on bonds	**5.3%**	5.0%	4.7%
Retirement age	**64**	64	65

The assets and liabilities in the defined benefit schemes were:-	**30th June 2007 £'000**	30th June 2006 £'000	30th June 2005 £'000
Market value of assets:			
Equities	**89,924**	70,836	52,450
Bonds and cash	**1,575**	1,377	1,350
	91,499	72,213	53,800
Actuarial value of liabilities	**(85,937)**	(91,051)	(74,500)
Surplus/(deficit) in the schemes	**5,562**	(18,838)	(20,700)
Deferred tax thereon	**(1,791)**	5,451	5,870

The mortality assumption adopted for 2007 is PA92, year of birth, short cohort, which reflects the increasing life expectancy.

14. Employee benefits (continued)

The history of experience gains and losses is:-	**Year ended 30th June 2007**	Year ended 30th June 2006	Year ended 30th June 2005	Year ended 30th June 2004	Year ended 30th June 2003
Difference between the expected and actual return on scheme assets					
amount (£'000)	**7,147**	6,492	4,600	2,550	(4,110)
percentage of scheme assets	**8%**	9%	9%	6%	(14%)
Experience gains and losses on scheme liabilities					
amount (£'000)	**(3,421)**	(180)	1,120	-	(270)
percentage of present value of scheme liabilities	**(4%)**	-	2%	-	(1%)
Total amount recognised in the Consolidated statement of recognised income and expense					
amount (£'000)	**3,144**	(147)	(9,370)	(240)	(6,680)
percentage of present value of scheme liabilities	**4%**	-	(13%)	-	(16%)

The movements in the schemes' assets and liabilities were:-

Year ended 30th June 2007	Assets £'000	Liabilities £'000	Total £'000
Balance at 1st July	72,213	(91,051)	(18,838)
Contributions paid	5,270	-	5,270
Current service cost	-	(5,004)	(5,004)
Expected return on pension schemes' assets	6,470	-	6,470
Interest on pension schemes' liabilities	-	(4,940)	(4,940)
Exceptional pension curtailment credit	-	19,460	19,460
Actuarial gain/(loss)	7,546	(4,402)	3,144
Balance at 30th June	**91,499**	**(85,937)**	**5,562**

Year ended 30th June 2006	Assets £'000	Liabilities £'000	Total £'000
Balance at 1st July	53,800	(74,500)	(20,700)
Contributions paid	6,269	-	6,269
Current service cost	-	(5,008)	(5,008)
Expected return on pension schemes' assets	4,606	-	4,606
Interest on pension schemes' liabilities	-	(3,858)	(3,858)
Actuarial gain/(loss)	7,538	(7,685)	(147)
Balance at 30th June	72,213	(91,051)	(18,838)

The expense recognised in the Consolidated income statement was:-	**2007 £'000**	2006 £'000
Current service cost	**5,004**	5,008
Expected return on pension schemes' assets	**(6,470)**	(4,606)
Interest on pension schemes' liabilities	**4,490**	3,858
Exceptional pension curtailment credit	**19,460**	-
	22,484	4,260

The expected return on pension schemes' assets and the interest on pension schemes' liabilities are recognised within financial income and financial expenses respectively. The current service cost is recognised within cost of sales, distribution costs and administrative expenses. The curtailment credit is shown as an exceptional item.

15. Inventories

An analysis of inventories at the end of the year was:	**2007 £'000**	2006 £'000
Raw materials	**14,497**	10,192
Work in progress	**7,949**	6,398
Finished goods	**13,732**	11,769
Balance at the end of the year	**36,178**	28,359

16. Cash and cash equivalents

An analysis of cash and cash equivalents at the end of the year was:	**2007 £'000**	2006 £'000
Bank balances and cash in hand	**11,617**	10,672
Short term deposits	**9,144**	20,056
Balance at the end of the year	**20,761**	30,728

17. Provisions

Warranty provision

Movements during the year were:	**2007 £'000**	2006 £'000
Balance at the beginning of the year	**793**	632
Utilised during the year	**(540)**	(584)
Created in the year	**440**	745
	(100)	161
Balance at the end of the year	**693**	793

The warranty provision has been calculated on the basis of historical return-in-warranty information and other internal 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.

18. Other payables

Balances at the end of the year were:	**2007 £'000**	2006 £'000
Payroll taxes and social security	**3,757**	3,741
Other creditors and accruals	**5,022**	6,498
	8,779	10,239

19. Capital and reserves

Movements during the year were:	Share capital	Share premium	Currency translation reserve	Cash flow hedging reserve	Retained earnings	Total
Year ended 30th June 2007	£'000	£'000	£'000	£'000	£'000	£'000
Balance at the beginning of the year	14,558	42	265	2,007	125,864	142,736
Profit for the year	-	-	-	-	40,151	40,151
Other recognised income and expense	-	-	(475)	(162)	1,851	1,214
Dividends paid	-	-	-	-	(16,101)	(16,101)
Balance at the end of the year	**14,558**	**42**	**(210)**	**1,845**	**151,765**	**168,000**
Year ended 30th June 2006						
Balance at the beginning of the year	14,558	42	655	-	110,202	125,457
Effect of adoption of IAS 32 and IAS 39	-	-	-	2,234	-	2,234
Profit for the year	-	-	-	-	30,481	30,481
Other recognised income and expense	-	-	(390)	(227)	34	(583)
Dividends paid	-	-	-	-	(14,853)	(14,853)
Balance at the end of the year	14,558	42	265	2,007	125,864	142,736

Share capital

	2007	2006
	£'000	£'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

	2007	2006
	£'000	£'000
Balance at the beginning and the end of the year	**42**	42

Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the foreign operations, together with foreign exchange differences on bank liabilities which have been accounted for directly in equity on account of them being classified as hedging items.

Cash flow hedging reserve

The cash flow hedging reserve comprises all foreign exchange differences arising from the valuation of forward exchange contracts which mature after the year end. These are valued on a mark-to-market basis and are accounted for directly in equity, until the date of maturity of the forward exchange contracts, at which time their value is recycled through the Consolidated income statement on account of them being classified as hedging items.

Dividends paid

Dividends paid comprise:	**2007** **£'000**	2006 £'000
2006 final dividend paid of 15.07p per share (2005 13.70p)	**10,969**	9,972
2007 interim dividend paid of 7.05p per share (2006 6.71p)	**5,132**	4,881
	16,101	14,853

20. Foreign currency trade receivables, net cash and borrowings

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

Currency	Trade receivables		Net cash	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Pounds Sterling	**6,154**	4,994	**51,172**	69,228
US Dollar	**11,364**	11,441	**(10,632)**	(13,982)
Japanese Yen	**6,093**	6,771	**(9,299)**	(11,334)
Euro	**11,873**	11,514	**(12,281)**	(13,768)
Other	**2,396**	2,997	**1,801**	584
	37,880	37,717	**20,761**	30,728

In respect of net cash, the carrying value approximates to fair value because of the short maturity of the deposits and borrowings. Interest rates are floating and based on libor/libid.

Net assets and associated borrowings

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:

Currency	Net assets of subsidiary £'000	Currency borrowing £'000	Base borrowing interest rate %
US Dollar	16,193	15,025	5.25%
Japanese Yen	10,353	10,605	0.5%
Euro	17,804	16,150	4.0%

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.

The Company has Euro forward contracts which mature after the balance sheet date. The fair value of these contracts at the year end was £1,845,000 (2006 £2,007,000) (see note 19).

21. Operating leases

The total of future minimum lease payments under non-cancellable operating leases (all of which relate to land and buildings in subsidiaries) were:

	2007 £'000	2006 £'000
Expiring within one year	**321**	341
Expiring between two and five years	**116**	129
	437	470

22. Capital commitments

Capital commitments at the end of the year, for which no provision has been made in the financial statements, were:

	2007 £'000	2006 £'000
Authorised and committed	**1,589**	2,758

23. Contingencies

The UK banking arrangements are subject to cross-guarantees between the Company and its UK subsidiaries. These accounts are subject to a right of set-off.

24. 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.

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 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.
itp GmbH (Germany)*	Manufacture and sale of advanced precision metrology and inspection equipment.
Wotton Travel Limited	Travel agency.

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 Ibérica S.A.U. (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)*
Renishaw (Shanghai) Trading Company Limited (The People's Republic of China)*
Renishaw (Singapore) Pte Limited (Singapore)*

* equity held by a subsidiary undertaking

In July 2007, the Company invested £1,500,000 in the purchase of a 75% shareholding in D3 Technologies Limited, a company registered in Scotland. This company has been newly incorporated, to exploit certain patents related to Raman spectroscopy and, to pursue this, it has used £850,000 of the investment to purchase the business and assets of the analytical business unit operated by Mesophotonics Limited, a spin-out company from the University of Southampton.

25. Related parties

During the year, associates purchased goods from the Group to the value of £129,000 and sold goods to the Group to the value of £908,000. At 30th June 2007, associates owed £259,000 to the Group, including a loan of £194,000. Associates were owed £151,000 by the Group. During the year, an associate loaned the Group £2,000,000 which was repaid before the year end. No dividends were received from associates during the year (2006 £nil). All transactions with associates were on an arm's length basis.

COMPANY BALANCE SHEET

at 30th June 2007

	Notes	2007 £'000	2006 £'000
Fixed assets			
Tangible assets	27	**50,014**	48,853
Investments in subsidiaries	28	**216**	216
Investments in associates	29	**6,714**	604
		56,944	49,673
Current assets			
Stock	30	**23,100**	19,215
Debtors	31	**198,432**	211,429
Cash at bank		**7,197**	9,785
		228,729	240,429
Creditors			
Amounts falling due within one year	32	**(48,321)**	(54,099)
Net current assets			
Due within one year		**33,369**	50,082
Due after more than one year		**147,039**	136,248
		180,408	186,330
Total assets less current liabilities		**237,352**	236,003
Provisions for liabilities and charges	33	**(3,077)**	(6,877)
Net assets excluding pension asset/(liability)		**234,275**	229,126
Pension asset/(liability)	34	**4,930**	(12,482)
Net assets including pension asset/(liability)		**239,205**	216,644
Capital and reserves			
Called up share capital	35	**14,558**	14,558
Share premium account	36	**42**	42
Currency reserve	37	**1,845**	2,007
Profit and loss account	38	**222,760**	200,037
Shareholders' funds – equity		**239,205**	216,644

These financial statements were approved by the Board of directors on 25th July 2007 and were signed on its behalf by:

Sir D R McMurtry

A C G Roberts

Directors

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 30th June 2007

	2007 **£'000**	2006 £'000
Profit for the financial year	**36,703**	19,761
Dividends paid	**(16,101)**	(14,853)
Unrealised currency (loss)/gain, net of deferred tax	**(162)**	2,007
Actuarial gain/(loss), net of deferred tax	**2,121**	(616)
Net increase in shareholders' funds	**22,561**	6,299
Shareholders' funds at 1st July	**216,644**	210,345
Shareholders' funds at 30th June	**239,205**	216,644

26. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable UK GAAP.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

Investments

Investments in subsidiary and associated undertakings are stated at cost less any provision for permanent impairment losses.

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.

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately declared and authorised and no longer at the discretion of the Company. Unpaid dividends that do not meet this criteria are disclosed in the notes to the financial statements.

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 Company 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.

Pension costs

The Company operated a contributory pension scheme, of the defined benefit type up to 5th April 2007, after which this scheme was closed for future accruals to existing members and was closed to new members. Since 5th April 2007, the Company has operated a defined contribution scheme, which is part of the same scheme.

The scheme is administered by trustees who are independent of the Company finances. Contributions to the defined benefit scheme were paid in accordance with the recommendations of an independent actuary to enable the trustees to meet from the scheme 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 Company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in other finance income.

The pension scheme's surplus, to the extent that it is considered recoverable, or deficit is recognised in full and presented on the face of the balance sheet net of the related deferred tax.

Accruals are made for holiday pay, based on a calculation of the number of days holiday earned during the year, but not yet taken.

Warranty on the sale of products

The Company 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 returns and internal quality reports.

Derivative financial instruments

In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the profit and loss account. The fair value of forward exchange contracts is their quoted market price at the balance sheet date.

Long-term intragroup balances are accounted for at amortised cost. Applying the amortised cost method, interest is recognised in the income statement in the period to which it relates.

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.

27. Tangible fixed assets

Year ended 30th June 2007	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 2006	32,039	55,786	2,375	1,028	91,228
Additions	51	4,050	177	3,977	8,255
Transfers	1,065	2,943	-	(4,008)	-
Disposals	-	(85)	(237)	-	(322)
At 30th June 2007	**33,155**	**62,694**	**2,315**	**997**	**99,161**
Depreciation					
At 1st July 2006	5,283	35,443	1,649	-	42,375
Charge for the year	694	6,068	332	-	7,094
Released on disposals	-	(85)	(237)	-	(322)
At 30th June 2007	**5,977**	**41,426**	**1,744**	**-**	**49,147**
Net book value					
At 30th June 2007	**27,178**	**21,268**	**571**	**997**	**50,014**
At 30th June 2006	26,756	20,343	726	1,028	48,853

Since the year end, properties with a net book value at 30th June 2007 of £25,100,000 (2006 £nil) were charged to secure the UK defined benefit pension scheme liabilities.

Additions to assets in the course of construction of £3,977,000 (2006 £4,953,000) comprise £2,100,000 (2006 £2,206,000) for freehold land and buildings and £1,877,000 (2006 £2,747,000) for plant and equipment.

28. Investments in subsidiaries

	2007 £'000	2006 £'000
Balance at the beginning and at the end of the year	**216**	216

A list of subsidiary undertakings is shown in note 24.

29. Investments in associates

Movements during the year were:	**2007 £'000**	2006 £'000
Balance at the beginning of the year	**604**	-
Investments made during the year (note 12)	**6,110**	604
Balance at the end of the year	**6,714**	604

30. Stock

An analysis of stock at the end of the year was:	**2007 £'000**	2006 £'000
Raw materials	**9,932**	7,720
Work in progress	**7,207**	6,571
Finished goods	**5,961**	4,924
Balance at the end of the year	**23,100**	19,215

31. Debtors

An analysis of debtors at the end of the year was:	**2007** **£'000**	2006 £'000
Debtors due within one year		
Trade debtors	**9,438**	7,581
Amounts owed by group undertakings	**36,529**	62,233
Amounts owed by associated undertakings	**259**	151
Prepayments and other receivables	**5,167**	5,216
	51,393	75,181
Debtors due after more than one year		
Amounts owed by group undertakings	**147,039**	136,248
Balance at the end of the year	**198,432**	211,429

Amounts due after more than one year at 30th June 2007 are shown at their amortised cost, calculated using the effective interest method. The balance at 30th June 2007 of £147,039,000 (2006 £136,248,000) is based on an original amount of £178,611,000 (2006 £178,611,000).

32. Creditors

Amounts falling due within one year

An analysis of creditors due within one year at the end of the year was:	**2007** **£'000**	2006 £'000
Trade creditors	**8,818**	8,441
Amounts owed to group undertakings	**34,223**	37,802
Amounts owed to associated undertakings	**131**	125
Corporation tax	**241**	1,244
Other taxes and social security	**1,397**	1,401
Other creditors	**3,511**	5,086
Balance at the end of the year	**48,321**	54,099

33. Provisions for liabilities and charges

An analysis of provisions for liabilities and charges at the end of the year was:	At the beginning of the year £'000	Changes in the year £'000	**At the end of the year £'000**
Deferred tax	6,260	(3,742)	**2,518**
Warranty provisions	617	(58)	**559**
	6,877	(3,800)	**3,077**

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. The change for the year of £58,000 comprises amounts created during the year of £220,000 and amounts utilised of £278,000.

Deferred tax is represented by:	**2007** **£'000**	2006 £'000
Difference between accumulated depreciation and capital allowances	**1,651**	1,474
Other timing differences	**867**	4,786
	2,518	6,260
Deferred tax on pension scheme	**1,920**	(5,350)
	4,438	910

33. Provisions for liabilities and charges (continued)

The movements in the deferred tax balance were:	**2007 £'000**	2006 £'000
Balance at the beginning of the year	**910**	(1,200)
Amount (credited)/charged to the profit and loss account	**(3,102)**	1,500
Amount reflected through the statement of total recognised gains and losses	**6,630**	610
Balance at the end of the year	**4,438**	910

34. Pension scheme

The Company operated a pension scheme, which is of the defined benefit type. In April 2007, this scheme ceased any future accrual for current members and was closed to new members. Employees of the Company are now covered by a defined contribution scheme.

The total pension cost of the Company for the year was £5,207,000 (2006 £4,857,000), of which £126,000 (2006 £114,000) related to directors. The pension cost relating to the defined benefit scheme was 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 scheme was carried out at September 2006 and updated to 30th June 2007 on an FRS 17 basis by a qualified independent actuary. The major assumptions used by the actuary for the scheme were:-

	30th June 2007	30th June 2006	30th June 2005
Rate of increase in pensionable salaries	**n/a**	4.5%	3.7%
Rate of increase in pension payments	**3.1%**	3.0%	2.5%
Discount rate	**5.7%**	5.3%	5.0%
Inflation rate	**3.4%**	3.0%	2.7%
Expected return on equities	**8.2%**	8.5%	8.5%
Expected return on cash	**4.75%**	4.0%	4.0%
Expected return on bonds	**5.3%**	5.0%	4.7%
Retirement age	**64**	64	65

The mortality assumption adopted for 2007 is PA92, year of birth, short cohort, which reflects the increasing life expectancy.

The assets and liabilities in the scheme were:-	**30th June 2007 £'000**	30th June 2006 £'000	30th June 2005 £'000
Market value of assets:			
Equities	**84,906**	67,722	50,050
Bonds and cash	**1,740**	565	650
	86,646	68,287	50,700
Actuarial value of liabilities	**(79,796)**	(86,119)	(69,700)
Deficit in the scheme	**6,850**	(17,832)	(19,000)
Deferred tax thereon	**(1,920)**	5,350	5,700
	4,930	(12,482)	(13,300)

The history of experience gains and losses is:-	**Year ended 30th June 2007**	Year ended 30th June 2006	Year ended 30th June 2005	Year ended 30th June 2004	Year ended 30th June 2003
Difference between the expected and actual return on scheme assets					
amount (£'000)	**6,738**	6,288	4,395	2,426	(3,900)
percentage of scheme assets	**8%**	9%	9%	6%	(14%)
Experience gains and losses on scheme liabilities					
amount (£'000)	**(2,751)**	(483)	1,069	225	(300)
percentage of present value of scheme liabilities	**(3%)**	(1%)	2%	-	(1%)
Total amount recognised in the Statement of total recognised gains and losses					
amount (£'000)	**3,444**	(866)	(8,036)	83	(6,500)
percentage of present value of scheme liabilities	**4%**	(1%)	(12%)	-	(16%)

34. Pension scheme (continued)

The movements in the scheme were:-	**2007 £'000**	2006 £'000
Deficit in scheme at 1st July	**(17,832)**	(19,000)
Current service cost	**(4,740)**	(4,743)
Contributions paid	**5,018**	5,992
Other finance income	**1,500**	785
Actuarial gain/(loss)	**3,444**	(866)
Exceptional pension curtailment credit	**19,460**	-
Surplus/(deficit) in scheme at 30th June	**6,850**	(17,832)

The expense recognised in the profit and loss account was:-	**2007 £'000**	2006 £'000
Current service cost	**4,740**	4,743
Expected return on pension scheme's assets	**(6,270)**	(4,420)
Interest on pension scheme's liabilities	**4,770**	3,635
Exceptional pension curtailment credit	**19,460**	-
	22,700	3,958

35. Share capital

	2007 £'000	2006 £'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

36. Share premium

	2007 £'000	2006 £'000
Balance at the beginning and the end of the year	**42**	42

37. Currency reserve

The unrealised currency gain on foreign exchange forward contracts outstanding at the year end has been recognised, net of deferred tax.

Movements during the year were:	**2007 £'000**	2006 £'000
Balance at the beginning of the year	**2,007**	-
Effect of adoption of FRS 26	**-**	2,234
Movement for the year	**(162)**	(227)
Balance at the end of the year	**1,845**	2,007

38. Profit and loss account

Movements in the profit and loss account during the year were:	**2007 £'000**	Restated 2006 £'000
Balance at the beginning of the year	**200,037**	195,745
Profit for the year	**36,703**	19,761
Dividends paid in the year	**(16,101)**	(14,853)
Actuarial gain/(loss) in the pension scheme	**3,444**	(866)
Deferred tax thereon	**(1,323)**	250
	2,121	(616)
Balance at the end of the year	**222,760**	200,037

The profit and loss account reserve in the Company of £222,760,000 (2006 £200,037,000) includes £147,039,000 (2006 £136,248,000) which is currently non-distributable.

The 2006 figures have been restated following the adoption of FRS 25 and FRS 26 with effect from 1st July 2005.

39. Related parties

During the year, associates purchased goods from the Company to the value of £129,000 and sold goods to the Company to the value of £613,000.

At 30th June 2007, associates owed £259,000 to the Company, including a loan of £194,000. Associates were owed £131,000 by the Company. During the year, an associate loaned the Company £2,000,000 which was repaid before the year end. No dividends were received from associates during the year (2006 £nil).

All transactions with associates were on an arm's length basis.

40. Personnel expenses

	2007 £'000	2006 £'000
The aggregate payroll costs for the year were:		
Wages and salaries (including annual appreciation award)	**46,101**	44,320
Compulsory social security contributions	**4,164**	3,748
Current service cost for defined benefit plans	**5,485**	4,743
	55,750	52,811

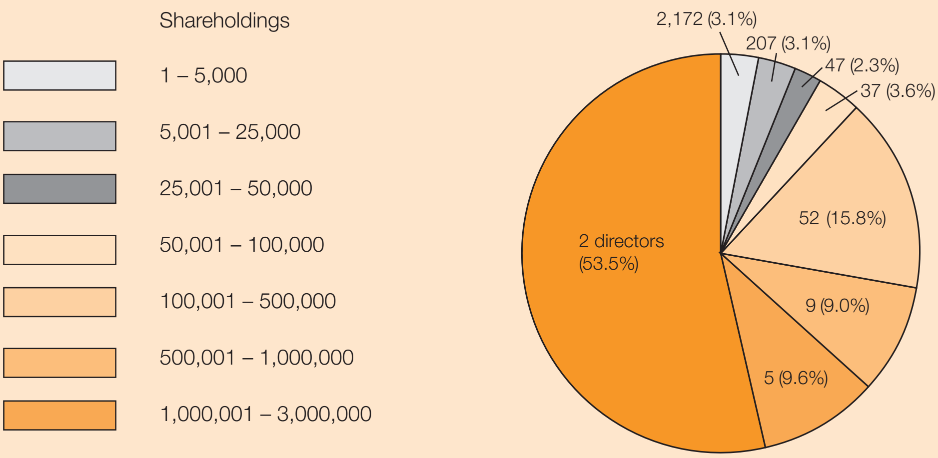
	Number	Number
The average number of persons employed by the Company during the year was:	**1,493**	1,412

41. Capital commitments

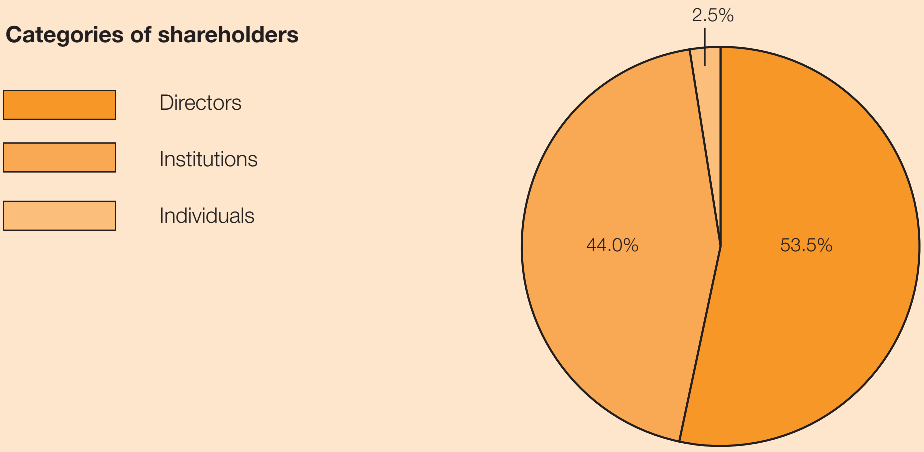
Capital commitments at the end of the year, for which no provision has been made in the financial statements, were:	**2007 £'000**	2006 £'000
Authorised and committed	**1,460**	1,877

SHAREHOLDERS' PROFILE

Number of shareholders in each shareholding range



Categories of shareholders



The above information was compiled from the register as at 6th July 2007.

FINANCIAL CALENDAR

Annual general meeting
12th October 2007

Dividends
Final dividend

Payment date	15th October 2007
Record date	14th September 2007
Ex-div date	12th September 2007

Interim dividend (provisional)

Payment date	7th April 2008
Record date	7th March 2008
Ex-div date	5th March 2008

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.

Results	note 3 **2007** **£'000**	2006 £'000	note 2 2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000	note 1 2000 £'000	1999 £'000	1998 £'000
Overseas revenue	**169,094**	164,322	144,438	118,881	100,969	94,769	113,133	94,106	85,958	82,684
UK and Ireland revenue	**11,789**	11,513	10,361	8,820	9,671	9,721	12,215	11,488	10,361	9,665
Total revenue	**180,883**	175,835	154,799	127,701	110,640	104,490	125,348	105,594	96,319	92,349
Operating profit	**29,729**	35,468	29,307	18,053	15,644	13,448	27,943	25,677	23,339	20,859
Profit before tax	**32,672**	38,102	31,733	20,146	17,799	16,062	30,795	28,261	25,829	22,380
Taxation	**6,532**	7,621	6,297	4,023	3,454	880	6,082	7,065	6,716	6,280
Profit for the year	**26,140**	30,481	25,436	16,123	14,345	15,182	24,713	21,196	19,113	16,100

Capital employed	**2007** **£'000**	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000	1998 £'000
Share capital	**14,558**	14,558	14,558	14,558	14,558	14,558	14,558	14,558	14,558	14,557
Share premium	**42**	42	42	42	42	42	42	42	42	40
Reserves	**153,400**	128,136	110,857	93,110	90,626	93,085	94,722	82,498	70,443	59,712
Shareholders' funds	**168,000**	142,736	125,457	107,710	105,226	107,685	109,322	97,098	85,043	74,309

Statistics	**2007**	2006	2005	2004	2003	2002	2001	2000	1999	1998
Overseas sales as a percentage of total sales	**93.5%**	93.5%	93.3%	93.1%	91.3%	90.7%	90.3%	89.1%	89.2%	89.5%
Basic earnings per share	**35.9p**	41.9p	34.9p	22.1p	19.7p	20.9p	34.0p	29.1p	26.3p	22.1p
Proposed dividend per share	**22.87p**	21.78p	19.80p	18.00p	16.70p	15.90p	15.14p	13.16p	11.44p	9.95p

Notes

1. The 2000 figures have been restated to reflect the impact of the adoption of IAS 19 - Employee benefits. Figures for 1998 to 1999 have not been restated.

2. For the year 2005 and onwards, the financial statements have been prepared under adopted IFRS. Financial statements for the years prior to 2005 were prepared under UK GAAP and have not been adjusted to adopted IFRS.

3. The results and basic earnings per share for 2007 exclude the exceptional pension curtailment credit.

Designed and produced by **Barneys Marketing Communications**

Printed by **Park Lane Press** using the waterless printing method which eliminates water consumption and the release of volatile organic compounds (VOCs) into the atmosphere.

Park Lane Press are certified ISO 14001 for their environmental management programme.

Renishaw plc
New Mills, Wotton-under-Edge
Gloucestershire GL12 8JR
United Kingdom

T +44 (0) 1453 524524
F +44 (0) 1453 524901
E uk@renishaw.com
www.renishaw.com