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2007 results

25th July 2007

Chairman's statement

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 XL80 laser and XC80 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.

Chairman's statement

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.

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).

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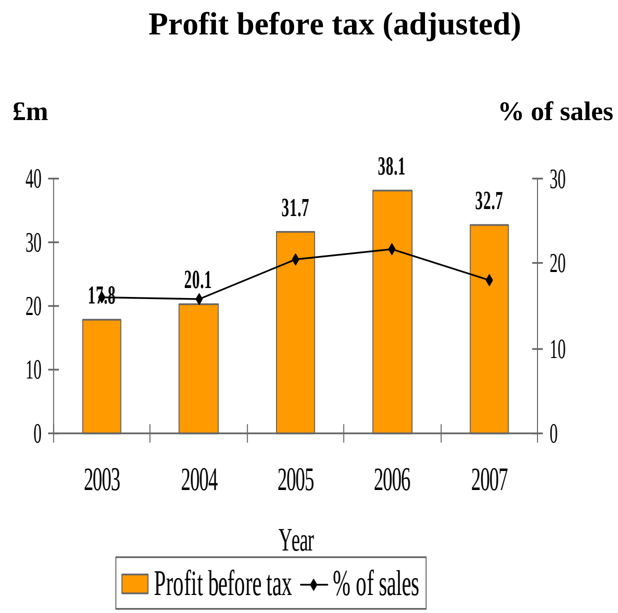
Financial highlights

	2007 £m	2006 £m	change %
Sales			
At actual exchange rates	**180.9**	175.8	**+3%**
At constant exchange rates	**190.2**	175.8	**+8%**
Operating profit			
As reported	**49.2**	35.5	**+39%**
Excluding exceptional item	**29.7**	35.5	**-16%**
Profit before tax			
As reported	**52.1**	38.1	**+37%**
Excluding exceptional item	**32.7**	38.1	**-14%**
Adjusted earnings per share	**35.9p**	41.9p	**-14%**
Dividend per share	**22.87p**	21.78p	**+5%**



Notes

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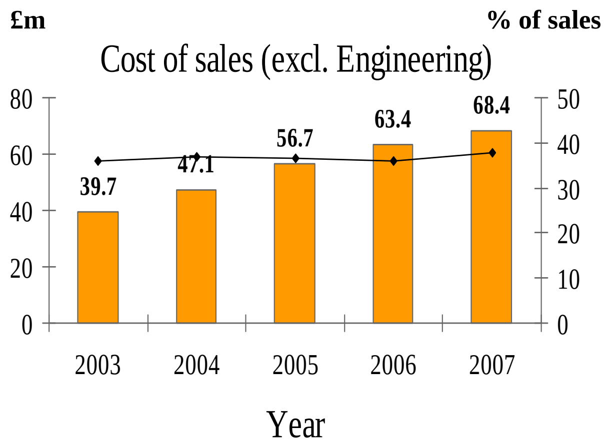
Profit and loss account (excluding exceptional item)

	2007 £m	%	2006 £m	%	change %
Sales	**180.9**	**100**	175.8	100	**+3%**
Cost of sales	**68.4**	**38**	63.3	36	**+8%**
R&D (incl Engineering)	**29.5**	**16**	27.5	16	**+7%**
Gross profit	**83.0**	**46**	85.0	48	**-2%**
Distribution costs	**32.9**	**18**	30.8	17	**+7%**
Administration costs	**20.3**	**11**	18.7	11	**+9%**
Operating profit	**29.8**	**17**	35.5	20	**-16%**
Financial income (net)	**2.9**	**1**	2.6	2	**+12%**
Profit before tax	**32.7**	**18**	38.1	22	**-14%**



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Profit and loss account

- Engineering costs (including R&D):

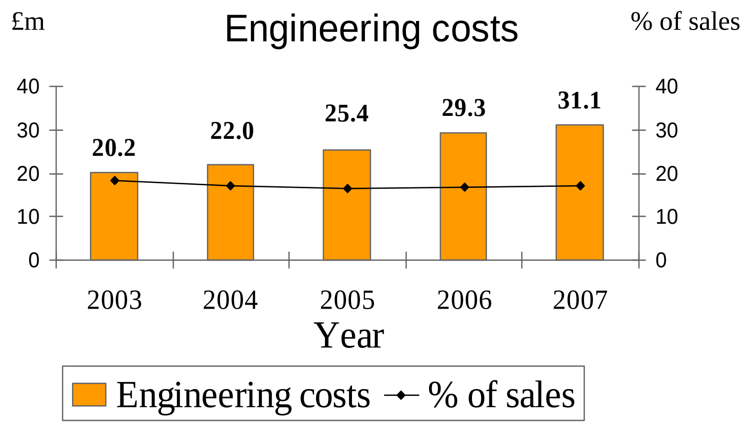
	2007	2006
•Total spend	£31.1m	£29.3m
•Less capitalised	£1.6m	£1.8m
•Remaining in P&L	£29.5m	£27.5m

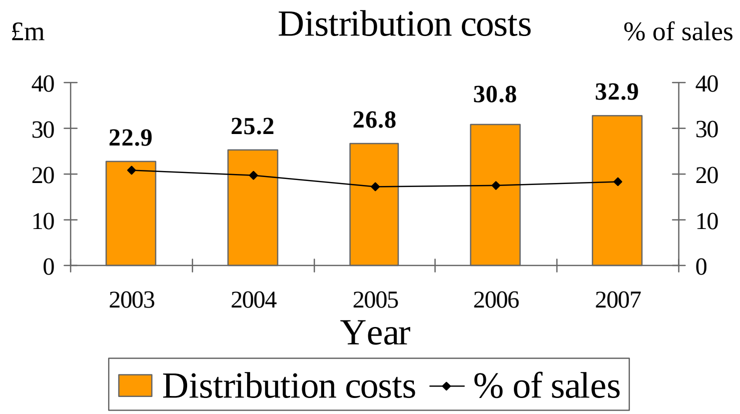
- Gross increase 6%

- Expansion on marketing resources in India and the Far East, mainly China

- Subsidiary company opened in Singapore

- More offices being opened in Brazil





Notes

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Profit and loss account

Headcount now 2,154 (June 2006 2,004), an increase of 150 people

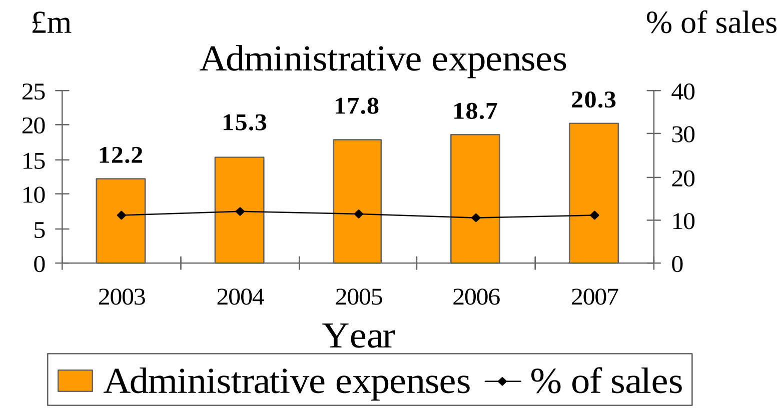
UK & Ire	1,615	+53
Overseas	539	+97

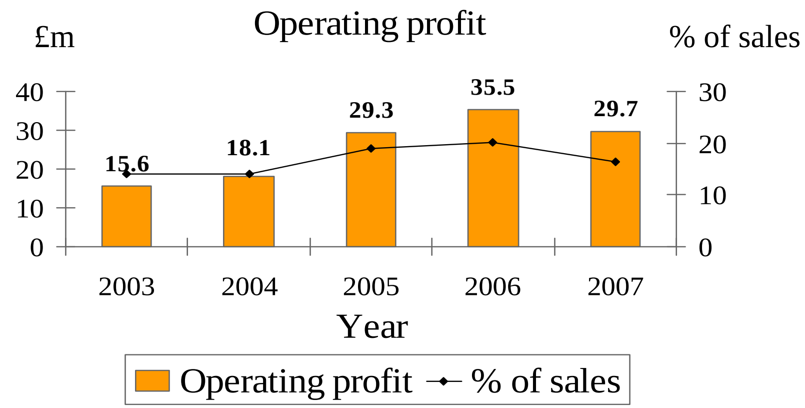
Operating profit (excluding exceptional item)

No adjustments made to periods prior to 2005 for IFRS in any of the figures and graphs in this presentation

Adverse currency effect of £9.3m at the sales level resulting in a decrease of £7m at the operating profit level, when comparing current year's results at previous year's exchange rates

This year's operating profit at last year's exchange rates would have been £36.7m compared with £35.5m





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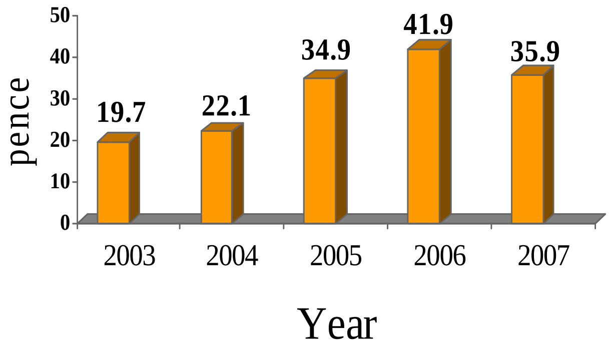
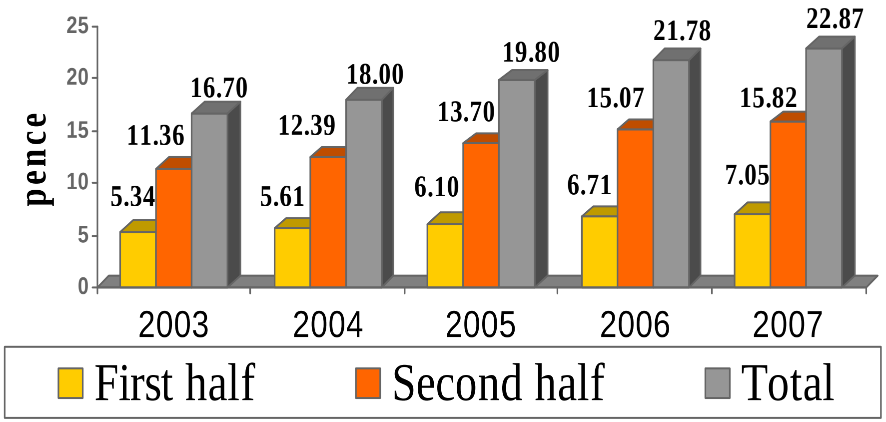
Profit and loss account

Earnings per share **(excluding exceptional item)**



Dividend per share



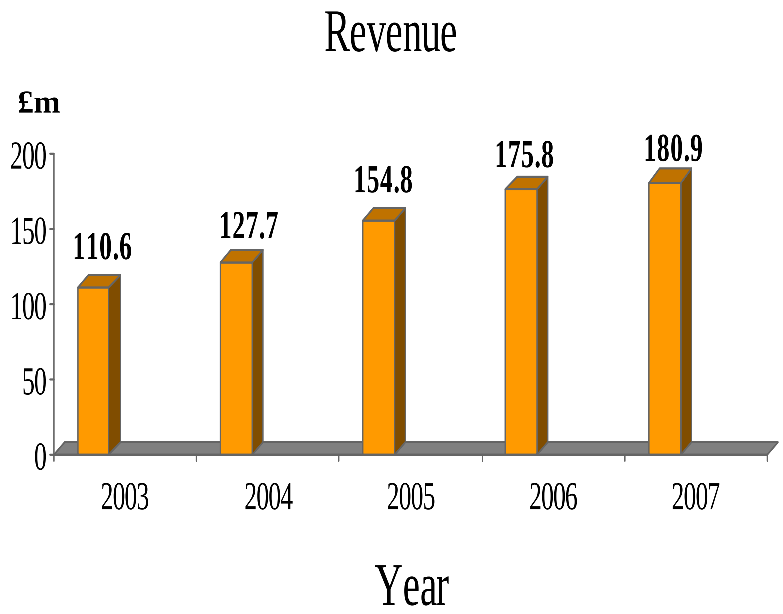
Increase	**+5%**	**+8%**	**+10%**	**+10%**	**+5%**
cover	**1.2**	**1.2**	**1.8**	**1.9**	**1.3**

Notes

Sales analysis

- Record revenue
- Sales up 3% at actual exchange rates, 8% at previous year's exchange rates
- Sales adversely affected by exchange rates compared with the previous year, sales would have been £9.3m higher at previous year exchange rates
- Changes in geographic areas:

	At act fx	At p/y fx
•Europe	+14%	+14%
•UK & Ireland	+2%	+2%
•Americas	-1%	+7%
•Far East	-5%	+6%



Notes

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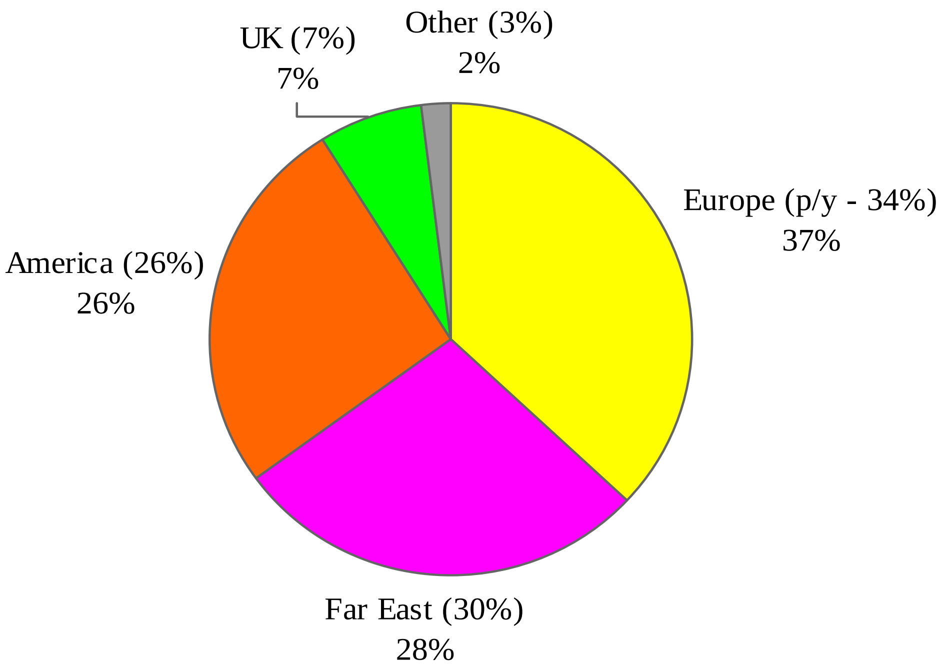
Sales analysis

- Growth in all product lines, except Co-ordinate measuring machine
- Above-average growth in the product lines:
  - Dental
  - Styli
  - Machine tool
  - Calibration
- Growth in Styli assisted by the acquisition of itp GmbH in May 2006
- Difficult CMM market, lower sales



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Group sales

	2007 £m	2006 £m	change %	at p/y fx £m	change %	adverse fx effect (£m)	
Continental Europe	**67.2**	58.9	+14%	**67.0**	+14%	(0.2)	**EUR**
Far East	**50.7**	53.1	-5%	**56.2**	+6%	5.5	**JPY/USD**
America (North & South)	**46.2**	46.7	-1%	**50.2**	+7%	4.0	**USD**
ROW	**5.0**	5.6	-10%	**5.0**	-9%		
UK & Ireland	**11.8**	11.5	+2%	**11.8**	+2%		
Total	**180.9**	175.8	+3%	**190.2**	+8%	9.3	

Notes

Capital expenditure

Total capital spend on tangible fixed assets was £9.7m (2006 £13.2m), of which £2.1m spent on property, £7.0m on plant and £0.6m on vehicles

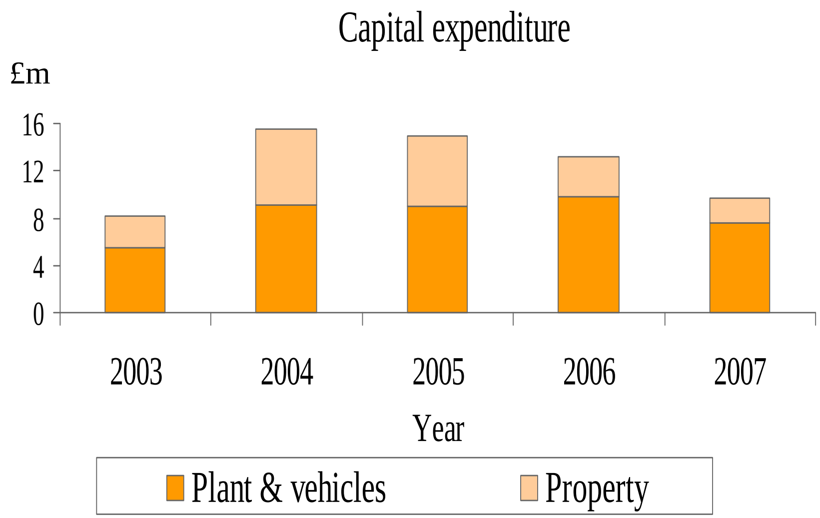
•Property additions –

- India factory and offices (0.8m)

- refurbishment of Woodchester for automated stores (£1.3m)

•Pre-production, machining and assembly equipment at New Mills

•Rapid prototyping equipment and further IT investment



Notes

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Capital expenditure

- India facility development
    - 28,500 sq ft building on 4.5 acre site
    - Headcount in India now 95 (51 in June 2006)
    - Manufacturing facility now operational
    - Expansion of sales and marketing resource ongoing
    - Software development team in place

Manufacturing facility, Pune

Notes

Capital expenditure - investments

- 20% investment in Delcam plc

•Tangible assets acquired	£3.0m
•Cost	£6.1m
•Intangibles	£3.1m

- Delcam supplies CAD/CAM systems and services for the design of products with complex shapes and their manufacture with tooling

- Investment of £1.5m in D3 Technologies Ltd
  - 75% shareholding
  - Further investment over next 5 years of over £3m
  - £850k used to purchase analytical business unit of Mesophotonics Ltd

Notes

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Awards

•Queen’s Award for Enterprise

- •Innovation 2007 for the RMP60 and RMI probe systems

- •This is the 12th Queen’s Award for the Company

•Best of British Industry Awards 2006

- • Innovation in Industry award

Ben Taylor, Assistant Chief Executive, collecting the Best of British Industry Award

Notes

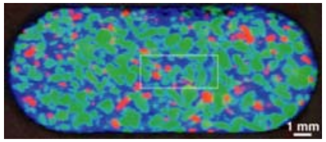
New product releases

UCClite cmm controller

XL-80 laser and XC-80 environmental compensator

Spectroscopy – Chemical imaging just got faster! - Streamline, a combination of hardware and software, enabling very fast Raman imaging of samples

Example - tablet image, taken in 32 minutes



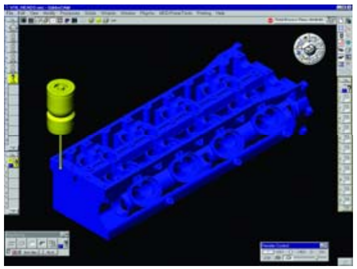
SP80H probe

New product releases

TRS2 tool recognition system

Twin probe system, with new OTS tool setting probe and OMI-2T/OMI-2H interface

Productivity+ v1.3 with GibbsCAM plug-in



before

after

Dental – remedial and cosmetic work, including manufacture of frameworks for bridges and crowns, using the incise™ dental scanner

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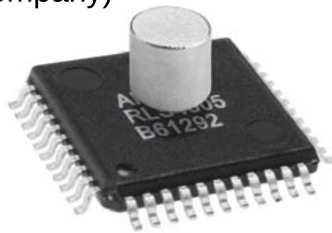
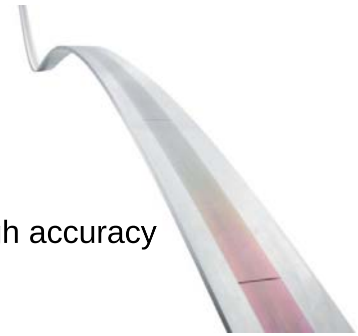
New product releases

SiGNUM high resolution Si interfaces

13-bit magnetic sensor for rotary and angular positioning control, named 'Product of the Month' for November 2006 by NASA Tech Briefs magazine

(product from RLS d.o.o., a partner company)





SiGNUM™ RSLM high accuracy stainless steel scale

REXM high accuracy angle encoder

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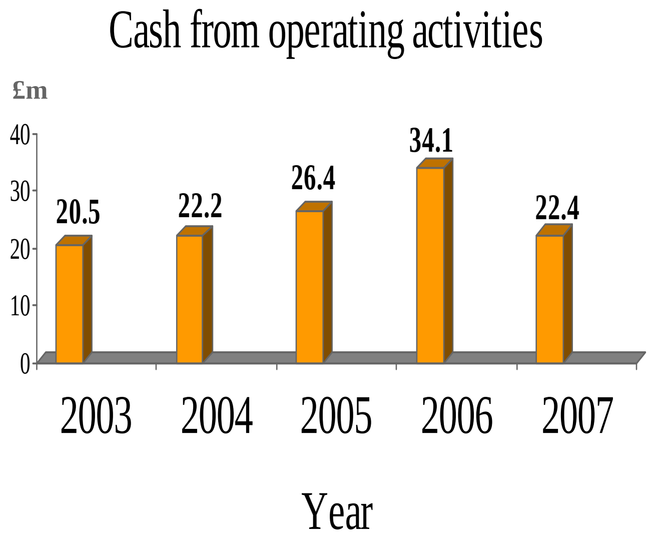
Balance sheet

	June 2007 £m	June 2006 £m	change %
Fixed assets	**69.5**	69.1	+1%
Intangible assets	**13.8**	12.5	+10%
Investments in associates	**7.0**	0.9	-
Deferred tax assets	**4.7**	10.6	-
Total non-current assets	**95.0**	93.1	+2%
Stock	**36.2**	28.4	+27%
Debtors	**44.7**	44.2	+1%
Cash	**20.8**	30.7	-32%
Creditors	**(22.0)**	(23.1)	-5%
Current assets less current liabilities	**79.7**	80.2	-1%
Deferred tax liability	**(12.2)**	(11.8)	-
Pension asset/(liability)	**5.5**	(18.8)	-
Net assets	**168.0**	142.7	+18%

Notes

Cash flow from operating activities

	2007 £m	2006 £m
Operating profit	**49.2**	35.5
Depreciation & amortisation	**11.1**	9.9
Pension curtailment credit	**(19.5)**	-
Tax paid	**(7.0)**	(7.6)
Additional pension contributions	**(0.3)**	(1.2)
Increase in stock	**(7.8)**	(1.0)
Increase in debtors	**(2.9)**	(4.3)
(Decrease)/increase in creditors	**(0.4)**	2.8
Total movement in working capital	**(11.1)**	(2.5)
Cash from operating activities	**22.4**	34.1



Notes

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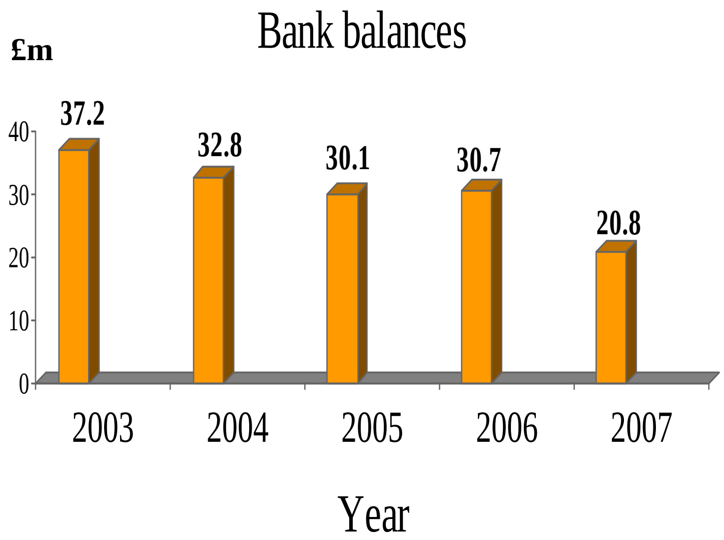
Cash flow

	2007 £m	2006 £m
Cash from operating activities	**22.4**	34.1
Interest received	**1.4**	1.9
Dividends paid	**(16.1)**	(14.9)
Fixed assets purchased (net)	**(10.7)**	(16.7)
Development costs capitalised	**(3.6)**	(3.2)
Investments in associates	**(6.1)**	(0.9)
Fx changes	**2.8**	0.3
Total cash movement	**(9.9)**	0.6
Cash at 1st July	**30.7**	30.1
Cash at 30th June	**20.8**	30.7



Notes

Future business plans

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

Notes

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Key objectives

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

Notes