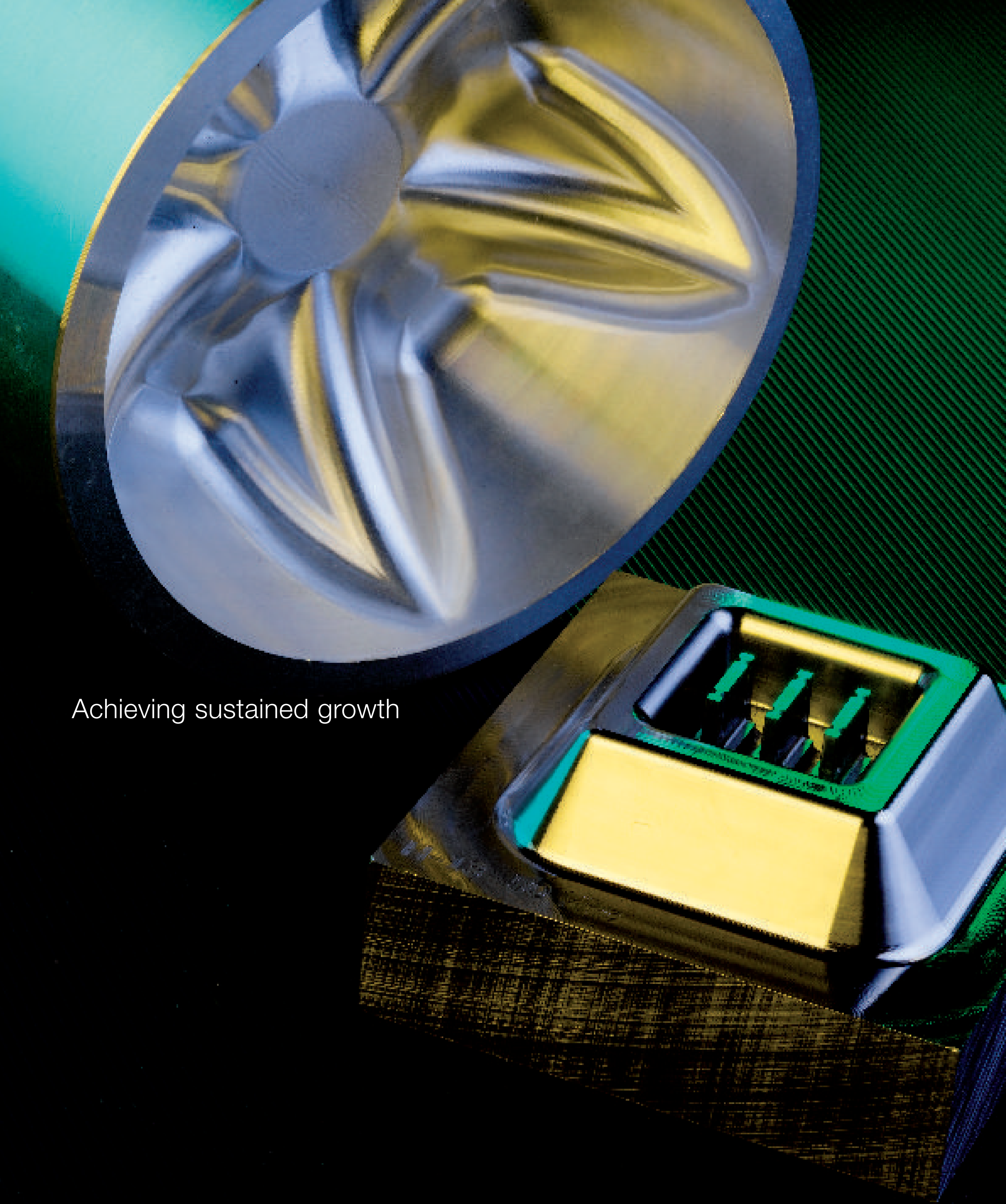
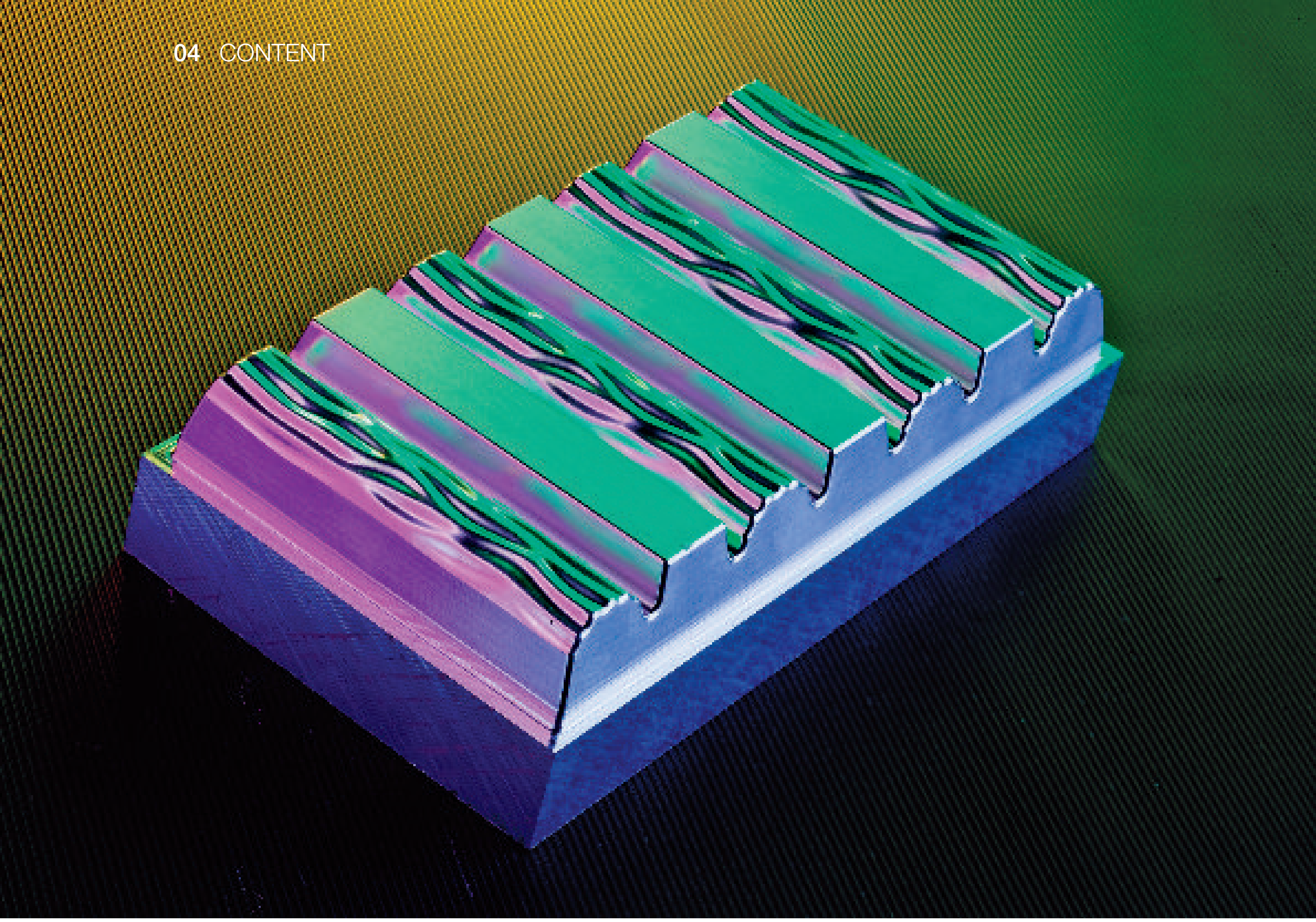


Achieving sustained growth



With the addition of Renishaw's OMV (on machine verification) software, complex shapes such as those overleaf and this mould for a chocolate bar can be manufactured and verified to the specified design.

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

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The Causeway, Worthing
West Sussex BN99 6DA
Telephone: 0870 6003970 (UK)
+44 121 4157047 (overseas)

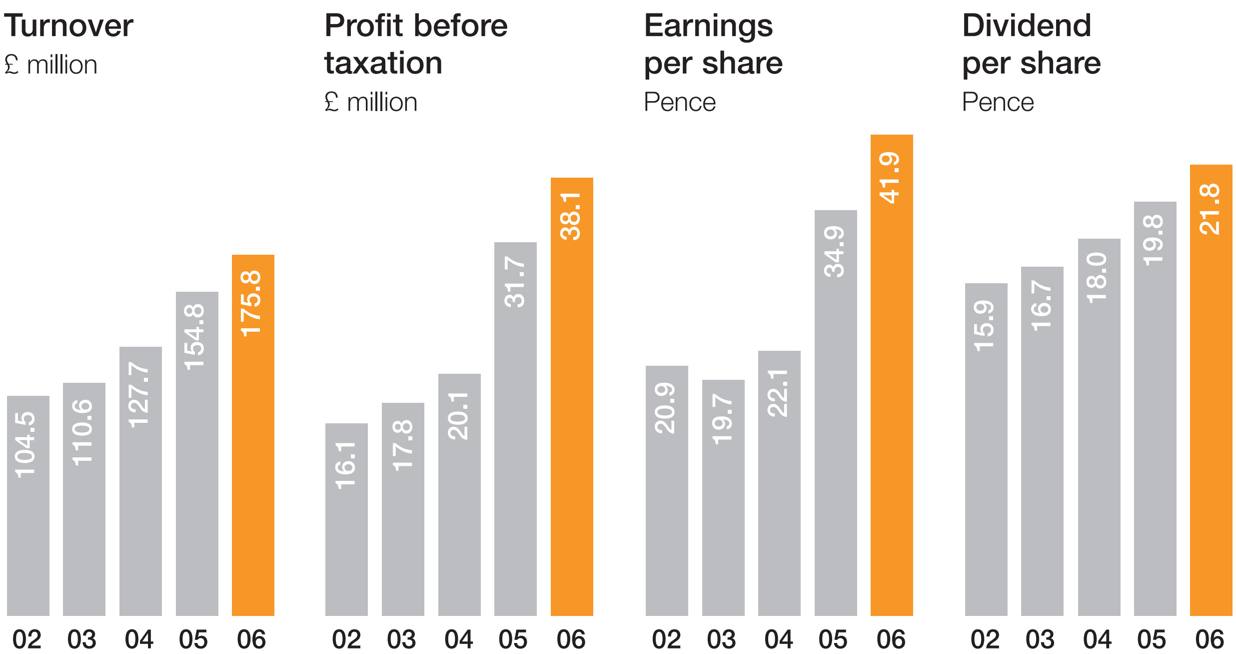
Auditors
KPMG Audit Plc

Solicitors
Norton Rose

Stockbrokers
UBS

Principal bankers
Lloyds TSB

	2006 £'000	2005 £'000	change
Revenue	**175,835**	154,799	+14%
Operating profit	**35,468**	29,307	+21%
Profit before taxation	**38,102**	31,733	+20%
Taxation	**7,621**	6,297	+21%
Profit after taxation	**30,481**	25,436	+20%
Earnings per share (basic and diluted)	**41.9p**	34.9p	+20%
Proposed dividend per share	**21.78p**	19.80p	+10%



Sir David McMurtry
CBE, RDI, CEng, FIMechE, FREng
Chairman and Chief Executive, age 66, was employed by Rolls-Royce plc, Bristol, for 17 years, latterly holding the positions of Deputy Chief Designer and Assistant Chief of Engine Design of all Rolls-Royce engines manufactured at the Filton, Bristol, works. After inventing the original probe in the early 1970s, Sir David founded Renishaw in 1973 with John Deer and joined Renishaw in 1976. His CBE was awarded "for services to Science and Technology" and he was appointed a Royal Designer for Industry (RDI) in 1989. He is a visiting Professor of Huddersfield University and has been awarded an honorary Doctorate of Engineering at the University of Birmingham and honorary degrees of Doctor of Engineering at Heriot-Watt University and Bristol University. Sir David is a Chartered Engineer, a Fellow of the Institute of Mechanical Engineers, a Fellow of the American Society of Manufacturing Engineers and a Fellow of the Royal Academy of Engineering. In addition to his role as Chairman and Chief Executive, Sir David also has responsibility for group technology.

John Deer
Deputy Chairman, age 68, trained as a mechanical engineer and worked for Rolls-Royce plc, Bristol, from 1960 to 1974. He was Managing Director of Renishaw from 1974 to 1989, primarily involved in the commercial direction of the Group, with particular emphasis on marketing and the establishment of the Group's wholly-owned subsidiaries in USA, Ireland, Japan, Germany, France and Italy. John and Sir David McMurtry were members of the four-man team of Renishaw engineers honoured with the MacRobert Award in 1987. John is responsible for group manufacturing and group quality and is chairman of the overseas marketing subsidiaries.

Ben Taylor
Assistant Chief Executive, age 57, has been involved in the field of metrology all his working life, after graduating in mechanical engineering and design from Pennsylvania State University. Before joining Renishaw Inc as President in 1985, he was the Director of Engineering at Sheffield Measurement, USA. Ben was appointed to the Board of Renishaw plc in 1987. He serves on various metrology committees and other professional associations and is responsible for group marketing, international operations and human resources.

Allen Roberts, FCA
Group Finance Director, age 57, is a Fellow of the Institute of Chartered Accountants in England and Wales. Before joining Renishaw in 1979, he was employed for 11 years by Peat, Marwick, Mitchell & Co. He was appointed a director in 1980. Allen heads group finance, business systems and Wotton Travel and is the company secretary.

Geoff McFarland
Group Engineering Director, age 38, 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.

FROM LEFT: David Snowden, Terry Garthwaite, Ben Taylor, John Deer, Sir David McMurtry, Geoff McFarland, Allen Roberts and Joe McGeehan.

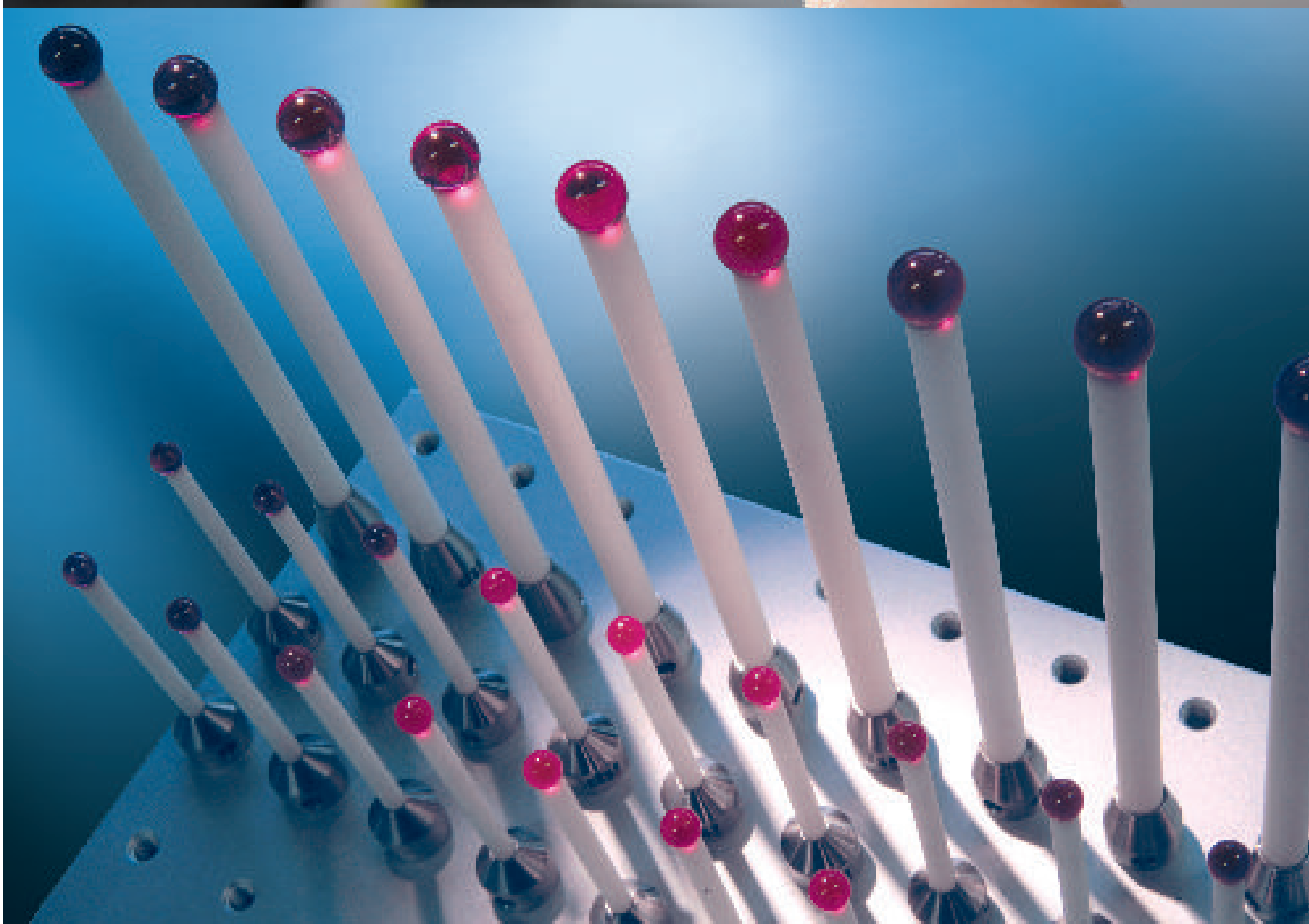
Joe McGeehan, CBE, FIEE, FREng
the senior independent non-executive director, age 60, is Managing Director of Toshiba Research Ltd: Telecommunications Research Laboratory, Bristol. After obtaining the degrees of BEng and PhD in electrical and electronic engineering from the University of Liverpool, he 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 59, is a chartered accountant, who, after qualifying, joined Price Waterhouse, London. Following 12 years working at Foseco Minsep plc, a specialty chemical company, Terry joined the specialist multinational engineering group, Senior plc as Group Finance Director. Whilst at Senior he was also responsible for investor relations and chaired the group's tax and treasury committee and the UK pension funds. Terry is a non-executive director of Brammer plc and Wilmington Group plc. He was appointed a director of Renishaw plc on 1st July 2003 and is the chairman of the Audit committee.

David Snowden, FCA
non-executive director, age 69, was a partner at KPMG for 25 years, latterly acting as Senior Partner for KPMG in South Wales. David was an audit partner covering a wide range of businesses and was also regional partner in charge of insolvency work for ten years. Since his retirement from KPMG in 1993, David has been a director and corporate adviser to a number of private companies. David was appointed a director of the Company on 1st July 2003 and is the chairman of the Remuneration and nomination committee.

Audit committee:
Terry Garthwaite (Chair)
Joe McGeehan
David Snowden

Remuneration and nomination committee:
David Snowden (Chair)
Terry Garthwaite
Joe McGeehan



TOP LEFT: OMP400 high-accuracy strain gauge probe.
BOTTOM LEFT: Styli designed and manufactured by itp GmbH.
TOP RIGHT: Sir David McMurtry.
BOTTOM RIGHT: DSi (dual SiGNUM™ interface) and the REXM ultra high-accuracy ring encoder.

These results and comparatives for the prior year have been prepared under the International Financial Reporting Standards (IFRS), as adopted by the EU.

Revenue and trading

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

I am pleased to report record results for the year ended 30th June 2006, both in revenue and profitability.

Profit

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

Manufacturing

The Group's production facilities in the UK have again undergone significant expansion. The manufacturing plant and machinery were successfully moved from New Mills to the Company's facilities at Stonehouse with minimal disruption. The old machine hall at New Mills is now currently undergoing refurbishment to provide a pre-production machining and assembly facility, with completion scheduled for the end of July.

At our Woodchester facility, 27,000 sq feet is being refurbished to provide both additional assembly space and a new automated storage facility for finished goods and components.

The recently purchased facility in Pune, India, is currently being refurbished to provide additional and complementary production facilities and is due to be operational in September.

Research and development

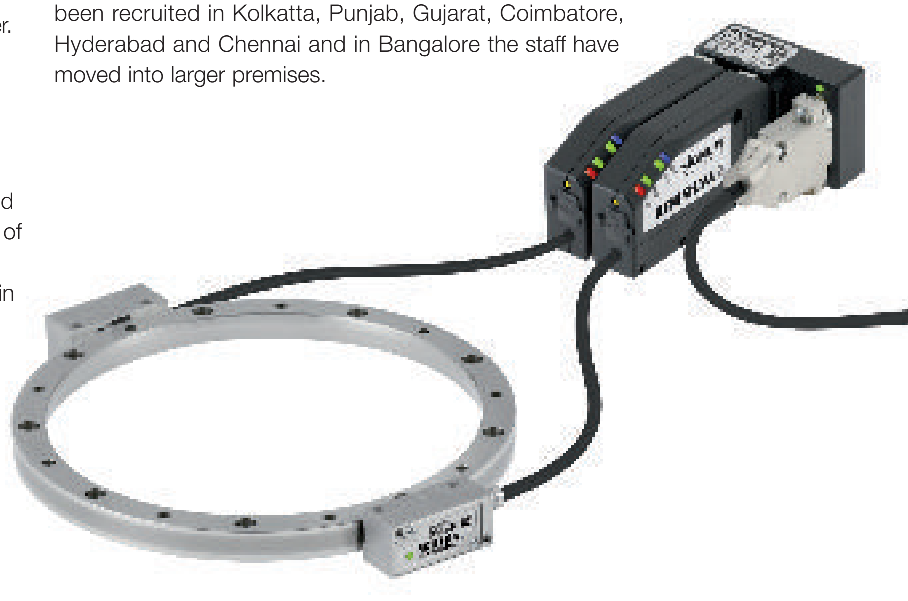
The Group continues to expand its product range and a number of very promising new products have been introduced during the last 12 months, including the SiGNUM™ Intelligent Encoder with Fanuc serial output and RELM from our encoder product line. The GYRO™ range of heads to complement the very well received REVO™ and RENSCAN5™, was introduced at EMO held in Hannover in September 2005 by our co-ordinate measuring machine product line. The machine tool product line introduced the OMP400 high-accuracy strain gauge probe and Productivity+™ Active Editor Pro for the graphical measurement cycle design environment.

Further exciting developments have taken place in the dental field with the launch of the incise™ scanning system for use by dental laboratories which are now being offered precision frameworks for crowns and bridges from the Company's new dental manufacturing facility at Stonehouse.

Total research and development expenditure during the year, including engineering costs, amounted to a record £29.3m (2005 £25.4m), of which £1.8m (2005 £0.5m), net of amortisation, has been capitalised as an intangible asset in accordance with adopted IFRS.

Marketing

The Group continues its drive into developing markets with further sales and marketing representation, particularly in the growth markets of the Far East and India. In China, new offices have been established in Chengdu, Guangzhou and Shenyang, with an office in Qingdao about to open. There is now a representative office established in Thailand, with Malaysia to follow in the near future. A liaison office has also been established in Turkey. In India, additional staff have been recruited in Kolkatta, Punjab, Gujarat, Coimbatore, Hyderabad and Chennai and in Bangalore the staff have moved into larger premises.



FROM LEFT: Geoff McFarland, Group Engineering Director – Renishaw plc, Peter Bungard, Clerk to the Lieutenancy and Chief Executive, Gloucestershire County Council, Ben Taylor, Assistant Chief Executive – Renishaw plc, Henry Elwes, Her Majesty's Lord Lieutenant for Gloucestershire.

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

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

Balance sheet
The Group aims to operate with a strong balance sheet including good liquidity.

Total capital expenditure for the year on tangible fixed assets amounted to £13.2m (2005 £14.9m), of which £3.5m (2005 £6.0m) was property.

Cash balances at 30th June 2006 were £30.7m compared with £30.1m at June 2005.

Pension fund
The Board has for some time been discussing the future of the Company pension fund with its trustees and has proposed the closure of the current defined benefit scheme to new employees and the establishment of a defined contribution category within the existing trust. The contribution rates for existing members would also be increased. A consultation process is being undertaken with a view to the changes becoming effective from 1st November 2006.

The pension fund liability as at 30th June 2006 measured under the rules for IAS19, net of deferred tax, has decreased to £13.4m (2005 £14.8m).

Personnel
The number of staff employed in the Group at the end of the year increased by 7% to 2,004 (2005 1,865). Recruitment has principally been in overseas marketing, UK manufacturing and engineering.

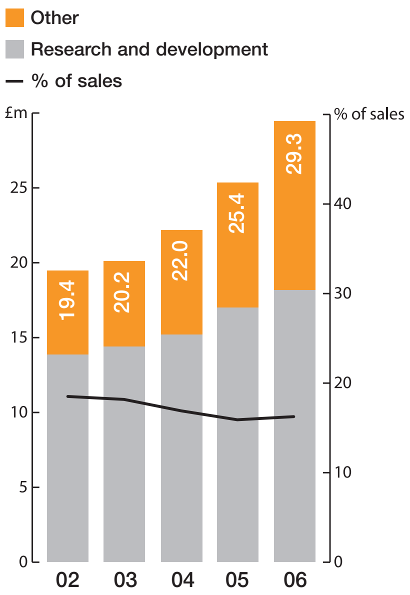
I would like to thank all staff worldwide for their contribution to yet another demanding but very successful year.

Prospects and dividend
The current year has again started well. We continue to invest in the research and development of new products and new market areas as well as manufacturing processes to improve efficiency. Providing there are no major adverse currency movements or a significant downturn in world economies, we are confident of continuing growth, both for the current year and the longer-term future.

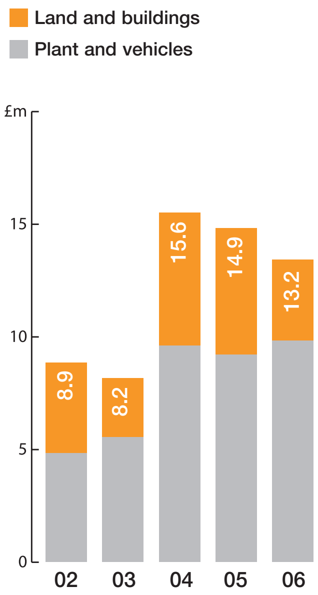
Your Board proposes a final dividend of 15.07p per share, giving a total for the year of 21.78p (2005 19.8p).

Sir David R McMurtry
CBE, RDI, CEng, FIMechE, FREng
Chairman and Chief Executive
26th July 2006

Engineering costs
£ million



Capital expenditure
£ million



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

Most of the Group's products are manufactured in the UK and Ireland and the Group markets and distributes them to customers around the world, with sales outside the UK representing over 90% of total group sales.

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

There are also representative offices in Singapore, Taiwan, Hungary, Turkey and Thailand, and a partnership company, 50% owned, in Slovenia.

Business strategy

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

The Group is developing other market opportunities, in addition to the more traditional manufacturing sector, which has provided the major customers for Renishaw's products in the past. These other market opportunities include printing, scientific research, dental, process control in chemical, semiconductor and material production and motion feedback systems for equipment used in the production of electronic and semiconductor components.

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

In order to improve the Group's ability to design, manufacture and support its products, more investment has been made in manufacturing facilities in the UK, mainly at the site at Stonehouse, which was refurbished during the year and now houses the machine shop, raw materials stores and post-manufacturing processes.

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.

Acquisitions

During the year, the Group made three acquisitions.

In September 2005, the Company invested £0.3m in a 50% business partnership in Metrology Software Products Limited ("MSP"), a metrology software development company. MSP develops software products in the field of engineering metrology and production environments. MSP products are used by a number of original equipment manufacturers including Renishaw.

In October 2005, the Company acquired a 50% share in PulseTeq Limited, a supplier of magnetic resonance imaging equipment. This investment of £0.3m will assist Renishaw in its investigation and exploitation of opportunities in the medical field.

In May 2006, Renishaw purchased for £4.8m itp GmbH, a German company which designs, manufactures and distributes styli and accessories for metrology applications. itp's products are complementary to Renishaw's stylus business and this investment will allow the companies to share technology developments and add to the range of products that Renishaw and itp supply to their customers world-wide.

Opportunities and risks

Along with the three acquisitions made during the year, the Group has continued to invest in research and development.

This research and development is intended to ensure that our range of products in the field of metrology continue to provide customers with cost-effective solutions to their metrology requirements and that we keep ahead of the competition with patented and innovative products.

We have been in the probing business since the start of the Company in 1973 and as a major supplier in both the co-ordinate measuring machine and machine tool industries, the main risks inevitably come from the volatility of the capital goods market. Currently this is being buoyed by the arrival of China and India onto the international stage.

To defend market share, we maintain close working relationships with our major customers, who are mainly original equipment manufacturers ("OEMs"), including at the design stages of their new products, ensuring that we have an extensive range of products which will provide the required solution for the customer and which can be integrated as easily as possible into the OEMs' products.

The Group is establishing a manufacturing facility in India, which will enhance the Group's product range and will ensure that we can continue to produce competitively priced products.

As mentioned in the Chairman's statement, the defined benefit pension scheme being maintained for the UK employees is currently undergoing a detailed review. Meanwhile, there is a certain risk and it remains vulnerable to changes in performance and actuarial assumptions. The next triennial actuarial valuation will take place on 1st July 2007 and this will form the basis for the scheme's future funding.

There is an exchange rate risk arising from the significant level of overseas revenue. The policy for managing this risk is detailed in the treasury policy on page 14, which also details the hedging practices used to limit the exposure.

There are interesting opportunities developing in the dental field and, with our acquisition of PulseTeq, applications of our metrology expertise in the medical field look very promising.

International Financial Reporting Standards ("IFRS")

EU law requires that the consolidated financial statements of the Company be prepared in accordance with IFRS adopted by the EU, for all accounting periods beginning on or after 1st January 2005. These are the first set of financial statements prepared by the Company under IFRS and the comparative figures, previously prepared under UK Generally Accepted Accounting Practice ("UK GAAP") have been restated as necessary.

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP.

Operating review

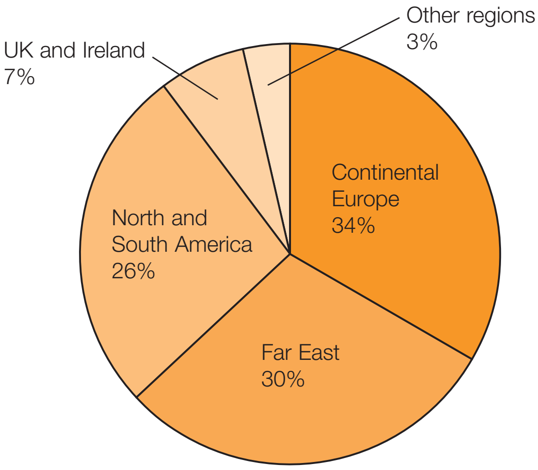
In the year to 30th June 2006, group sales increased by 14% over the previous year, from £154.8m to £175.8m. This was after favourable currency movements which had the effect of increasing group sales by £3.6m, when compared with the previous year's exchange rates. At the previous year's exchange rates, sales would have increased by 11%.

Continental Europe continues to be our major market area, but it is a mature market and sales only increased by 2%, from £57.7m last year to £58.9m this year. In contrast, sales to Japan and the Far East rose to £53.1m (2005 £43.1m), an increase of 23%. North and South America increased by 18%, from £39.6m to £46.7m, while UK and Ireland saw sales up from £10.4m to £11.5m, a rise of 11%.

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

Revenue by geographical market	2006 at actual exchange rates £'000	2006 at 2005 exchange rates £'000	2005 at actual exchange rates £'000
Continental Europe	58,945	58,026	57,665
Far East, including Japan and Australia	53,130	53,239	43,092
North and South America	46,708	43,890	39,605
United Kingdom and Ireland	11,513	11,513	10,361
Other regions	5,539	5,518	4,076
Total group revenue	175,835	172,186	154,799

Revenue by geographical market



We continued to invest in research and development, with total engineering costs increasing by 11%, to £29.3m in 2006 from £25.4m last year, before the capitalisation of development costs (net of amortisation charges) of £1.8m this year and £0.5m last year. The capitalisation of development costs reduced the engineering costs in the Consolidated income statement to £27.5m this year, compared with £24.9m last year. A significant proportion of this spend is eligible for the UK research and development tax relief, which results in a reduction of approximately £1.0m in the UK corporation tax charge for the year.

The group workforce expanded during the year, from 1,865 at June 2005 to 2,004 at June 2006. The increase in headcount has been both in the UK and Ireland, to support the growth in business, and also in our overseas subsidiaries, mainly in India, where we are establishing a manufacturing facility, and in the Far East, to support our sales and marketing activities there.

Total labour costs increased to £70.4m from £63.7m in 2005, a rise of 10%.

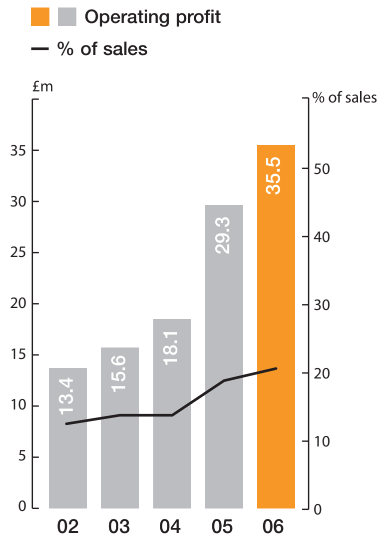
Operating profit for the year was £35.5m, 21% above the £29.3m for the previous year.

With slightly increased net financial income, this being interest income on our cash deposits, along with other finance income relating to the Group's defined benefit pension schemes, profit before tax rose by 20%, from £31.7m in 2005 to £38.1m in 2006.

The overall effective rate of tax, a combination of the varying tax rates applicable throughout the countries in which the Group has subsidiaries, was 20%, which is at a similar level to the previous year. Profit after tax and earnings per share (basic and diluted) were also 20% higher, with earnings per share of 41.9p, compared with 34.9p in the previous year.

The proposed total dividend per share for the year is increased by 10%, from 19.80p to 21.78p, giving a total dividend of £15.9m (2005 £14.4m) for the year. Note that under IFRS, the dividend amounts in the retained earnings of £14.9m for the current year and £13.5m for the previous year are based on amounts paid in the relevant year, rather than the amounts proposed in relation to those years, which is how the dividends were accounted for under previous UK GAAP. The interim dividend paid is the same under both standards. However, in the case of the final proposed dividend, this is accounted for one year later under IFRS as it is not approved until the annual general meeting, which is held after the year end.

Operating profit



Balance sheet

The Group has continued to make substantial investment in fixed assets during the year, with capital expenditure on tangible fixed assets of £13.2m compared with £14.9m during the previous year.

During the year, the refurbishment of our new manufacturing site in Stonehouse was completed and work was started on the manufacturing facility in Pune, India. The Group continues to invest in production facilities and IT equipment, spending £8.9m on plant and equipment in the year.

The net book value of fixed assets was £69.1m at June 2006, compared with £64.3m at June 2005, an increase of £4.8m.

The Group also capitalised certain development costs during the year, as required under IFRS. Development costs of £3.2m were added to intangible assets, while amortisation on previously capitalised development costs totalled £1.4m, thereby increasing these intangible assets in the balance sheet by £1.8m, compared with a net increase of £0.5m last year.

Inventory has been maintained at a similar level to the previous year, being £28.4m at June 2006, up £1.0m from £27.4m at June 2005.

Net cash inflow from operating activities was £34.1m compared with £26.4m in the previous year, which after significant capital expenditure, acquisitions, tax and dividend payments has resulted in cash balances increasing by £0.6m from £30.1m to £30.7m.

The Company has continued to make additional contributions to its UK defined benefit pension scheme, in line with recommendations from the scheme's actuaries. There has been an increase of £18.4m in the valuation of the assets of the Group's schemes, but the schemes' liabilities have also increased, partly due to changes in actuarial assumptions. As a result, the overall deficit, which was £20.7m at June 2005, decreased to £18.8m at the end of the year.

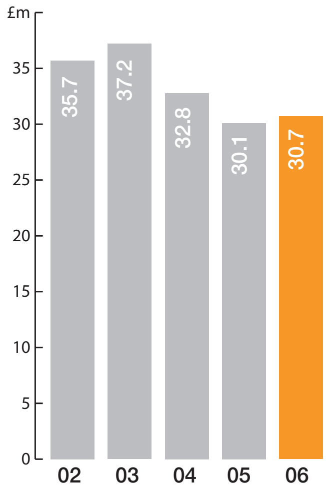
As a guide to sensitivity of the value of the liabilities, currently £91.1m, a decrease or increase in the discount rate of 0.1% would increase or decrease liabilities by approximately £2.0m. An increase or decrease in the salary rate of 0.1% would increase or decrease liabilities by approximately £1.0m and a decrease in the retirement age of one year would increase liabilities by approximately £2.7m.

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 such 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.

Cash balances
£ million



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 19 on page 41 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 full year and for the Group's US Dollar cash inflows for the last three months of the financial year. Forward contracts are also in place as a hedge against a major part of the Group's estimated Euro cash inflows from July 2006 until June 2008.

Investment for the future

The Group has continued to invest heavily in its research and development programme, with 16% 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
26th July 2006

NOTICE IS HEREBY GIVEN that the 33rd annual general meeting of the Company will be held at New Mills, Wotton-under-Edge, Gloucestershire, GL12 8JR on Friday 13th October 2006 at noon to transact the following business:-

1. To receive and adopt the reports of the directors and auditors and the financial statements for the year ended 30th June 2006.
2. To declare a final dividend.
3. To re-elect as a director of the Company B R Taylor, who is retiring by rotation.
4. To re-elect as a director of the Company J P McGeehan, who is retiring by rotation.
5. To approve the Directors' remuneration report contained in the Annual report 2006.
6. To re-appoint KPMG Audit Plc as auditors of the Company and to authorise the directors to determine their remuneration.
7. To consider as special business and, if thought fit, to pass the following resolution, which will be proposed as a special resolution:-

   THAT the Company be and is hereby unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 20p each in the capital of the Company ("ordinary shares") provided that:

   (i) the maximum number of ordinary shares hereby authorised to be purchased is 7,278,854;

   (ii) the maximum price that may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the 10 business days immediately preceding the day on which the ordinary share is purchased;

   (iii) the minimum price which may be paid for an ordinary share shall be 20p;

   (iv) the authority hereby conferred shall expire at the earlier of the conclusion of the annual general meeting to be held in 2007 and 31st December 2007 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
26th July 2006

New Mills
Wotton-under-Edge
Gloucestershire
GL12 8JR

Notes:
The Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6 pm on 11th October 2006 shall be entitled to attend or vote at the aforesaid annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6 pm on 11th October 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company and the appointment of a proxy will not preclude a member from attending and voting at the meeting.
A form of proxy is enclosed for this purpose.

The register of directors' shareholdings, copies of the executive directors' service contracts and the letters of appointment of non-executive directors will be available for inspection at the registered office of the Company during normal business hours until the date of the meeting and at the place of the meeting for 15 minutes prior to, and during, the meeting.

The directors have pleasure in presenting their 33rd Annual report, together with the audited financial statements for the year ended 30th June 2006 as set out on pages 24 to 58.

Trading results

The Group results for the year were:-	**2006**	2005
	£'000	£'000
Profit before taxation	**38,102**	31,733
Income tax expense	**7,621**	6,297
Profit for the year	**30,481**	25,436

Principal activities and enhanced business review
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 11 to 14 of the Annual report.

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

Dividends
The directors propose a final dividend of 15.07p per share (2005 13.70p) which, together with the interim dividend of 6.71p (2005 6.10p), makes a total of 21.78p for the year, compared to 19.80p for the previous year. Subject to shareholder approval, the final dividend will be paid on 16th October 2006 to shareholders on the register on 15th September 2006, with an ex-dividend date of 13th September 2006.

Directors and their interests
The directors who served during the year and their interests in the share capital of the Company, at the beginning and the end of the year, were:-

	Ordinary shares of 20p each	
	2006	2005
D R McMurtry	**26,377,291**	26,377,291
D J Deer	**12,393,040**	12,393,040
B R Taylor	**10,147**	10,147
A C G Roberts	**5,165**	5,165
G McFarland	**-**	-
J P McGeehan	**900**	900
T D Snowden	**5,000**	5,000
T B Garthwaite	**3,000**	3,000

All the above holdings were beneficially held with the exception of 2,320,311 shares (2005 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 2006 to 26th July 2006.

B R Taylor, who has a service contract with the Company and J P McGeehan, who has 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 6 and 7.

Environmental control
The Renishaw Group operates in an environmentally-responsible manner, making use of the most appropriate technologies and practices to minimise its impact on the environment.

Environmental performance is a foremost criterion in the design of the manufacturing processes and extensive recycling takes place throughout manufacturing operations.

Most machining activity has been relocated to the new site at Stonehouse, which has been developed with the most up-to-date facilities in order to ensure optimum work conditions for employees and maximum environmental performance. This includes a new anodising plant, which has been specifically designed to minimise water consumption and which complies with the most stringent environmental requirements.

Throughout the sites, a programme of energy reduction has been implemented: the lighting equipment is being systematically upgraded with high-frequency high-efficiency lighting systems; all air conditioning systems are being converted to inverter control in order to adapt their output to the area's specific requirements; motion sensor devices have been fitted to the lighting systems of low-usage areas and new lighting systems have been adapted to activate "Patrol only" lighting at times of low usage. Also, a minibus has been put in service between sites to reduce the impact of transport.

In order to reduce energy consumption further, Renishaw is investigating the merits of geo-thermal heating technology, using the natural latent heat from the ground. This technology is being evaluated through the refurbishment of a building on the main New Mills site.

From a design perspective, further effort has been made to eliminate unnecessary package and non-recyclable packing materials. A programme is under way to develop the design-for-lifecycle approach, which includes, in particular, consideration of the disposal and recycling of products at the end of their life in the most environmental-friendly manner. This will integrate with the work done to comply with the requirements of the EU Directive on the reduction of waste of electrical and electronic equipment.

Renishaw has wholeheartedly embraced the EU Directive on the restriction of the use of certain hazardous substances (RoHS) and has correspondingly updated its surface mount technology soldering process to operate lead-free. Although most Renishaw products fall outside the scope of the directive, all new products are designed in compliance. It is planned that RoHS-compliant products will be produced from late 2006.

Work is under way to set up an information collection system that will allow monitoring of environmental performance throughout all sites of the Group. This will be used in particular to assess the Group's performance in relation to carbon emissions. It will be a first step in preparation for the planned deployment of compliance to the ISO 14001:2000 standard.

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

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 15 sets out a resolution relating to the purchase of own shares, which the directors have resolved should be proposed as special business during the course of the meeting. 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 2007 annual general meeting and 31st December 2007. 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 August, the Assistant Chief Executive presents the final results, following their publication, to all employees.

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

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 2006 was approximately 30 days (2005 30 days).

Substantial shareholdings
Apart from the shareholdings of Sir David McMurtry and John Deer (36.2% and 17% respectively), the only shareholding notified to the directors, which represents 3% or more of the issued share capital of the Company, as at 26th July 2006, is Aegon UK plc, which holds 3,645,018 shares (5.01%).

Donations and community involvement
During the year the Group made charitable donations of £104,532 (2005 £62,541). The Group organises its charitable donations by two methods: firstly, by allocating a fund of money to its Charities Committee; and secondly, through direct grants as decided by the Board. The Charities Committee meets at least four times a year to consider all applications for donations from local groups in the UK. Its donations policy is to provide funds to local causes or local branches of national groups, with focus on youth projects.

In addition to donations to charitable causes, the Company is actively involved with the community, for example, hosting events at its premises for local schools and supporting the community sports foundation efforts in providing sporting facilities in Wotton-under-Edge. No political donations were made during the year (2005 £nil).

By order of the Board
A C G Roberts FCA
Secretary
26th July 2006

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

This report, together with the Directors' remuneration report on page 21 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 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 2006, 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.

If there are any concerns raised by directors that cannot be resolved, such a matter would be recorded in the board minutes. No such concerns have been highlighted.

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 business.

The senior independent director role is rotated between the non-executive directors on an annual basis. The senior independent director for the year ended 30th June 2006 was Terry Garthwaite and the senior independent director for the year beginning 1st July 2006 is Joe McGeehan.

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.

The directors holding office at the date of this report and their biographical details are given on pages 6 and 7.

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 7. 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 hold 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 established a formal process last year, 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 2006 will be Ben Taylor and Joe McGeehan. Their biographical details are set out on pages 6 and 7. Joe McGeehan was appointed as a non-executive director in January 2001 and, subject to re-election, will have held office for six years in January 2007. The Board has considered Joe McGeehan's performance as a non-executive director of the Company and believes that his performance continues to be effective and he demonstrates a commitment to his role at Renishaw.

B. Directors' remuneration
The Directors' remuneration report set out on page 21 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.

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.

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 7. 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 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	8 (8)	-	-
A C G Roberts	8 (8)	-	-
G McFarland	8 (8)	-	-
J P McGeehan	6 (8)	2 (3)	3 (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;
- the Chairman and Chief Executive and the Deputy Chairman became subject to re-election by shareholders from October 2005; and
- at least half the Board, excluding the chairman, does not comprise independent non-executive directors.

A C G Roberts FCA
Secretary
26th July 2006

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 7. The terms of reference of this committee are published on the Company's website. KPMG, who were appointed by the Company, provides advice in relation to certain benefits for the directors and on the Company's pension scheme.

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

Remuneration packages
The committee reviews basic salaries to take effect from 1st July each year. In deciding appropriate levels, the committee takes account of financial data taken from a cross-section of UK companies within the electronic and engineering sectors. The Company operates an annual appreciation award scheme for all group employees and directors, on which no pension contributions are made. The award is based upon group profit performance and the achievement of a number of strategic objectives to maintain the long-term development of the Group. The non-executive directors do not participate in the appreciation award scheme.

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

Geoff McFarland participates in the Company's defined benefit scheme and more details are given in note 7 on page 34.

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 34.

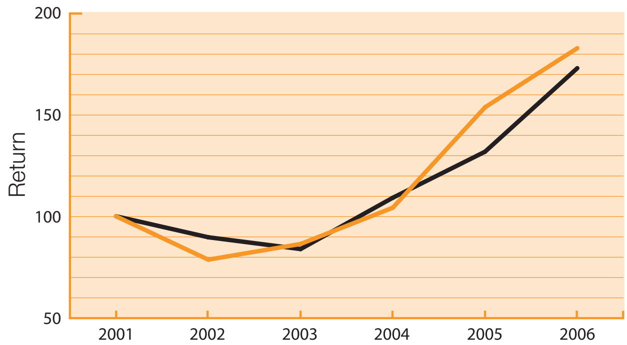
There are no share options or long-term incentive schemes in operation for the directors.

Details of directors' remuneration (including pensions) which form the audited section of this report are shown in note 7 on page 34.

Service contracts and compensation
The executive directors each entered into a service contract with the Company in June 2006. 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 2001
Renishaw FTSE mid 250

The report was approved by the Board of directors on 26th July 2006 and has been signed on its behalf by:-

T D Snowden FCA
Chairman, Remuneration and nomination committee

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 have elected to prepare the group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

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 2006 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 Directors' 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 22.

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 Annual report is consistent with the financial statements. We also 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 2006 and of its profit for the year then ended;
- 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 2006;
- 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; and
- the information given in the Annual report is consistent with the financial statements.

KPMG Audit Plc	Marlborough House
Chartered Accountants	Fitzalan Court
Registered Auditor	Cardiff
26th July 2006	CF24 0TE

for the year ended 30th June 2006

	Notes	2006 £'000	2005 £'000
Revenue	2	**175,835**	154,799
Cost of sales		**(90,901)**	(80,912)
Gross profit		**84,934**	73,887
Distribution costs		**(30,782)**	(26,815)
Administrative expenses		**(18,684)**	(17,765)
Operating profit		**35,468**	29,307
Financial income	4	**6,507**	5,732
Financial expenses	4	**(3,873)**	(3,306)
Profit before tax	5	**38,102**	31,733
Income tax expense	6	**(7,621)**	(6,297)
Profit for the year attributable to the equity holders of the parent company	15	**30,481**	25,436
		pence	pence
Earnings per share (basic and diluted)	8	**41.9**	34.9

at 30th June 2006

	Notes	2006 £'000	2005 £'000
Assets			
Property, plant and equipment	9	**69,081**	64,337
Intangible assets	10	**12,543**	7,192
Investments in associates	11	**908**	-
Deferred tax assets	12	**10,606**	10,556
Total non-current assets		**93,138**	82,085
Inventories	13	**28,359**	27,396
Trade receivables		**37,717**	34,594
Current tax		**183**	310
Other receivables		**6,320**	2,790
Cash and cash equivalents	14,19	**30,728**	30,072
Total current assets		**103,307**	95,162
Total assets		**196,445**	177,247
Equity			
Issued capital	15	**14,558**	14,558
Share premium	15	**42**	42
Currency translation reserve	15	**265**	655
Cash flow hedging reserve	15	**2,007**	-
Retained earnings	15	**125,864**	110,202
Total equity attributable to the equity holders of the parent company		**142,736**	125,457
Liabilities			
Employee benefits	16	**18,838**	20,700
Deferred tax liabilities	12	**11,745**	9,955
Total non-current liabilities		**30,583**	30,655
Trade payables		**10,692**	9,473
Current tax		**1,402**	2,572
Provisions	17	**793**	632
Other payables	18	**10,239**	8,458
Total current liabilities		**23,126**	21,135
Total liabilities		**53,709**	51,790
Total equity and liabilities		**196,445**	177,247

These financial statements were approved by the Board of directors on 26th July 2006 and were signed on its behalf by:

Sir David R McMurtry

A C G Roberts

for the year ended 30th June 2006

	Notes	2006 £'000	2005 £'000
Cash flows from operating activities			
Profit for the year		**30,481**	25,436
Adjustments for:			
Amortisation of development costs	10	**1,397**	1,376
Amortisation of other intangibles	10	**703**	673
Depreciation	9	**7,840**	7,001
Profit on sale of fixed assets		**(51)**	(61)
Financial income	4	**(6,507)**	(5,732)
Financial expenses	4	**3,873**	3,306
Tax expense	6	**7,621**	6,297
		14,876	12,860
Increase in inventories		**(963)**	(5,108)
Increase in trade and other receivables		**(4,289)**	(4,222)
Increase in trade and other payables		**2,664**	2,057
Difference between pension charge and contributions	16	**(1,261)**	(190)
Increase in provisions	17	**161**	86
		(3,688)	(7,377)
Income taxes paid		**(7,605)**	(4,487)
Cash flows from operating activities		**34,064**	26,432
Investing activities			
Purchase of tangible fixed assets		**(12,816)**	(15,370)
Development costs capitalised	10	**(3,227)**	(1,959)
Purchase of other intangibles	10	**(4,217)**	(1,020)
Investment in associates	11	**(928)**	-
Sale of tangible fixed assets		**399**	325
Interest received		**1,911**	2,235
Cash flows from investing activities		**(18,878)**	(15,789)
Financing activities			
Interest paid		**(15)**	(106)
Dividends paid	15	**(14,853)**	(13,459)
Cash flows from financing activities		**(14,868)**	(13,565)
Net increase/(decrease) in cash and cash equivalents		**318**	(2,922)
Cash and cash equivalents at the beginning of the year		**30,072**	32,833
Effect of exchange rate fluctuations on cash held		**338**	161
Cash and cash equivalents at the end of the year		**30,728**	30,072

for the year ended 30th June 2006

	Notes	**2006 £'000**	2005 £'000
Foreign exchange translation differences	15	**(390)**	655
Actuarial loss in the pension schemes	16	**(147)**	(9,370)
Effective portion of changes in fair value of cash flow hedges, net of recycling		**(326)**	-
Deferred tax on income and expense recognised in equity		**280**	2,580
Loss recognised directly in equity		**(583)**	(6,135)
Profit for the year		**30,481**	25,436
Total recognised income and expense for the year attributable to the equity holders of the parent company		**29,898**	19,301
Opening adjustment on adoption of IAS 32 and IAS 39 at 1st July 2005			
Cash flow hedging reserve		**2,234**	
		32,132	

(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 50 to 58.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements and in preparing an opening IFRS balance sheet at 1st July 2004 for the purposes of the transition to adopted IFRS. The principal exception is that, as more fully explained below, financial instruments accounting is determined on different bases in the current financial year and the comparative financial year due to the transitional provisions of IFRS1.

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.

Transition to adopted IFRS

The Group is preparing its financial statements in accordance with adopted IFRS for the first time. An explanation of how the transition to IFRS affected the reported financial position, financial performance and cash flows of the Group was provided by the issue of special purpose financial statements on 14th October 2005, which gave details of the transition to IFRS on the 2005 financial statements.

In addition to exempting companies from the requirement to restate comparatives for IAS 32 and IAS 39, IFRS 1 grants certain exemptions from the full requirements of IFRS in the transition period. The following exemptions have been taken in these financial statements:

- Employee benefits – All cumulative actuarial gains and losses on defined benefit plans have been recognised in equity at 1st July 2004, the first day of the comparative year.
- Cumulative translation differences – Cumulative translation differences for all foreign operations have been set to zero at 1st July 2004.

Effect of first time adoption of IAS 32 and IAS 39 on 1st July 2005

The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and IAS 39.

At 1st July 2005, unrealised gains on forward foreign currency contracts, taken out in order to hedge a proportion of certain foreign currency cash inflows, have been recognised as a financial asset with a deferred tax charge created against the gain. The unrealised gains at 1st July 2005 totalled £3,192,000 and a deferred tax liability of £958,000 has been recognised in respect of this gain.

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 2006 and 2005 financial statements, with the exception of the application of IAS 32 and IAS 39 as noted above.

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 assessing the defined benefit pension scheme liabilities (note 16).

IFRS adopted by the EU not yet applied

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

- IFRS 7 'Financial instruments: Disclosure' – applicable for years commencing on or after 1st January 2007; and
- Proposed amendments to IAS 39 and IFRS 4.

The application of IFRS 7 in the current year would not have affected the balance sheet or the income statement as the standard is concerned only with disclosure. The Group plans to adopt it in 2007.

The Group has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which will apply for periods commencing on or after 1st January 2006; however, it is not anticipated that there will be any impact on the financial statements. The Group plans to adopt these amendments in 2007.

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.

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. 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 from 1st July 2005. Any differences that have arisen since 1st July 2004, the date of transition to IFRS, which are accounted for directly in equity, are presented as a separate component of equity. As permitted by IFRS 1, translation differences arising prior to 1st July 2004 are deemed to be zero at the IFRS transition date and any amounts recognised in accordance with UK GAAP at that date have been included in retained earnings.

Derivative financial instruments – effective from 1st July 2005
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.

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 hedging below).

The fair value of forward exchange contracts is their quoted market price at the balance sheet date. Movements in fair value during the year are recognised directly in the Consolidated income statement.

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity and is accounted for under other receivables 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. The 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 by comparing the cash inflows with the hedging amounts.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. 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. The ineffective portion is recognised immediately in the Consolidated income statement. The effectiveness of the hedging is tested monthly.

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 acquired on acquisitions and goodwill
Business combinations are accounted for by applying the purchase method. In respect of business acquisitions, goodwill arising on acquisition of subsidiaries and associates 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.

Prior to the start of the current year, there have been no material business combinations since 1987. The classification and accounting treatment of business combinations that occurred up to this date has not been considered in preparing the Group's opening IFRS balance sheet at 1st July 2004.

Intangible assets 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 varies from 5 to 10 years.

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

Employee benefits

The Group operates contributory pension schemes, of the defined benefit type, for UK and Ireland-based employees.

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 has adopted the Amendment to IAS 19 and recognised 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 statement of cash flow.

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.

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 equity.

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 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**
Year ended 30th June 2005							
Revenue	57,665	43,092	39,605	10,361	4,076	-	154,799
Inter-segment revenue	-	-	-	99,951	-	(99,951)	-
Total revenue	57,665	43,092	39,605	110,312	4,076	(99,951)	154,799

Segment result	Continental Europe £'000	Far East £'000	Americas £'000	UK and Ireland £'000	ROW £'000	Eliminations £'000	Total £'000
Year ended 30th June 2006							
Segment result	**6,629**	**2,943**	**3,467**	**24,781**	**1,380**	**-**	**39,200**
Unallocated central corporate costs							**(3,732)**
Net financial income							**2,634**
Profit before tax							**38,102**
Year ended 30th June 2005							
Segment result	5,947	2,436	2,225	20,718	966	-	32,292
Unallocated central corporate costs							(2,985)
Net financial income							2,426
Profit before tax							31,733

Assets	Continental Europe £'000	Far East £'000	Americas £'000	UK and Ireland £'000	ROW £'000	Eliminations £'000	Total £'000
Year ended 30th June 2006							
Assets by location of assets	**32,461**	**27,356**	**21,405**	**136,006**	**1,796**	**(68,710)**	**150,314**
Corporate items not allocated							**46,131**
Total assets							**196,445**
Year ended 30th June 2005							
Assets by location of assets	29,394	25,032	20,888	117,528	495	(71,539)	121,798
Corporate items not allocated							55,449
Total assets							177,247

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 2006							
Liabilities by location of assets	**13,700**	**11,359**	**2,794**	**80,644**	**572**	**(55,360)**	**53,709**
Corporate items not allocated							**-**
Total liabilities							**53,709**
Year ended 30th June 2005							
Liabilities by location of assets	18,435	11,737	6,188	72,128	534	(59,012)	50,010
Corporate items not allocated							1,780
Total liabilities							51,790
Depreciation							
Year ended 30th June 2006	**1,001**	**331**	**354**	**8,205**	**49**	**-**	**9,940**
Year ended 30th June 2005	689	309	324	7,726	2	-	9,050
Capital spend							
Year ended 30th June 2006	**4,972**	**130**	**215**	**14,185**	**1,132**	**-**	**20,634**
Year ended 30th June 2005	590	509	261	16,522	45	-	17,927

3. Personnel expenses

	2006 £'000	2005 £'000
The aggregate payroll costs for the year were:		
Wages and salaries (including annual appreciation award)	**58,519**	53,180
Compulsory social security contributions	**5,598**	5,518
Current service cost for defined benefit plans (note 16)	**5,008**	3,980
Contributions to defined contribution plans	**1,291**	1,048
	70,416	63,726

	Number	Number
The average number of persons employed by the Group during the year was:		
Continental Europe	**158**	178
Far East	**107**	93
Americas	**102**	99
United Kingdom and Ireland	**1,522**	1,428
ROW	**32**	13
	1,921	1,811

4. Financial income and expenses

	2006 £'000	2005 £'000
Financial income		
Interest income	**1,901**	2,222
Expected return on assets in the pension schemes (note 16)	**4,606**	3,510
	6,507	5,732
Financial expenses		
Interest on pension fund liabilities (note 16)	**3,858**	3,200
Bank interest payable	**15**	106
	3,873	3,306

5. Profit before tax

Included in the profit are the following:	Notes	**2006 £'000**	2005 £'000
Depreciation of tangible fixed assets	(a)	**7,840**	7,001
Amortisation of intangibles	(a)	**2,100**	2,049
Research and development expenditure	(b)	**18,074**	17,143
Exchange gains realised	(c)	**(1,445)**	(704)
Auditors:	(d)		
audit fees and expenses		**177**	164
taxation services		**81**	251
other		**175**	24

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
(d) within administrative expenses

In addition to the amounts paid to the auditors listed above, an amount of £40,000 was paid to them in respect of due diligence relating to the acquisition of itp GmbH (see note 25). This amount has been capitalised as part of the cost of investment.

6. Income tax expense

	2006 £'000	2005 £'000
Current tax:		
UK corporation tax on profits for the year	**926**	1,138
Overseas tax on profits for the year	**4,897**	4,200
Adjustments for prior years	**472**	-
Total current tax	**6,295**	5,338
Deferred tax:		
Origination and reversal of other timing differences	**2,526**	959
Adjustments for prior years	**(1,200)**	-
Total deferred tax	**1,326**	959
Tax charge on profit	**7,621**	6,297
Effective tax rate (based on profit before tax)	**20%**	20%
	£'000	£'000
Profit before tax	**38,102**	31,733

The tax for the year is lower (2005 lower) than the UK standard rate of corporation tax of 30%. The differences are explained as follows:

	2006 £'000	2005 £'000
Profit before tax at 30%	**11,431**	9,520
Effects of:		
Different tax rates applicable in overseas subsidiaries	**(2,254)**	(2,565)
Research and development tax credit	**(960)**	(900)
Adjustments for prior years	**(728)**	-
Expenses not deductible for tax purposes	**55**	63
Companies with unrelieved tax losses	**129**	145
Other differences	**(52)**	34
Tax charge on profit	**7,621**	6,297

7. Directors' remuneration and share options

The total remuneration of the directors was:-

	2006 £'000	2005 £'000
Salaries and fees	**1,683**	1,452
Benefits	**118**	135
Appreciation award	**933**	684
Pension contributions	**114**	252
	2,848	2,523

	2006					2005				
	Salary and 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	**523**	**4**	**300**	**-**	**827**	398	8	223	152	781
Other executive directors										
D J Deer	**315**	**32**	**181**	**-**	**528**	302	34	136	-	472
B R Taylor	**361**	**45**	**208**	**54**	**668**	337	46	157	51	591
A C G Roberts	**219**	**23**	**126**	**33**	**401**	200	29	93	30	352
G McFarland	**205**	**14**	**118**	**27**	**364**	161	18	75	19	273
Non-executives										
J P McGeehan	**20**	**-**	**-**	**-**	**20**	18	-	-	-	18
T D Snowden	**20**	**-**	**-**	**-**	**20**	18	-	-	-	18
T B Garthwaite	**20**	**-**	**-**	**-**	**20**	18	-	-	-	18
	1,683	**118**	**933**	**114**	**2,848**	1,452	135	684	252	2,523

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

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 July 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

Year ended 30th June 2005

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

* AB = Accrued benefits

8. Earnings per share

Basic and diluted earnings per share are calculated on earnings of £30,481,000 (2005 £25,436,000) and on 72,788,543 shares, being the number of shares in issue during both years.

9. Property, 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

Additions to assets in the course of construction of £4,537,000 (2005 £3,834,000) comprise £2,206,000 (2005 £724,000) for freehold land and buildings and £2,331,000 (2005 £3,110,000) for plant and equipment.

Plant and equipment additions include £828,000 acquired on the acquisition of a subsidiary company, itp GmbH, and the depreciation charge for the year includes £301,000 acquired on the acquisition.

Year ended 30th June 2005	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1st July 2004	43,375	42,921	4,080	2,523	92,899
Additions	5,256	5,068	790	3,834	14,948
Transfers	1,774	2,600	-	(4,374)	-
Disposals	(65)	(539)	(942)	-	(1,546)
Currency adjustment	156	88	48	-	292
At 30th June 2005	50,496	50,138	3,976	1,983	106,593
Depreciation					
At 1st July 2004	6,052	27,878	2,526	-	36,456
Charge for the year	1,186	5,123	692	-	7,001
Released on disposals	(12)	(478)	(793)	-	(1,283)
Currency adjustment	18	53	11	-	82
At 30th June 2005	7,244	32,576	2,436	-	42,256
Net book value					
At 30th June 2005	43,252	17,562	1,540	1,983	64,337
At 30th June 2004	37,323	15,043	1,554	2,523	56,443

10. Intangible assets

Year ended 30th June 2006

	Goodwill on consolidation £'000	Acquired 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

Acquired intangible assets have been accounted for net of deferred tax. 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 2005

	Goodwill on consolidation £'000	Acquired 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 2004	-	-	8,048	4,692	212	12,952
Additions	-	-	1,959	438	582	2,979
Transfers	-	-	-	254	(254)	-
Currency adjustment	-	-	-	5	-	5
At 30th June 2005	-	-	10,007	5,389	540	15,936
Amortisation						
At 1st July 2004	-	-	3,842	2,851	-	6,693
Charge for the year	-	-	1,376	673	-	2,049
Currency adjustment	-	-	-	2	-	2
At 30th June 2005	-	-	5,218	3,526	-	8,744
Net book value						
At 30th June 2005	-	-	4,789	1,863	540	7,192
At 30th June 2004	-	-	4,206	1,841	212	6,259

11. Investments in associates

The Group has the following investments in associates:	Country of incorporation	Class of shares held	**Ownership 2006 %**	Ownership 2005 %
RLS merilna tehnika d.o.o.	Slovenia	ordinary	**50**	50
Metrology Software Products Limited	UK	ordinary	**50**	-
PulseTeq Limited	UK	ordinary	**50**	-

Movements during the year were:	**2006 £'000**	2005 £'000
Investments made during the year	**604**	-
Reallocation of balance previously treated as a subsidiary	**324**	-
	928	-
Share of profits from associates for the year less amortisation of intangibles	**(20)**	-
Balance at the end of the year	**908**	-

New investments made during the year were:	50% of acquiree's net assets at fair value £'000	Fair value of acquiree's intangible assets £'000	Total tangible and intangible net assets at fair value £'000	Consideration paid £'000
Metrology Software Products Limited	21	283	304	304
PulseTeq Limited	102	198	300	300
			604	604

Intangible assets acquired comprise patents and other intellectual property.

12. Recognised deferred tax assets and liabilities

	2006			2005		
Balances at the end of the year were:	**Assets £'000**	**Liabilities £'000**	**Net £'000**	Assets £'000	Liabilities £'000	Net £'000
Property, plant and equipment	**-**	**(5,362)**	**(5,362)**	-	(4,416)	(4,416)
Intangible assets	**-**	**(1,980)**	**(1,980)**	-	(1,437)	(1,437)
Intragroup trading (inventory)	**4,539**	**-**	**4,539**	4,259	-	4,259
Pension fund liability	**5,451**	**-**	**5,451**	5,870	-	5,870
Other	**616**	**(4,403)**	**(3,787)**	427	(4,102)	(3,675)
Balance at the end of the year	**10,606**	**(11,745)**	**(1,139)**	10,556	(9,955)	601

The movement in the deferred tax balance during the year was:	**2006 £'000**	2005 £'000
Balance at the beginning of the year	**601**	(1,020)
Changes in the year	**(1,321)**	(809)
Movement in relation to the pension fund liabilities	**(419)**	2,430
Balance at the end of the year	**(1,139)**	601

13. Inventories

An analysis of inventories at the end of the year was:	**2006 £'000**	2005 £'000
Raw materials	**10,192**	9,955
Work in progress	**6,398**	6,162
Finished goods	**11,769**	11,279
Balance at the end of the year	**28,359**	27,396

Internally produced sub-assemblies previously included in raw materials have been reclassified as work in progress.

14. Cash and cash equivalents

An analysis of cash and cash equivalents at the end of the year was:	**2006 £'000**	2005 £'000
Bank balances and cash in hand	**10,672**	9,190
Short term deposits	**20,056**	20,882
Balance at the end of the year	**30,728**	30,072

15. Capital and reserves

Movements during the year were:	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total £'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**
Year ended 30th June 2005						
Balance at the beginning of the year	14,558	42	-	-	105,015	119,615
Profit for the year	-	-	-	-	25,436	25,436
Other recognised income and expense	-	-	655	-	(6,790)	(6,135)
Dividends paid	-	-	-	-	(13,459)	(13,459)
Balance at the end of the year	14,558	42	655	-	110,202	125,457

Share capital	**2006 £'000**	2005 £'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	**2006 £'000**	2005 £'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 that are integral to the operations of the Group, 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 comprise:	**2006 £'000**	2005 £'000
2005 final dividend paid of 13.70p per share (2004 12.39p)	**9,972**	9,019
2006 interim dividend paid of 6.71p per share (2005 6.10p)	**4,881**	4,440
	14,853	13,459

At the year end, dividends proposed, but not recognised, amounted to £10,969,233 (2005 £9,972,030).

16. Employee benefits

The Group operates a number of pension schemes throughout the world. The major schemes, which cover over 90% of scheme members, are of the defined benefit type.

The total pension cost of the Group for the year was £6,299,000 (2005 £5,028,000), of which £114,000 (2005 £252,000) related to directors and £1,489,000 (2005 £1,451,000) related to overseas schemes. The pension cost relating to the UK scheme is assessed in accordance with the advice of a qualified actuary using the projected unit method and relates entirely to current service costs.

The latest full actuarial valuation of the schemes was carried out at July 2004 and updated to 30th June 2006 by a qualified independent actuary. The major assumptions used by the actuary for the UK scheme were:-

	30th June 2006	30th June 2005	30th June 2004
Rate of increase in pensionable salaries	**4.5%**	3.7%	4.0%
Rate of increase in pension payments	**3.0%**	2.5%	2.8%
Discount rate	**5.3%**	5.0%	5.8%
Inflation rate	**3.0%**	2.7%	3.0%
Expected return on equities	**8.5%**	8.5%	8.5%
Expected return on cash	**4.0%**	4.0%	4.0%
Expected return on bonds	**5.0%**	4.7%	5.4%
Retirement age	**64**	65	65

The assets and liabilities in the schemes were:-

	30th June 2006 £'000	30th June 2005 £'000	30th June 2004 £'000
Market value of assets:			
Equities	**70,836**	52,450	39,400
Bonds and cash	**1,377**	1,350	1,110
	72,213	53,800	40,510
Actuarial value of liabilities	**(91,051)**	(74,500)	(52,340)
Deficit in the schemes	**(18,838)**	(20,700)	(11,830)
Deferred tax thereon	**5,451**	5,870	3,440

The history of experience gains and losses is:-

	Year ended 30th June 2006	Year ended 30th June 2005	Year ended 30th June 2004	Year ended 30th June 2003	Year ended 30th June 2002
Difference between the expected and actual return on scheme assets					
amount (£'000)	**6,492**	4,600	2,550	(4,110)	(7,370)
percentage of scheme assets	**9%**	9%	6%	(14%)	(5%)
Experience gains and losses on scheme liabilities					
amount (£'000)	**(180)**	1,120	-	(270)	180
percentage of present value of scheme liabilities	**-**	2%	-	(1%)	1%
Total amount recognised in the Consolidated statement of recognised income and expense					
amount (£'000)	**(147)**	(9,370)	(240)	(6,680)	(8,590)
percentage of present value of scheme liabilities	**-**	(13%)	-	(16%)	(25%)

16. Employee benefits (continued)

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

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

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 loss	7,538	(7,685)	(147)
Balance at 30th June	**72,213**	**(91,051)**	**(18,838)**

Year ended 30th June 2005	Assets £'000	Liabilities £'000	Total £'000
Balance at 1st July	40,510	(52,340)	(11,830)
Contributions paid	4,170	-	4,170
Current service cost	-	(3,980)	(3,980)
Expected return on pension schemes' assets	3,510	-	3,510
Interest on pension schemes' liabilities	-	(3,200)	(3,200)
Actuarial loss	5,610	(14,980)	(9,370)
Balance at 30th June	53,800	(74,500)	(20,700)

The expense recognised in the Consolidated income statement was:-

	2006 £'000	2005 £'000
Current service cost	**5,008**	3,980
Expected return on pension schemes' assets	**(4,606)**	(3,510)
Interest on pension schemes' liabilities	**3,858**	3,200
	4,260	3,670

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.

17. Provisions

Warranty provision

Movements during the year were:	**2006 £'000**	2005 £'000
Balance at the beginning of the year	**632**	546
Utilised during the year	**(584)**	(485)
Created in the year	**745**	571
	161	86
Balance at the end of the year	**793**	632

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

18. Other payables

Balances at the end of the year were:	**2006 £'000**	2005 £'000
Payroll taxes and social security	**3,741**	3,066
Other creditors and accruals	**6,498**	5,392
	10,239	8,458

19. Foreign currency holdings and borrowings

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

Currency	**2006 £'000**	2005 £'000
Pounds Sterling	**69,228**	66,208
US Dollar	**(13,982)**	(11,253)
Japanese Yen	**(11,334)**	(10,605)
Euro	**(13,768)**	(13,642)
Other	**584**	(636)
	30,728	30,072

The carrying value approximates to fair value because of the short maturities of the deposits and borrowings, all of which are less than one year. Interest rates are floating and based on libor/libid.

Net assets and associated borrowings

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	17,060	17,250	5.25%
Japanese Yen	12,396	12,430	0.25%
Euro	18,236	18,325	2.75%

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.

20. Operating leases

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

	2006 £'000	2005 £'000
Expiring within one year	**341**	381
Expiring between two and five years	**129**	237
	470	618

21. Capital commitments

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

	2006 £'000	2005 £'000
Authorised and committed	**2,758**	3,250

22. 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.

23. Subsidiary undertakings

The following are the subsidiary undertakings of Renishaw plc, all of which are wholly-owned, unless otherwise stated. The country of incorporation and registration is England and Wales unless otherwise stated. The country of incorporation is also the country of operation. *[equity held by a subsidiary undertaking]

Company	**Principal activities**
Renishaw International Limited*	Overseas holding and investment company.
Renishaw (Ireland) Limited (Republic of Ireland)*	Manufacture and sale of advanced precision metrology and inspection equipment.
Renishaw 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. (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)*

24. Related parties

During the year, associates purchased goods from the Group to the value of £85,000 and sold goods to the Group to the value of £865,000.

At 30th June 2006, associates owed £151,000 to the Group, including a loan of £100,000 which was advanced during the year. Associates were owed £125,000 by the Group.

All transactions with associates were on an arm's length basis. No dividends were received from associates during the year.

25. Acquisition of subsidiary

During the year, the Group acquired 100% of the share capital of itp GmbH, a company based in Germany. The provisional fair values of the assets acquired were:

	Book Value £'000	Adjustments £'000	Fair value £'000
Tangible fixed assets	527	-	527
Intangible fixed assets	183	(183)	-
Inventories	90	-	90
Debtors and prepayments	374	-	374
Creditors	(296)	-	(296)
Cash	469	-	469
	1,347	(183)	1,164
Identified intangible assets acquired			1,869
Goodwill			1,811
Consideration paid			4,844

Intangible assets acquired comprised the outstanding order book, customer list, patents, knowhow, trademarks and other intellectual property.

The consideration paid was satisfied by the following:

	£'000
Cash paid	4,757
Acquisition costs	87
	4,844

itp GmbH's contribution to the consolidated profit before tax since acquisition and the historical results for its full year to 31st December 2005 were:

	One month to 30th June 2006 £'000	Year to 31st December 2005 £'000
Revenue	148	1,872
Material cost of sales	(16)	(633)
Gross profit	132	1,239
Expenses	(91)	(899)
Profit before tax	41	340

26. Explanation of transition to IFRS

EU law (IAS Regulation EC 1606/2002) requires that the consolidated financial statements of the Company, for the year ended 30th June 2006 and from thereafter, be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Special purpose consolidated financial statements were prepared on the basis of the recognition and measurement requirements of IFRS for the opening Consolidated balance sheet at 30th June 2004 and for the 2005 Consolidated income statement and Consolidated balance sheet, which have been used for the comparative figures in this Annual report. These special purpose financial statements were issued to the London Stock Exchange on 14th October 2005.

The major impacts of IFRS on income for the year ended 30th June 2005 and on the balance sheet at 30th June 2005 were:

- Capitalisation of development costs – IFRS requires certain development expenditure to be capitalised and subsequently amortised over a period of time. This has resulted in an increase in profit before tax of £0.5m for the year and an intangible asset of £4.8m at 30th June 2005.
- Earnings per share increased from 34.3p to 34.9p.
- Dividends – Under IFRS, dividends are only accounted for once they have been approved by shareholders. The 2005 final dividend is therefore not accounted for in the 2005 results and equity at 30th June 2005 is thereby increased by £10.0m.
- Treatment of exchange differences – Under IFRS, exchange gains and losses resulting from the hedging of future foreign currency cash inflows are reflected in revenue, whereas under previous UK GAAP, these were shown within administrative expenses. This has increased revenue and administrative expenses by £0.7m, although the profit before tax is unchanged.

Balance sheet reclassifications – IFRS requires a number of assets and liabilities to be presented differently. The most significant are:

- The pension deficit is shown at the gross value, with a related deferred tax asset shown as part of non-current assets. Previously, the pension deficit was shown net of the deferred tax amount.
- Software licences, previously part of tangible fixed assets, have been reclassified as intangible fixed assets.
- The deferred tax balance has been analysed between deferred tax assets and deferred tax liabilities and these balances are shown separately under assets and liabilities.

26. Explanation of transition to IFRS (continued)

Balance sheets

	Notes	30th June 2004 Previous UK GAAP	30th June 2004 Effect of transition to IFRS	30th June 2004 IFRS	30th June 2005 Previous UK GAAP	30th June 2005 Effect of transition to IFRS	30th June 2005 IFRS
		£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Property, plant and equipment	(a)	58,496	(2,053)	56,443	66,740	(2,403)	64,337
Intangible assets	(b)	-	6,259	6,259	-	7,192	7,192
Deferred tax assets	(c)	-	6,967	6,967	-	10,556	10,556
Total non-current assets		58,496	11,173	69,669	66,740	15,345	82,085
Inventories		22,288	-	22,288	27,396	-	27,396
Trade receivables		30,298	-	30,298	34,594	-	34,594
Current tax	(d)	-	430	430	-	310	310
Other receivables		2,522	-	2,522	2,790	-	2,790
Cash and cash equivalents		32,833	-	32,833	30,072	-	30,072
Total current assets		87,941	430	88,371	94,852	310	95,162
Total assets		146,437	11,603	158,040	161,592	15,655	177,247
Equity							
Issued capital		14,558	-	14,558	14,558	-	14,558
Share premium		42	-	42	42	-	42
Currency translation reserve	(e)	-	-	-	-	655	655
Retained earnings	(f)	93,110	11,905	105,015	97,563	12,639	110,202
Total equity		107,710	11,905	119,615	112,163	13,294	125,457
Liabilities							
Employee benefits		8,390	3,440	11,830	14,830	5,870	20,700
Deferred tax liabilities	(c)	3,760	4,227	7,987	4,522	5,433	9,955
Total non-current liabilities		12,150	7,667	19,817	19,352	11,303	30,655
Trade payables		8,755	-	8,755	9,473	-	9,473
Current tax	(d)	1,427	430	1,857	2,262	310	2,572
Provisions		546	-	546	632	-	632
Other payables	(g)	15,849	(8,399)	7,450	17,710	(9,252)	8,458
Total current liabilities		26,577	(7,969)	18,608	30,077	(8,942)	21,135
Total liabilities		38,727	(302)	38,425	49,429	2,361	51,790
Total equity and liabilities		146,437	11,603	158,040	161,592	15,655	177,247

26. Explanation of transition to IFRS (continued)

(a) Tangible assets

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

	£'000
At 30th June 2004	
Cost of software licences transferred	4,904
Accumulated amortisation of software licences transferred	(2,851)
Net book value of software licences transferred	2,053
At 30th June 2005	
Cost of software licences transferred	5,929
Accumulated amortisation of software licences transferred	(3,526)
Net book value of software licences transferred	2,403

(b) Intangible assets

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

At 30th June 2004	£'000
Development costs capitalised	4,206
Net book value of software licences transferred (note (a))	2,053
Net book value of total intangible assets at 30th June 2004	6,259
At 30th June 2005	
Net book value of development costs at 1st July 2004	4,206
Additional development costs capitalised during the year	1,959
Amortisation of development costs charged during the year	(1,376)
Net book value of development costs at 30th June 2005	4,789
Net book value of software licences transferred (note (a))	2,403
Net book value of total intangible assets at 30th June 2005	7,192

(c) Deferred tax

Deferred tax adjustments are as follows:

	£'000
At 30th June 2004	
Deferred tax balance at 30th June 2004 as reported under UK GAAP	(3,760)
Adjustments:	
Provision for capitalised development costs	(1,262)
Adjustment for tax rate on intragroup trading	372
Adjustment for holiday pay accrual	190
Deferred tax on pension schemes' deficit	3,440
Deferred tax provision under IFRS	(1,020)
Analysed as:	
Deferred tax asset	6,967
Deferred tax liability	(7,987)
	(1,020)

26. Explanation of transition to IFRS (continued)

(c) Deferred tax (continued)

		£'000	£'000
At 30th June 2005			
Deferred tax balance at 30th June 2005 as reported under UK GAAP			(4,522)
Adjustments:			
Provision for capitalised development costs	- brought forward	(1,262)	
	- current year movement	(175)	(1,437)
Adjustment for tax rate on intragroup trading	- brought forward	372	
	- current year movement	128	500
Deferred tax on pension schemes' deficit	- brought forward	3,440	
	- current year movement	2,430	5,870
Adjustment for holiday pay accrual			190
Deferred tax under IFRS			601
Analysed as:			
Deferred tax asset			10,556
Deferred tax liability			(9,955)
			601

The adjustment for tax rate on intragroup trading is in respect of the elimination of profits in intragroup trading held in the year-end inventory. Under UK GAAP, the tax effect was calculated based on the tax rate of the selling group company, whereas under IFRS, the tax effect uses the tax rates applying in the purchasing group companies.

(d) Current tax debtor

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

(e) Currency translation reserve

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

(f) Retained reserves

Retained reserves have been adjusted under IFRS as follows:

	£'000	£'000
At 30th June 2004		
Retained reserves at 30th June 2004 as reported under UK GAAP		93,110
Capitalised development costs	4,206	
Deferred tax thereon	(1,262)	2,944
Holiday pay accrual (note (g))	(620)	
Deferred tax thereon	190	(430)
2004 final proposed dividend accounted for when approved		9,019
Deferred tax provision on intragroup trading		372
Retained reserves under IFRS at 30th June 2004		105,015

26. Explanation of transition to IFRS (continued)

(f) Retained reserves (continued)

	£'000	£'000
At 30th June 2005		
Retained reserves at 30th June 2005 as reported under UK GAAP		97,563
Capitalised development costs	4,789	
Deferred tax thereon	(1,437)	3,352
Holiday pay accrual (note (g))	(720)	
Deferred tax thereon	190	(530)
Reallocation of currency movements to currency translation reserve		(655)
2005 final proposed dividend accounted for when approved		9,972
Deferred tax provision on intragroup trading		500
Retained reserves under IFRS at 30th June 2005		110,202

(g) Other payables

A holiday pay accrual of £620,000 at 30th June 2004 and £720,000 at 30th June 2005 has been made, which was not previously accounted for in the UK GAAP financial statements. This accrual is in respect of holidays earned by employees, not yet taken.

In accordance with IFRS, the final dividend is accounted for only when it has been approved by shareholders. Therefore, £9,019,000 is excluded from other payables at 30th June 2004 and £9,972,000 at 30th June 2005.

Consolidated income statement

For the year ended 30th June 2005	Notes	Previous UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue	(h)	154,095	704	154,799
Cost of sales	(i)	(81,445)	533	(80,912)
Gross profit		72,650	1,237	73,887
Other income	(j)	310	(310)	-
Distribution costs	(k)	(26,790)	(25)	(26,815)
Administrative expenses	(l)	(17,036)	(729)	(17,765)
Profit from operations		29,134	173	29,307
Financial income	(m)	2,116	3,616	5,732
Financial expenses	(n)	-	(3,306)	(3,306)
Profit before tax		31,250	483	31,733
Income tax expense	(o)	(6,250)	(47)	(6,297)
Profit for the year		25,000	436	25,436
Earnings per share (basic and diluted)		34.3p	0.6p	34.9p

26. Explanation of transition to IFRS (continued)

(h) Revenue

Foreign currency exchange gains of £704,000, previously shown under administrative expenses, have been reallocated to revenue.

(i) Cost of sales

Adjustments for cost of sales under IFRS were as follows:	£'000
Development costs capitalised during the year less amortisation thereon	583
Proportion of holiday pay charge for the year (total £100,000)	(50)
	533

(j) Other income

Other income of £310,000, relating to the pension schemes, shown as other finance income under UK GAAP, has been grossed up and reallocated to financial income and financial expenses income under IFRS. See notes (m) and (n) below.

(k) Distribution costs

The adjustment under IFRS was the proportion of holiday pay charge for the year of £25,000.

(l) Administrative expenses

Adjustments for administrative expenses under IFRS were as follows:	£'000
Foreign currency gains reallocated to revenue	(704)
Proportion of holiday pay charge for the year	(50)
	(754)

(m) Financial income

Adjustments for financial income under IFRS were as follows:	£'000
Expected return on pension schemes' assets	3,510
Grossing up of interest payable reallocated to financial expenses	106
	3,616

(n) Financial expenses

Adjustments for financial expenses under IFRS were as follows:	£'000
Interest on pension schemes' liabilities	(3,200)
Reallocated from financial income	(106)
	(3,306)

(o) Income tax expense

Adjustments for income tax expense under IFRS were as follows:	£'000
Tax on capitalised development costs	175
Tax rate on intragroup trading	(128)
	47

at 30th June 2006

	Notes	2006 £'000	Restated 2005 £'000
Fixed assets			
Tangible assets	28	**48,853**	44,453
Investments in subsidiaries	29	**216**	216
Investments in associates	30	**604**	-
		49,673	44,669
Current assets			
Stock	31	**19,215**	17,724
Debtors	32	**211,429**	260,018
Cash at bank		**9,785**	9,719
		240,429	287,461
Creditors			
Amounts falling due within one year	33	**(54,099)**	(49,420)
Net current assets			
Due within one year		**50,082**	47,766
Due after more than one year		**136,248**	190,275
		186,330	238,041
Total assets less current liabilities		**236,003**	282,710
Provisions for liabilities and charges	34	**(6,877)**	(5,040)
Net assets excluding pension liability		**229,126**	277,670
Pension liability	35	**(12,482)**	(13,300)
Net assets including pension liability		**216,644**	264,370
Capital and reserves			
Called up share capital	36	**14,558**	14,558
Share premium account	36	**42**	42
Currency reserve	37	**2,007**	-
Profit and loss account	38	**200,037**	249,770
Shareholders' funds – equity		**216,644**	264,370

These financial statements were approved by the Board of directors on 26th July 2006 and were signed on its behalf by:

Sir David R McMurtry

A C G Roberts

for the year ended 30th June 2006

	2006 £'000	Restated 2005 £'000
Profit for the year	**12,047**	9,611
Effect of the adoption of FRS 26 (note 38)	**(46,311)**	-
Dividends paid	**(14,853)**	(13,459)
Retained loss for the year	**(49,117)**	(3,848)
Unrealised currency gain, net of deferred tax (note 37)	**2,007**	-
Actuarial loss, net of deferred tax	**(616)**	(5,600)
Net reduction in shareholders' funds	**(47,726)**	(9,448)
Shareholders' funds at 1st July - as restated	**264,370**	273,818
Shareholders' funds at 30th June	**216,644**	264,370

27. Accounting policies

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

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure';
- FRS 26 'Financial instruments: measurement, recognition and derecognition'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption.

The adoption of FRS 21 means that dividends declared in 2005, but authorised and paid in 2006, are now recognised in 2006. Comparative figures have been restated accordingly.

The adoption of FRS 25 and 26 means that long-term intragroup balances have been recorded at 1st July 2005 at cost then afterwards re-measured at fair value. FRS 25 permits the corresponding amounts not to be restated and the Company has adopted this approach.

FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

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 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 operates a contributory pension scheme, of the defined benefit type.

The scheme is administered by trustees who are independent of the Company finances. Contributions are paid to the scheme 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 – effective from 1st July 2005

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 fair value. The gain or loss on re-measurement to fair value is recognised immediately in the profit and loss account.

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.

28. Property, plant and equipment

	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	29,178	47,388	2,220	2,523	81,309
Additions	254	5,190	456	4,953	10,853
Transfers	2,607	3,841	-	(6,448)	-
Disposals	-	(633)	(301)	-	(934)
At 30th June 2006	**32,039**	**55,786**	**2,375**	**1,028**	**91,228**
Depreciation					
At 1st July 2005	4,618	30,626	1,612	-	36,856
Charge for the year	665	5,440	338	-	6,443
Released on disposals	-	(623)	(301)	-	(924)
At 30th June 2006	**5,283**	**35,443**	**1,649**	**-**	**42,375**
Net book value					
At 30th June 2006	**26,756**	**20,343**	**726**	**1,028**	**48,853**
At 30th June 2005	24,560	16,762	608	2,523	44,453

Additions to assets in the course of construction of £4,953,000 (2005 £4,416,000) comprise £2,206,000 (2005 £724,000) for freehold land and buildings and £2,747,000 (2005 £3,692,000) for plant and equipment.

29. Investments in subsidiaries

Movements during the year were:	2006 £'000	2005 £'000
Balance at the beginning of the year	**216**	25
Movements in the year	**-**	191
Balance at the end of the year	**216**	216

A list of subsidiary undertakings is shown in note 23.

30. Investments in associates

Movements during the year were:	2006 £'000	2005 £'000
Balance at the beginning of the year	**-**	-
Investments made during the year (note 11)	**604**	-
Balance at the end of the year	**604**	-

31. Stock

An analysis of stock at the end of the year was:	2006 £'000	2005 £'000
Raw materials	**7,720**	7,120
Work in progress	**6,571**	6,061
Finished goods	**4,924**	4,543
Balance at the end of the year	**19,215**	17,724

Internally produced sub-assemblies previously included in raw materials have been reclassified as work in progress.

32. Debtors

An analysis of debtors at the end of the year was:	2006 £'000	2005 £'000
Debtors due within one year		
Trade debtors	**7,581**	5,312
Amounts owed by group undertakings	**62,233**	62,719
Amounts owed by associated undertakings	**151**	-
Prepayments and other receivables	**5,216**	1,712
	75,181	69,743
Amounts due after more than one year		
Amounts owed by group undertakings	**136,248**	190,275
Balance at the end of the year	**211,429**	260,018

Amounts due after more than one year at 30th June 2006 are shown at their fair values, being estimated future receivables discounted to their present value. The balance at 30th June 2006 of £136,248,000 is a fair value based on an original amount of £178,611,000.

33. Creditors

Amounts falling due within one year

An analysis of creditors due within one year at the end of the year was:	2006 £'000	Restated 2005 £'000
Trade creditors	**8,441**	7,913
Amounts owed to group undertakings	**37,802**	35,723
Amounts due to associated undertakings	**125**	-
Corporation tax	**1,244**	1,865
Other taxes and social security	**1,401**	1,069
Other creditors	**5,086**	2,850
Balance at the end of the year	**54,099**	49,420

34. Provisions for liabilities and charges

An analysis of provisions for liabilities and charges due within one year 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	4,500	1,760	**6,260**
Warranty provisions	540	77	**617**
	5,040	1,837	**6,877**

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.

Deferred tax is represented by:	2006 £'000	2005 £'000
Difference between accumulated depreciation and capital allowances	**1,474**	3,975
Other timing differences	**4,786**	525
	6,260	4,500
Deferred tax on pension scheme	**(5,350)**	(5,700)
	910	(1,200)

The movements in the deferred tax balance were:	2006 £'000	2005 £'000
Balance at the beginning of the year	**(1,200)**	100
Amount charged to the profit and loss account	**1,500**	1,130
Amount reflected through the statement of total recognised gains and losses	**610**	(2,430)
Balance at the end of the year	**910**	(1,200)

35. Pension scheme

The Company operates a pension scheme, which is of the defined benefit type.

The total pension cost of the Company for the year was £4,857,000 (2005 £4,062,000), of which £114,000 (2005 £252,000) related to directors. The pension cost relating to the scheme is assessed in accordance with the advice of a qualified actuary using the projected unit method and relates entirely to current service costs.

The latest full actuarial valuation of the scheme was carried out at July 2004 and updated to 30th June 2006 on an FRS 17 basis by a qualified independent actuary. The major assumptions used by the actuary for the scheme were:-

	30th June 2006	30th June 2005	30th June 2004
Rate of increase in pensionable salaries	**4.5%**	3.7%	4.0%
Rate of increase in pension payments	**3.0%**	2.5%	2.8%
Discount rate	**5.3%**	5.0%	5.8%
Inflation rate	**3.0%**	2.7%	3.0%
Expected return on equities	**8.5%**	8.5%	8.5%
Expected return on cash	**4.0%**	4.0%	4.0%
Expected return on bonds	**5.0%**	4.7%	5.4%
Retirement age	**64**	65	65

The assets and liabilities in the scheme were:-

	30th June 2006 £'000	30th June 2005 £'000	30th June 2004 £'000
Market value of assets:			
Equities	**67,722**	50,050	37,600
Bonds and cash	**565**	650	500
	68,287	50,700	38,100
Actuarial value of liabilities	**(86,119)**	(69,700)	(49,500)
Deficit in the scheme	**(17,832)**	(19,000)	(11,400)
Deferred tax thereon	**5,350**	5,700	3,400
Net pension liability	**(12,482)**	(13,300)	(8,000)

The history of experience gains and losses is:-

	Year ended 30th June 2006	Year ended 30th June 2005	Year ended 30th June 2004	Year ended 30th June 2003	Year ended 30th June 2002
Difference between the expected and actual return on scheme assets					
amount (£'000)	**6,288**	4,395	2,426	(3,900)	(7,100)
percentage of scheme assets	**9%**	9%	6%	(14%)	(5%)
Experience gains and losses on scheme liabilities					
amount (£'000)	**(483)**	1,069	225	(300)	140
percentage of present value of scheme liabilities	**(1%)**	2%	-	(1%)	1%
Total amount recognised in the statement of total recognised gains and losses					
amount (£'000)	**(837)**	(8,036)	83	(6,500)	(8,250)
percentage of present value of scheme liabilities	**(1%)**	(12%)	-	(16%)	(25%)

35. Pension scheme (continued)

The movements in the scheme's deficit were:-	2006 £'000	2005 £'000
Deficit in scheme at 1st July	(19,000)	(11,400)
Current service cost (included in operating profit)	(4,743)	(3,810)
Contributions paid	5,992	3,940
Other finance income	785	300
Actuarial loss	(866)	(8,030)
Deficit in scheme at 30th June	(17,832)	(19,000)

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

The expense recognised in the profit and loss account was:-

	2006 £'000	2005 £'000
Current service cost	4,743	3,810
Expected return on pension scheme's assets	(4,420)	(3,330)
Interest on pension scheme's liabilities	3,635	3,030
	3,958	3,510

36. Share capital and share premium

Share capital	2006 £'000	2005 £'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	2006 £'000	2005 £'000
Balance at the beginning and end of the year	42	42

37. Currency reserve

On adoption of FRS 26 'Financial instruments: measurement, recognition and derecognition', the unrealised currency gain on foreign exchange forward contracts outstanding at the year end has been recognised, net of deferred tax. The comparative figure has not been restated, as allowed by the exemption permitted in FRS 25 'Financial instruments: presentation and disclosure'.

Movements during the year were:

	2006 £'000
Balance at the beginning of the year	-
Effect of adoption of FRS 26	2,234
Movement for the year	(227)
Balance at the end of the year	2,007

38. Profit and loss account

Movements in the profit and loss account during the year were:	2006 £'000	Restated 2005 £'000
Balance at the beginning of the year as previously reported	**239,798**	259,218
Prior year adjustment (note (b))	**9,972**	-
Balance at the beginning of the year as restated	**249,770**	259,218
Retained profit for the year	**12,047**	9,611
Effect of adoption of FRS 26 (note (a))	**(46,311)**	-
Dividends paid in the year (note (b))	**(14,853)**	(13,459)
Actuarial loss in the pension scheme	**(866)**	(8,030)
Deferred tax thereon	**250**	2,430
	(616)	(5,600)
Balance at the end of the year	**200,037**	249,770

The profit and loss account reserve in the Company of £200,037,000 (2005 £249,770,000) includes £136,248,000 (2005 £190,275,000) which is currently non-distributable.

Note (a) - As required by FRS 26 and FRS 28, the long-term intragroup balance, which was stated at historic cost, has been recorded at fair value on 1st July 2005. The comparative figure has not been restated, as allowed by the transitional rules in FRS 25.

Note (b) - In accordance with FRS 21, the accounting for dividends has been changed from an accruals basis to a paid basis. In line with the requirements of FRS 28, the comparative period has been restated accordingly.

39. Related parties

During the year, associates purchased goods from the Company to the value of £85,000 and sold goods to the Company to the value of £525,000.

At 30th June 2006, associates owed £151,000 to the Company, including a loan of £100,000 which was advanced during the year. Associates were owed £81,000 by the Company.

All transactions with associates were on an arm's length basis. No dividends were received from associates during the year.

40. Personnel expenses

	2006 £'000	2005 £'000
The aggregate payroll costs for the year were:		
Wages and salaries (including annual appreciation award)	**44,320**	38,708
Compulsory social security contributions	**3,748**	3,295
Current service cost for defined benefit plans	**4,743**	3,810
	52,811	45,813

	Number	Number
The average number of persons employed by the Company during the year was:	**1,412**	1,322

41. Capital commitments

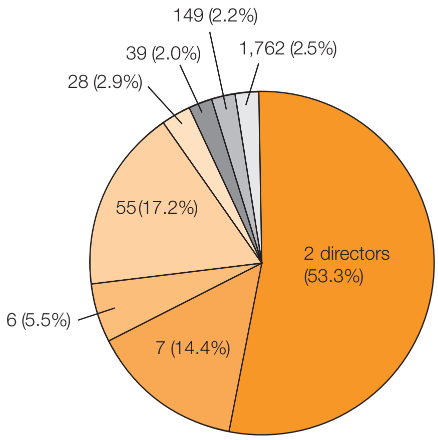
Capital commitments at the end of the year, for which no provision has been made in the financial statements, were:

	2006 £'000	2005 £'000
Authorised and committed	**1,877**	3,011

Number of shareholders in each shareholding range

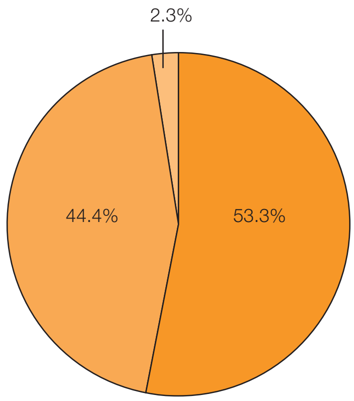
Shareholdings

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



Categories of shareholders

- Directors
- Institutions
- Individuals



This information was compiled from the register as at 6th July 2006.

Annual general meeting

13th October 2006

Dividends

Final dividend

Payment date	16th October 2006
Record date	15th September 2006
Ex-div date	13th September 2006

Interim dividend (provisional)

Payment date	9th April 2007
Record date	9th March 2007
Ex-div date	7th March 2007

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	2006 £'000	note 2 2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000	note 1 2000 £'000	1999 £'000	1998 £'000	1997 £'000
Overseas revenue	**164,322**	144,438	118,881	100,969	94,769	113,133	94,106	85,958	82,684	72,063
UK and Ireland revenue	**11,513**	10,361	8,820	9,671	9,721	12,215	11,488	10,361	9,665	9,338
Total revenue	**175,835**	154,799	127,701	110,640	104,490	125,348	105,594	96,319	92,349	81,401
Operating profit	**35,468**	29,307	18,053	15,644	13,448	27,943	25,677	23,339	20,859	14,247
Profit before tax	**38,102**	31,733	20,146	17,799	16,062	30,795	28,261	25,829	22,380	18,034
Taxation	**7,621**	6,297	4,023	3,454	880	6,082	7,065	6,716	6,280	4,653
Profit for the year	**30,481**	25,436	16,123	14,345	15,182	24,713	21,196	19,113	16,100	13,381

Capital employed	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000	1998 £'000	1997 £'000
Share capital	**14,558**	14,558	14,558	14,558	14,558	14,558	14,558	14,558	14,557	14,548
Share premium	**42**	42	42	42	42	42	42	42	40	4
Reserves	**128,136**	110,857	93,110	90,626	93,085	94,722	82,498	70,443	59,712	52,797
Shareholders' funds	**142,736**	125,457	107,710	105,226	107,685	109,322	97,098	85,043	74,309	67,349

Statistics

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Overseas sales as a percentage of total sales	**93.5%**	93.3%	93.1%	91.3%	90.7%	90.3%	89.1%	89.2%	89.5%	88.5%
Basic earnings per share	**41.9p**	34.9p	22.1p	19.7p	20.9p	34.0p	29.1p	26.3p	22.1p	18.4p
Proposed dividend per share	**21.78p**	19.80p	18.00p	16.70p	15.90p	15.14p	13.16p	11.44p	9.95p	8.65p

Notes

1. The 2000 figures have been restated to reflect the impact of the adoption of FRS 17 - Retirement benefits. Figures for 1997 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.