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27th July 2017

Renishaw plc and subsidiary undertakings
Preliminary announcement of results for the year ended 30th June 2017

HIGHLIGHTS

- **Record revenue of £536.8m, with an underlying growth of 14%**
- **Strong growth in encoder, measurement and automation, calibration and coordinate measuring machine product lines in our metrology business**
- **Revenue growth in all healthcare product lines**
- **25% increase in adjusted profit before tax**
- **Capital expenditure of £42.6m, providing for future growth**
- **Headcount increase of 244, including 91 graduates and apprentices**
- **Strong balance sheet, with cash of £51.9m, compared with £21.3m last year**
- **Dividend increased by 8.3% to 52.0p**

	2017	Restated(1) 2016	Change
Revenue (£m)	**536.8**	427.2	+26%
Adjusted profit before tax (£m)(1)	**109.1**	87.5	+25%
Adjusted earnings per share (pence)	**132.4**	100.4	+32%
Dividend per share (pence)	**52.0**	48.0	+8%
STATUTORY			
Profit before tax (£m)	**117.1**	61.7	+90%
Earnings per share (pence)	**141.3**	71.8	+97%

(1) Details of prior year restatements and profit before tax and earnings per share adjustments are shown in the footnote to the Chairman's statement.

CHAIRMAN'S STATEMENT

Performance overview
I am pleased to report our 2017 annual results. We achieved a record turnover of £536.8m with an underlying revenue growth of 14% at constant exchange rates*. We report an adjusted profit before tax of £109.1m* and a statutory profit before tax of £117.1m, an increase of 25% on an adjusted basis. Our total shareholder return during the year was 67%, ranking Renishaw in the top 25 in both the FTSE250 and FTSE350.

Renishaw is a long term business and we remain committed to strategic investments and R&D. In addition, over the past year, we have focused on underperforming business areas resulting in our discontinuing the activities of Renishaw Diagnostics Limited and the spatial measurement business. In spite of the potential headwinds brought about by the uncertainty of Brexit, we remain confident of future growth due to our innovative product base, extensive global sales and marketing presence, and relevance to high value manufacturing.

Revenue
We achieved record turnover with revenue for the year ended 30th June 2017 of £536.8.m, compared with a restated £427.2m for last year, an increase of 26%. There was underlying revenue growth of 14% with the balance arising from exchange rate movements compared to the prior year. The geographical analysis of revenue is as follows:

	2017 £m	Restated 2016 £m	Change %	Constant fx change %
Far East	248.9	193.3	+29%	+14%
Europe	129.9	110.3	+18%	+12%
Americas	113.6	88.0	+29%	+13%
UK	27.6	22.8	+21%	+21%
Other regions	16.8	12.8	+31%	+30%
Total group revenue	536.8	427.2	+26%	+14%

Profit and Earnings per share
During the year, it was established that certain foreign currency forward contracts used as hedging instruments for future incoming currency cash flows did not qualify for hedge accounting. This has resulted in the prior year profit before tax being restated and as a consequence the Board has introduced an alternative performance measure, adjusted profit before tax, to report the profitability on the basis that all forward contracts are accounted for as effective hedges. This measure will be the basis by which the Board evaluates the Group’s performance as it better represents the underlying trading of the Group. The consolidated net assets and cash balances were not impacted by the prior year adjustment and the future cash flows remain unchanged.

The Group’s adjusted profit before tax for the year was £109.1m*, an increase of 25% compared to £87.5m last year. Adjusted earnings per share on continuing activities were 132.4 p compared to 100.4p last year.

Statutory profit before tax for the year was £117.1m compared to a restated £61.7m last year. Statutory earnings per share on continuing activities were 141.3p compared to 71.8p last year.

This year’s tax charge on continuing operations amounts to £14.3m (2016 restated: £10.0m) representing a tax rate of 12.2% (2016 restated: 16.2%). The tax rate has benefited from the continued phasing in of the patent box tax regime and a reduction in the UK tax rate applied when calculating certain deferred tax assets and liabilities.

Metrology
Revenue from our metrology business for the year was £503.4m compared with a restated £398.9m last year.

We have experienced revenue growth in all product lines and territories. The geographical analysis of revenue is as follows:

	2017 £m	Restated 2016 £m	Change %
Far East	237.9	185.6	+28%
Europe	121.5	101.3	+20%
Americas	106.9	83.3	+28%
UK	23.2	18.1	+29%
Other regions	13.9	10.6	+31%
Total group revenue	503.4	398.9	+26%

There was strong growth in our encoder, measurement and automation, calibration and coordinate measuring machine (CMM) product lines.

Adjusted operating profit for our metrology business was £115.9m (2016 restated: £90.0m).

We have continued to invest in research and development, with total engineering costs in this business segment of £68.8m (before net capitalised development costs and the R&D tax credit) compared to a restated 2016 of £60.9m, with a number of new product launches during the year.

In our CMM product line, we launched a new, improved surface finish measurement probe for use with our REVO® 5-axis measurement system. The laser calibration product line launched the XM-60 multi-axis calibrator. Designed for the machine tool market, it is a highly accurate laser system used to capture multiple machine errors in a single set-up. In our encoder product line, we launched the VIONiC™ series, a new range of ultra-high accuracy, super-compact all-in-one digital incremental encoders. The machine tool product line introduced the new SPRINT™ system with SupaScan, bringing the benefits of scanning technology to the mass market. Our additive manufacturing product line introduced the RenAM 500M machine and opened an additional two AM solutions centres in Germany and the USA.

Healthcare
Revenue from our healthcare business for the year was £33.4m, an increase of 18% over the £28.4m last year. We experienced growth in all our product lines.

Healthcare also saw continued investment in research and development, with total engineering costs in this business segment of £9.2m (before net capitalised development costs and the R&D tax credit) compared to a restated 2016 of £7.9m.

In our spectroscopy product line, we introduced the RA802 pharmaceutical analyser, designed exclusively for the pharmaceutical industry, enabling users to formulate tablets more efficiently by speeding up the analysis of tablet composition and structure.

The neurological product line continued to make sales of our stereotactic robot and associated neuroinspire planning software, with further sales in the UK, USA and Canada.

The medical dental product line has experienced good growth resulting from a continued focus on sales of additive manufacturing technologies into the healthcare market.

There was an adjusted operating loss of £7.2m, compared with a restated loss of £3.1m last year. We remain focused on moving this business sector into profit, where we have implemented a number of initiatives and are restructuring the neurological and medical dental businesses.

Discontinued activities
As reported in our October 2016 trading update, the Board decided to discontinue operations at Renishaw Diagnostics Limited (RDL), resulting in the closure of the business. Subsequently, certain assets of the business have been sold.

The RDL business has been accounted for as a discontinued activity, with comparative figures for the previous year being restated accordingly. The loss after tax of £3.3m accounted for as a discontinued activity comprises the running costs for RDL, including cessation costs and impairment write offs for assets and goodwill, less amounts received. The loss after tax for the prior year was £2.5m.

In June 2017, after an extensive review of the spatial measurement business, the Board decided to discontinue this line of business. Including a goodwill impairment charge of £6.7m and provisions for the cessation of the trade, there was a net loss in this business for the year of £10.6m (2016: £1.5m).

Continued investment for long-term growth
The Group continues its strategy to invest for the long term, expanding our global marketing and distribution infrastructure, along with increasing manufacturing capacity and research and development activities. This year saw the completion of our new USA headquarters near Chicago and the sale of the previous premises. New facilities have also been completed in Detroit (USA) with expansion and refurbishment in Spain, Sweden, Hungary, Germany and France. We also converted our representative office in Turkey into a trading subsidiary to facilitate solution selling in the territory.

Our workforce at the end of June 2017 was 4,530, an increase of 244 in the year, of which 91 were apprentices and graduates taken on as part of our on-going commitment to train and develop skilled resource for the Group in the future.

Capital expenditure on property, plant and equipment for the year was £42.6m, of which £24.2m was spent on property and £18.4m on plant and equipment.

Working capital
Group inventory decreased from £95.0m at the start of the year to £87.7m. We continue to focus on working capital management whilst remaining committed to our policy of holding sufficient finished inventory to ensure customer delivery performance, given our short order book of approximately five weeks. Trade debtors increased from £114.9m to £137.5m, with debtor days outstanding at the end of the current year at 73 days (2016: 70 days).

Net cash balances at 30th June 2017 were £51.9m, compared with £21.3m at 30th June 2016. Additionally, there is an escrow account of £12.9m (2016: £15.3m) relating to the provision of security to the UK defined benefit pension scheme.

Directors and employees
Now that Will Lee has settled into his role as Group Sales & Marketing Director since his appointment earlier in the year, he will take over responsibility from John Deer for chairing the International Sales & Marketing Board from the start of the new financial year.

The directors would like to express their thanks to all employees for their invaluable support and contribution during the year.

Investor communications

Our fourth investor day was held on 11th May 2017, for existing and potential new investors. This event involves presentations on group strategy, business segments and product lines as well as tours covering the Group's activities and an opportunity to meet the Board and senior management. There was also a Q&A session with the Board. The event was very well attended, and provided shareholders with another opportunity, in addition to the AGM, half-year and full-year webcasts, to learn more about Renishaw's business and strategy.

Outlook

The Group is in a strong financial position and continues to invest in the development of new products and applications, along with targeted investment in production, and sales and marketing facilities around the world. We have experienced strong growth in 2017 and whilst noting ongoing uncertainty surrounding Brexit and currency exchange rate volatility, your directors remain confident in the long-term prospects for the Group and at this early stage in the year anticipate growth in both revenue and profits in the current financial year.

Dividend

A final dividend of 39.5 pence net per share will be paid on 25th October 2017, to shareholders on the register on 22nd September 2017, giving a total dividend of 52.0 pence for the year, an increase of 8.3% over last year's 48.0 pence.

Sir David R McMurtry
CBE, RDI, FRS, FREng, CEng, FIMechE
Chairman and Chief Executive
27th July 2017

***Footnote**

Previous year figures have been restated for the following:

1. The results of Renishaw Diagnostics Limited and the spatial measurement business have been excluded, as these businesses have been reclassified as discontinued activities.

2. The R&D tax credit, previously accounted for within the Income tax expense line, has been reclassified to cost of sales, thereby showing it as part of the profit before tax. This reclassification increased the Profit before tax by £2.4m for the year ended 30th June 2016.

3. It has been established that certain foreign currency forward contracts used as hedging instruments for future incoming currency cash flows did not qualify for hedge accounting as they did not meet the hedge effectiveness criteria set out in the International Accounting Standard IAS39 'Financial Instruments: Recognition and Measurement'. To ensure technical compliance with this standard it has been necessary to restate the 2016 financial statements resulting in a £25.8m reduction to the profit before tax for that year and a corresponding increase in Other Comprehensive Income. The consolidated net assets and cash balances were not impacted by the prior year adjustment and the future cash flows remain unchanged.

Alternative performance measures

Alternative performance measures are -Revenue at constant exchange rates, Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit.

Revenue at constant exchange rates is defined as Revenue recalculated using the same rates as were applicable to the previous year and excluding forward contract gains and losses.

Revenue at constant exchange rates	**2017 £m**	2016 £m
Statutory revenue as reported	**536.8**	427.2
Adjustment for exchange rate movements and forward contract gains and losses	**(52.0)**	(2.6)
Revenue at constant exchange rates	**484.8**	424.6

Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit are after excluding gains and losses in fair value from forward currency contracts which did not qualify for hedge accounting. The amounts shown below as reported in revenue represent the amount by which revenue would change had all the derivatives qualified as eligible for hedge accounting.

Adjusted profit before tax	**2017 £m**	2016 £m
Statutory profit before tax	**117.1**	61.7
Fair value gains and losses on financial instruments not effective for cash flow hedging:		
- reported within revenue	**(11.6)**	2.4
- reported as losses in the fair value of financial instruments	**3.6**	23.4
Adjusted profit before tax	**109.1**	87.5

Adjusted earnings per share and adjusted operating profit are calculated using the same adjustments (see note 19).

CONSOLIDATED INCOME STATEMENT
for the year ended 30th June 2017

Continuing operations	2017 £'000	Restated 2016 £'000
Revenue	**536,807**	427,224
Cost of sales	**(251,384)**	(208,565)
Gross profit	**285,423**	218,659
Distribution costs	**(112,691)**	(93,843)
Administrative expenses	**(52,376)**	(40,200)
Losses from the fair value of financial instruments	**(3,601)**	(23,436)
Operating profit	**116,755**	61,180
Financial income	**766**	872
Financial expenses	**(2,256)**	(1,800)
Share of profits of associates and joint ventures	**1,836**	1,451
Profit before tax	**117,101**	61,703
Income tax expense	**(14,343)**	(9,983)
Profit for the year from continuing operations	**102,758**	51,720
Loss for the period from discontinued operations	**(13,931)**	(4,024)
Profit for the year	**88,827**	47,696

Profit attributable to:	2017 £'000	2016 £'000
Equity shareholders of the parent company	**88,955**	48,220
Non-controlling interest	**(128)**	(524)
Profit for the year	**88,827**	47,696

	2017 Pence	2016 Pence
Dividend per share arising in respect of the year	**52.0**	48.0
Dividend per share paid in the year	**48.0**	46.5
Earnings per share from continuing operations (basic and diluted)	**141.3**	71.8
Losses per share from discontinued operations (basic and diluted)	**(19.1)**	(5.6)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE
for the year ended 30th June 2017

	2017 £'000	Restated 2016 £'000
Profit for the year	**88,827**	47,696
Other items recognised directly in equity:		
Items that will not be reclassified to the Consolidated income statement:		
Remeasurement of defined benefit pension liabilities	**(1,608)**	(20,868)
Deferred tax on remeasurement of defined benefit pension liabilities	**(835)**	3,480
Total for items that will not be reclassified	**(2,443)**	(17,388)
Items that may be reclassified to the Consolidated income statement:		
Exchange differences in translation of foreign operations	**3,889**	8,409
Comprehensive income and expenses of associates and joint ventures	**173**	753
Effective portion of changes in fair value of cash flow hedges, net of recycling	**8,495**	(65,396)
Deferred tax on effective portion of changes in fair value of cash flow hedges	**(1,573)**	12,640
Total for items that may be reclassified	**10,984**	(43,594)
Total other comprehensive income and expense, net of tax	**8,541**	(60,982)
Total comprehensive income and expense for the year	**97,368**	(13,286)
Attributable to:		
Equity shareholders of the parent company	**97,496**	(12,762)
Non-controlling interest	**(128)**	(524)
Total comprehensive income and expense for the year	**97,368**	(13,286)

CONSOLIDATED BALANCE SHEET
at 30th June 2017

	2017 £'000	Restated 2016 £'000
Assets		
Property, plant and equipment	**228,050**	213,917
Intangible assets	**54,507**	61,255
Investments in associates and joint ventures	**7,311**	5,658
Long-term loans to associates and joint ventures	**3,080**	-
Deferred tax assets	**39,115**	40,996
Derivatives	**3,546**	76
Total non-current assets	**335,609**	321,902
Current assets		
Inventories	**87,697**	94,959
Trade receivables	**137,507**	114,945
Current tax	**2,276**	1,166
Other receivables	**15,907**	18,090
Derivatives	**-**	859
Pension scheme cash escrow account	**12,850**	15,279
Cash and cash equivalents	**51,942**	31,278
Total current assets	**308,179**	276,576
Current liabilities		
Trade payables	**19,544**	22,379
Overdraft	**-**	9,975
Current tax	**2,803**	3,558
Provisions	**2,960**	2,375
Derivatives	**25,261**	19,987
Other payables	**37,304**	18,345
Total current liabilities	**87,872**	76,619
Net current assets	**220,307**	199,957
Non-current liabilities		
Employee benefits	**66,787**	67,823
Deferred tax liabilities	**13,844**	21,999
Derivatives	**31,471**	50,652
Total non-current liabilities	**112,102**	140,474
Total assets less total liabilities	**443,814**	381,385
Equity		
Share capital	**14,558**	14,558
Share premium	**42**	42
Currency translation reserve	**10,510**	6,448
Cash flow hedging reserve	**(31,049)**	(37,971)
Retained earnings	**450,803**	401,930
Other reserve	**(460)**	(460)
Equity attributable to the shareholders of the parent company	**444,404**	384,547
Non-controlling interest	**(590)**	(3,162)
Total equity	**443,814**	381,385

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30th June 2017

Year ended 30th June 2016	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Other reserve £'000	Non-controlling interest £'000	Total £'000
Balance at 1st July 2015 as reported	14,558	42	(2,714)	17,171	402,559	(460)	(2,638)	428,518
Restatement	-	-	-	(2,386)	2,386	-	-	-
Balance at 1st July 2015 restated	14,558	42	(2,714)	14,785	404,945	(460)	(2,638)	428,518
Profit/(loss) for the year	-	-	-	-	48,220	-	(524)	47,696
Other comprehensive income and expense (net of tax)								
Remeasurement of defined benefit pension liabilities	-	-	-	-	(17,388)	-	-	(17,388)
Foreign exchange translation differences	-	-	8,409	-	-	-	-	8,409
Relating to associates and joint ventures	--	-	753	-	-	-	-	753
Changes in fair value of cash flow hedges	-	-	-	(52,756)	-	-	-	(52,756)
Total other comprehensive income	-	-	9,162	(52,756)	(17,388)	-	-	(60,982)
Total comprehensive income	-	-	9,162	(52,756)	30,832	-	(524)	(13,286)
Dividends paid	-	-	-	-	(33,847)	-	-	(33,847)
Balance at 30th June 2016	14,558	42	6,448	(37,971)	401,930	(460)	(3,162)	381,385
Year ended 30th June 2017								
Profit/(loss) for the year	-	-	-	-	88,955	-	(128)	88,827
Other comprehensive income and expense (net of tax)								
Remeasurement of defined benefit pension liabilities	-	-	-	-	(2,443)	-	-	(2,443)
Foreign exchange translation differences	-	-	3,889	-	-	-	-	3,889
Relating to associates and joint ventures	-	-	173	-	-	-	-	173
Changes in fair value of cash flow hedges	-	-	-	6,922	-	-	-	6,922
Total other comprehensive income	-	-	4,062	6,922	(2,443)	-	-	8,541
Total comprehensive income	-	-	4,062	6,922	86,512	-	(128)	97,368
Acquisition of non-controlling interest	-	-	-	-	(2,700)	-	2,700	-
Dividends paid	-	-	-	-	(34,939)	-	-	(34,939)
Balance at 30th June 2017	**14,558**	**42**	**10,510**	**(31,049)**	**450,803**	**(460)**	**(590)**	**443,814**

CONSOLIDATED STATEMENT OF CASH FLOW
for the year ended 30th June 2017

	2017 £'000	Restated 2016 £'000
Cash flows from operating activities		
Profit for the year	**88,827**	47,696
Adjustments for:		
Amortisation of development costs	**13,645**	9,116
Amortisation of other intangibles	**10,230**	2,313
Depreciation	**22,192**	18,258
Loss on sale of property, plant and equipment	**2,085**	166
(Gains)/losses from the fair value of financial instruments	**(8,022)**	25,772
Share of profits from associates and joint ventures	**(1,836)**	(1,451)
Financial income	**(766)**	(872)
Financial expenses	**2,256**	1,800
Tax expense	**13,132**	8,988
	52,916	64,090
Decrease/(increase) in inventories	**7,262**	(17,286)
Increase in trade and other receivables	**(21,062)**	(2,951)
Increase/(decrease) in trade and other payables	**14,699**	(12,439)
Increase in provisions	**585**	660
	1,484	(32,016)
Defined benefit pension contributions	**(4,204)**	(2,708)
Income taxes paid	**(23,768)**	(21,883)
Cash flows from operating activities	**115,255**	55,179
Investing activities		
Purchase of property, plant and equipment	**(42,637)**	(52,996)
Development costs capitalised	**(15,886)**	(12,246)
Purchase of other intangibles	**(754)**	(1,294)
Investment in subsidiaries, associates and joint ventures	**-**	(284)
Sale of property, plant and equipment	**5,526**	826
Sale of property, plant and equipment relating to discontinued activities	**960**	-
Interest received	**766**	872
Dividend received from associates and joint ventures	**356**	310
Payments to pension scheme escrow account (net)	**2,429**	(548)
Cash flows from investing activities	**(49,240)**	(65,360)
Financing activities		
Interest paid	**(696)**	(231)
Dividends paid	**(34,939)**	(33,847)
Cash flows from financing activities	**(35,635)**	(34,078)
Net increase/(decrease) in cash and cash equivalents	**30,380**	(44,259)
Cash and cash equivalents at beginning of the year	**21,303**	82,171
Effect of exchange rate fluctuations on cash held	**259**	(16,609)
Cash and cash equivalents at end of the year	**51,942**	21,303

STATUS OF THIS PRELIMINARY ANNOUNCEMENT

The financial information set out above does not constitute the Company's statutory accounts for the years ended 30th June 2017 or 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the registrar of companies, and those for 2017 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This preliminary announcement and the presentation of results will be available on the Company's website www.renishaw.com.

NOTES TO 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 and joint ventures.

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 Group identified a number of prior period adjustments during the year, resulting in a restatement of the comparative period in the 2017 financial statements, as detailed in note 20. A third balance sheet has not been presented as the movements are identified in the Consolidated statement of changes in equity.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements. Judgements made by the directors, in the application of these accounting policies, that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are noted below.

Basis of accounting

The financial statements have been prepared under the historical cost convention, subject to items referred to in the derivative financial instruments note below. The accounting policies set out below have been consistently applied in preparing both the 2016 and 2017 financial statements.

Critical accounting judgements and estimation uncertainties

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 areas of key estimation uncertainty and critical accounting judgement that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are listed below:

Critical accounting judgements

(i) Capitalisation of development costs

Product development costs are capitalised once a project has reached a certain stage of development and these costs are subsequently amortised over a five-year period. Judgements are required to assess whether the new product development has reached the appropriate point for capitalisation of costs to begin. Should a product be subsequently obsoleted, the accumulated capitalised development costs would need to be immediately written off in the Consolidated income statement.

(ii) Discontinued activities

The closure of certain lines of business have been treated as discontinued operations on the basis that the directors are of the opinion that the underlying performance of the business is better reflected by classifying these items as discontinued.

Key sources of estimation uncertainty

(i) Inventory

Determining the value of inventory requires judgement, especially in respect of provisioning for slow moving and potentially obsolete inventory. Management consider historic and future forecast sales patterns of individual stock items when calculating inventory provisions. For most inventory lines, provisions are based on the excess levels held compared to a maximum three year outlook. Where strategic purchases of critical components have been made, an outlook beyond three years is considered where appropriate. The sensitivities around estimates vary from line to line.

(ii) Defined benefit pension scheme liabilities

Determining the value of the future defined benefit obligation requires judgement in respect of the assumptions used to calculate present values. These include future mortality, discount rate, inflation and salary increases. Management makes these judgements in consultation with an independent actuary.

(iii) Amortisation of intangibles and impairment

The periods of amortisation of intangible assets require judgements to be made on the estimated useful lives of the intangible assets to determine an appropriate rate of amortisation. Future assessments of impairment may lead to the writing off of certain amounts of intangible assets and the consequent charge in the Consolidated income statement for the accelerated amortisation. Capitalised development costs are written off over five years, the period over which demand forecasts can be predicted with more certainty.

(iv) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of cash-generating units (CGUs) to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates, which involves judgement, to calculate present values.

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 normally the time of despatch. Where certain products require installation, part of the revenue may be deferred until the installation is complete. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or the possible return of goods.

Revenue from the sale of services is recognised over the period to which the service relates. Where goods and services are sold as a bundle, the fair value of services is deferred and recognised over the period to which the service relates with the remaining revenue recognised on despatch.

Basis of consolidation

Subsidiaries - Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Application of the equity method to associates and joint ventures - Associates and joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Transactions eliminated on consolidation - Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency derivative cash flow hedges

Foreign currency derivatives are used to manage risks arising from changes in foreign currency rates relating to overseas sales. The Group does not enter into derivatives for speculative purposes. Foreign currency derivatives are stated at their fair value being the estimated amount that the Group would pay or receive to terminate them at the balance sheet date based on prevailing foreign currency rates.

Changes in the fair value of foreign currency derivatives which are designated and effective as hedges of future cash flows are recognised in other comprehensive income and in the currency hedging reserve, and subsequently transferred to the carrying amount of the hedged item or the Consolidated income statement. Realised gains or losses on cash flow hedges are therefore recognised in the Consolidated income statement in the same period as the hedged item.

Hedge accounting is discontinued when the hedging instrument expires or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is then transferred to the Consolidated income statement.

Changes in fair value of foreign currency derivatives which are ineffective or do not meet the criteria for hedge accounting in IAS 39 'Financial instruments: recognition and measurement' are recognised in the Consolidated income statement.

Inventory and work in progress

Inventory and work in progress is valued at the lower of cost 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. Overheads are absorbed into inventories on the basis of normal capacity or on actual hours if higher.

Goodwill and other intangible assets

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred. Deferred consideration relating to acquisitions is subject to discounting to the date of acquisition and subsequently unwound to the date of the final payment. Goodwill arising on acquisition represents the difference between the cost of the acquisition and the fair value of the net identifiable assets 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.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Goodwill is stated at cost less any accumulated impairment losses. It is not amortised but is tested annually for impairment or earlier if there are any indications of impairment. The annual impairment review involves comparing the carrying amount to the estimated recoverable amount and recognising an impairment loss if the recoverable amount is lower. Impairment losses are recognised through the Consolidated income statement.

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

Intangible assets – research and development costs

Expenditure on research activities is recognised in the Consolidated income statement as an expense as incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and the Group can measure reliably the expenditure attributable to the intangible asset during its development.

Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the Consolidated income statement as an expense as incurred.

Capitalised development expenditure is amortised over five years and is stated at cost less accumulated amortisation and less accumulated impairment losses. Capitalised development expenditure is removed from the balance sheet ten years after being fully amortised.

Employee benefits

The Group operates contributory pension schemes, largely for UK, Ireland and USA employees, which were of the defined benefit type up to 5th April 2007, 31st December 2007 and 30th June 2012 respectively, at which time they ceased any future accrual for existing members and were closed to new members.

The schemes are administered by trustees who are independent of the group finances. Pension scheme assets of the defined benefit schemes 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. Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans are included in the Consolidated income statement.

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 under employee benefits. Where a guarantee is in place in relation to a pension scheme deficit, liabilities are reported in accordance with IFRIC 14. 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 and USA, because of the limited 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.

Going concern

The Group has considerable financial resources at its disposal and the directors have considered the current financial projections. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the next twelve months. Accordingly, they continue to adopt the going concern basis in preparing the Annual report and accounts.

Discontinued activities

Where a line of the Group's business is treated as a discontinued operation, the financial statements have been re-presented and restated where required as if operations discontinued during the current year had been discontinued from the start of the comparative year. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as a loss after tax from discontinued operations in the Consolidated income statement.

Impairment on non-current assets

All non-current assets are tested for impairment whenever there is an indication that their carrying value may be impaired. An impairment loss is recognised in the Consolidated income statement to the extent that an asset's carrying value exceeds its recoverable amount, which represents the higher of the asset's net realisable value and its value in use. An asset's value in use represents the present value of the future cash flows expected to be derived from the asset or from the cash generating unit to which it relates. The present value is calculated using a discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset concerned.

2. SEGMENTAL ANALYSIS

Renishaw manages its operations in two segments, comprising metrology and healthcare products. The results of these segments are regularly reviewed by the Board to allocate resources to segments and to assess their performance. The Group evaluates performance of the segments on the basis of profit before interest, tax and discontinued operations. Within the operating segment of metrology, there are multiple product offerings with similar economic characteristics, and where the nature of the products and production processes and their customer base are similar. The revenue, depreciation and amortisation, and operating profit for each reportable segment were:

Year ended 30th June 2017	**Metrology £'000**	**Healthcare £'000**	**Total £'000**
Revenue	**503,378**	**33,429**	**536,807**
Depreciation and amortisation	**32,983**	**3,831**	**36,814**
Operating profit/(loss) before losses from fair value in financial instruments	**126,830**	**(6,474)**	**120,356**
Share of profits from associates and joint ventures	**1,836**	**-**	**1,836**
Net financial expense	**-**	**-**	**(1,490)**
Losses from the fair value of financial instruments	**-**	**-**	**(3,601)**
Profit before tax	**-**	**-**	**117,101**

Year ended 30th June 2016 (Restated)	Metrology £'000	Healthcare £'000	Total £'000
Revenue	398,853	28,371	427,224
Depreciation and amortisation	26,234	3,003	29,237
Operating profit/(loss) before losses from fair value in financial instruments	87,717	(3,101)	84,616
Share of profits from associates and joint ventures	1,451	-	1,451
Net financial expense	-	-	(928)
Losses from the fair value of financial instruments	-	-	(23,436)
Profit before tax	-	-	61,703

There is no allocation of assets and liabilities to operating segments. Depreciation is included within certain other overhead expenditure which is allocated to segments on the basis of the level of activity.

The analysis of revenue by geographical market was:

	2017 £'000	2016 £'000
Far East, including Australasia	**248,905**	193,274
Continental Europe	**129,941**	110,315
North, South and Central America	**113,577**	88,029
UK and Ireland	**27,595**	22,752
Other regions	**16,789**	12,854
Total group revenue	**536,807**	427,224

Revenue in the above table has been allocated to regions based on the geographical location of the customer. Countries with individually material revenue figures in the context of the Group were:

	2017 £'000	2016 £'000
China	**134,984**	106,457
USA	**95,927**	77,856
Germany	**56,403**	48,205
Japan	**52,166**	49,318

There was no revenue from transactions with a single external customer which amounted to more than 10% or more of the Group's total revenue

The following table shows the analysis of non-current assets by geographical region:

	2017	2016
	£'000	£'000
United Kingdom	**183,102**	190,396
Overseas	**109,846**	90,434
Total non-current assets	**292,948**	280,830

3. FINANCIAL INCOME AND EXPENSES

	2017	2016
Financial income	**£'000**	£'000
Interest receivable	**766**	872
Financial expenses		
Net interest on pension schemes' liabilities	**1,560**	1,569
Bank interest payable	**696**	231
Total financial expenses	**2,256**	1,800

4. INCOME TAX EXPENSE

	2017	2016
	£'000	£'000
Current tax:		
UK corporation tax on profits for the year	**6,418**	6,804
UK corporation tax – prior year adjustments	**610**	860
Overseas tax on profits for the year	**12,997**	7,651
Total current tax	**20,025**	15,315
Deferred tax:		
Origination and reversal of other temporary differences	**(1,589)**	(4,403)
Prior year adjustment	**(3,647)**	-
Effect on deferred tax for change in the UK tax rate	**(446)**	(929)
	(5,682)	(5,332)
Tax charge on profit	**14,343**	9,983

Total tax charge:

	2017	2016
	£'000	£'000
Income tax expense reported in the Consolidated income statement	**14,343**	9,983
Tax attributable to discontinued operations	**(1,211)**	(995)
	13,132	8,988

The tax for the year is lower (2016: lower) than the weighted average UK standard rate of corporation tax of 19.75% (2016: 20%). The differences are explained as follows:

	2017 £'000	Restated 2016 £'000
Profit before tax from continuing operations	**117,101**	61,703
Loss before tax from discontinued operations	**(15,142)**	(5,019)
	101,959	56,684
Tax at 19.75% (2016: 20%)	**20,137**	11,337
Effects of:		
Different tax rates applicable in overseas subsidiaries	**(1,886)**	(2,653)
UK patent box	**(4,025)**	(423)
Expenses not deductible for tax purposes	**310**	266
Companies with unrelieved tax losses	**1,960**	461
Items with no tax effect	**226**	(290)
Prior year adjustments	**(3,037)**	860
Effect on deferred tax for change in UK tax rate	**(446)**	(929)
Other differences	**(107)**	359
Tax charge on profit	**13,132**	8,988
Effective tax rate	**12.9%**	15.9%

Phased reductions in the UK rate of corporation tax to 19% from 1st April 2017 and 17% from 1st April 2020 have been substantively enacted. Deferred tax assets and liabilities have been calculated based on the rate expected to be applicable when the relevant items are expected to reverse.

5. DISCONTINUED OPERATIONS

In October 2016, the Group decided to discontinue operations at Renishaw Diagnostics Limited (healthcare segment) and in June 2017, to discontinue the spatial measurements business (metrology segment), on the basis of continued losses. Certain assets of the business were sold. Financial information relating to the discontinued operations is set out below.

	2017 £'000	2016 £'000
Revenue	**7,217**	7,038
Expenses	**(13,914)**	(12,057)
Goodwill impairment	**(8,445)**	-
Loss before tax	**(15,142)**	(5,019)
Tax credit	**1,211**	995
Loss for the year from discontinued operations	**(13,931)**	(4,024)

Cash flow

	2017 £'000	2016 £'000
Loss for the year	**(13,931)**	(4,024)
Adjustments for operating activities	**12,155**	(635)
Cash flows from operating activities	**(1,776)**	(4,659)
Cash flows from investing activities	**420**	168
Net decrease in cash and cash equivalents from discontinued operations	**(1,356)**	(4,491)

6. EARNINGS PER SHARE

Basic and diluted earnings per share from continuing operations are calculated on earnings of £102,886,000 (2016: £52,244,000) and on 72,788,543 shares, being the number of shares in issue during both years.

Basic and diluted losses per share from discontinued operations are calculated on losses of £13,931,000 (2016: £4,024,000) and on 72,788,543 shares, being the number of shares in issue during both years.

There is no difference between the weighted average earnings per share and the basic and diluted earnings per share.

7. PROPERTY, PLANT AND EQUIPMENT

Year ended 30th June 2017	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 2016	142,665	187,048	9,600	14,886	354,199
Additions	6,273	13,336	1,118	21,910	42,637
Transfers	23,050	5,524	-	(28,574)	-
Disposals	(8,267)	(6,489)	(1,067)	-	(15,823)
Currency adjustment	1,940	1,603	242	-	3,785
At 30th June 2017	165,661	201,022	9,893	8,222	384,798
Depreciation					
At 1st July 2016	27,241	107,045	5,996	-	140,282
Charge for the year	2,976	17,727	1,489	-	22,192
Released on disposals	(2,292)	(4,000)	(960)	-	(7,252)
Currency adjustment	537	839	150	-	1,526
At 30th June 2017	28,462	121,611	6,675	-	156,748
Net book value					
At 30th June 2017	**137,199**	**79,411**	**3,218**	**8,222**	**228,050**
At 30th June 2016	115,424	80,003	3,604	14,886	213,917

At 30th June 2017, properties with a net book value of £66,606,000 (2016: £66,485,000) were subject to a registered charge to secure the UK defined benefit pension scheme liabilities.

Additions to assets in the course of construction comprise:

	2017 £'000	2016 £'000
Freehold land and buildings	**17,972**	12,938
Plant and equipment	**3,938**	10,256
	21,910	23,194

8. INTANGIBLE ASSETS

Year ended 30th June 2017	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software £'000	Total £'000
Cost					
At 1st July 2016	21,268	11,249	101,463	22,587	156,567
Additions	-	300	15,886	454	16,640
Disposals	(1,784)	-	-	-	(1,784)
Currency adjustment	435	98	-	25	558
At 30th June 2017	19,919	11,647	117,349	23,066	171,981
Amortisation					
At 1st July 2016	-	10,939	67,682	16,691	95,312
Charge for the year	-	198	13,645	1,587	15,430
Impairments	8,445	-	-	-	8,445
Released on disposal	(1,784)	-	-	-	(1,784)
Currency adjustment	-	50	-	21	71
At 30th June 2017	6,661	11,187	81,327	18,299	117,474
Net book value					
At 30th June 2017	**13,258**	**460**	**36,022**	**4,767**	**54,507**
At 30th June 2016	21,268	310	33,781	5,896	61,255

Goodwill acquired has arisen on the acquisition of a number of businesses and has an indeterminable useful life. It is not amortised but is tested for impairment annually and at any point during the year when an indicator of impairment exists. Goodwill is allocated to the CGUs, which are mainly the statutory entities acquired. This is the lowest level in the Group at which goodwill is monitored for impairment and is at a lower level than the Group's operating segments. In the table below, only the goodwill relating to the acquisition of R&R Fixtures, LLC is expected to be subject to tax relief.

The analysis of acquired goodwill on consolidation is:

	2017 **£'000**	2016 £'000
itp GmbH	**3,038**	2,886
Renishaw Mayfield S.A.	**1,823**	1,738
Measurement Devices Limited	**-**	6,661
Renishaw Software Limited	**1,559**	1,559
R&R Fixtures, LLC	**5,327**	5,168
Renishaw Diagnostics Limited (92.4%)	**-**	1,784
Other smaller acquisitions	**1,511**	1,472
Total acquired goodwill	**13,258**	21,268

The recoverable amounts of acquired goodwill are based on value in use calculations. These calculations use cash flow projections based on either the financial business plans approved by management for next five financial years, or estimated growth rates over the five years, which are set out below. The cash flows beyond this forecast are extrapolated to perpetuity using a nil growth rate on a prudent basis, to reflect the uncertainties over forecasting further than five years.

Key assumptions

The key assumptions utilised in the value in use calculations are:

Discount rate

The following pre-tax discount rates have been used in discounting the projected cash flows:

	2017 **Discount rate**	2016 Discount rate
itp GmbH	**12%**	12%
Renishaw Software Limited	**12%**	12%
R&R Fixtures, LLC	**12%**	12%
Renishaw Mayfield S.A.	**15%**	15%

Forecast cash flows and future growth rates

	2017 **Basis of forecast**	2016 Basis of forecast
itp GmbH	**5 % growth rate**	5% growth rate
Renishaw Software Limited	**5 % growth rate**	5% growth rate
R&R Fixtures, LLC	**5 year business plan**	5 year business plan
Renishaw Mayfield S.A.	**5 year business plan**	5 year business plan

These forecast cash flows are considered prudent estimates based on management's view of the future and experience of past performance of the individual CGUs and are calculated at a disaggregated level. The key judgement within these business plans is the forecasting of revenue growth, given that the cost bases of the businesses can be flexed in line with revenue performance.

The average growth rates included in the significant CGUs business plans are as follows:

	2017 **Average revenue growth**	2016 Average revenue growth
R&R Fixtures, LLC	**14%**	13%

These business plans are recognised as key inputs to the impairment calculation. They are monitored by management regularly and updated for expected variances in future performance.

Sensitivity to key assumptions

Management have performed sensitivity analysis on the key assumptions detailed above.

Discount rate

An increase of 5% in the discount rate would not result in an impairment on any of the CGUs. Management believe any increase in discount rates above 5% to be remote.

Forecast cash flows and future growth rates

Given the average revenue growth assumptions included in the five-year business plans, management's sensitivity analysis involves a reduction of 10% in the forecast cash-flows utilised in those business plans and therefore into perpetuity. For R&R Fixtures, LLC, for there to be an impairment there would need to be a reduction of 44% in the forecast cash flows.

9. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

The Group's investments in associates and joint ventures (all investments being in the ordinary share capital of the associate and joint ventures), whose accounting years end on 30th June, except where noted otherwise, were:

	Country of incorporation	**Ownership 2017 %**	Ownership 2016 %
RLS merilna tehnika d.o.o.	Slovenia	**50.0**	50.0
Metrology Software Products Limited	England & Wales	**50.0**	50.0
HiETA Technologies Limited (31st December)	England & Wales	**24.9**	24.9

Movements during the year were:

	2017 £'000	2016 £'000
Balance at the beginning of the year	**5,658**	3,480
Dividends received	**(356)**	(310)
Share of profits of associates and joint ventures	**1,836**	1,451
Other comprehensive income and expense	**173**	753
Additions	**-**	284
Balance at the end of the year	**7,311**	5,658

10. DEFERRED TAX ASSETS AND LIABILITIES

Balances at the end of the year were:

	2017			2016		
	Assets £'000	**Liabilities £'000**	**Net £'000**	Assets £'000	Liabilities £'000	Net £'000
Property, plant and equipment	**-**	**(9,337)**	**(9,337)**	-	(6,969)	(6,969)
Intangible assets	**-**	**(4,330)**	**(4,330)**	-	(8,061)	(8,061)
Intragroup trading (inventory)	**16,016**	**-**	**16,016**	13,454	-	13,454
Pension schemes	**11,024**	**-**	**11,024**	12,529	-	12,529
Derivatives	**10,146**	**-**	**10,146**	13,244	-	13,244
Other	**1,929**	**(177)**	**1,752**	1,769	(6,969)	(5,200)
Balance at the end of the year	**39,115**	**(13,844)**	**25,271**	40,996	(21,999)	18,997

The movements in the deferred tax balance during the year were:

	2017 £'000	2016 £'000
Balance at the beginning of the year	**18,997**	(2,455)
Reallocation to current tax	**3,000**	-
Movements in the Consolidated income statement	**5,682**	5,332
Movement in relation to the cash flow hedging reserve	**(1,573)**	12,640
Movement in relation to the pension schemes	**(835)**	3,480
Total movement in the Consolidated statement of comprehensive income and expense	**(2,408)**	16,120
Balance at the end of the year	**25,271**	18,997

No deferred tax asset has been recognised in respect of tax losses carried forward of £22,147,000 (2016: £16,393,000) due to the uncertainty over their recoverability, as a significant proportion held in overseas subsidiaries may only be carried forward for a limited period of time.

11. DERIVATIVES

Derivatives comprising the fair value of outstanding forward contracts with positive fair values were:	**2017 £'000**	2016 £'000
Derivatives designated as hedging instruments	**2,083**	579
Derivatives not designated as hedging instruments	**1,463**	356
Total derivatives with positive fair values	**3,546**	935
Total current	**-**	859
Total non-current	**3,546**	76
Total of derivatives with positive fair values	**3,546**	935

Derivatives comprising the fair value of outstanding forward contracts with negative fair values were:	**2017 £'000**	2016 £'000
Derivatives designated as hedging instruments	**41,560**	49,079
Derivatives not designated as hedging instruments	**15,172**	21,560
Total derivatives with negative fair values	**56,732**	70,639
Total current	**25,261**	19,987
Total non-current	**31,471**	50,652
Total of derivatives with negative fair values	**56,732**	70,639

12. EMPLOYEE BENEFITS

The Group operates a number of pension schemes throughout the world. As noted in the accounting policies, actuarial valuations of foreign pension schemes are not obtained for the most part because of the limited number of foreign employees.

The major scheme, which covers the UK-based employees, was of the defined benefit type. This scheme, along with the Ireland and USA defined benefit schemes, has ceased any future accrual for current members and these schemes are closed to new members. UK, Ireland and USA employees are now covered by defined contribution schemes.

The total pension cost of the Group for the year was £20,238,000 (2016: £18,061,000), of which £158,000 (2016: £184,000) related to directors and £6,292,000 (2016: £4,854,000) related to overseas schemes.

The latest full actuarial valuation of the UK defined benefit scheme was carried out as at September 2015 and updated to 30th June 2017 by a qualified independent actuary. The mortality assumption used for 2017 is S2PMA and S2PFA tables, CMI (core) 2016 model with long term improvements of 1% per annum.

The major assumptions used by the actuary for the UK and Ireland schemes were:

	2017		2016	
	UK scheme	**Ireland scheme**	UK scheme	Ireland scheme
Rate of increase in pension payments	**3.3%**	**1.6%**	3.2%	1.5%
Discount rate	**2.7%**	**2.2%**	3.2%	2.0%
Inflation rate (RPI)	**3.4%**	**1.6%**	3.3%	1.5%
Inflation rate (CPI)	**2.4%**	**-**	2.3%	-
Retirement age	**64**	**65**	64	65

The assets and liabilities in the defined benefit schemes at the end of the year were:

	2017 £'000	2016 £'000
Market value of assets:		
Equities	**169,433**	145,914
Bonds and cash	**1,275**	3,313
	170,708	149,227
Actuarial value of liabilities	**(237,495)**	(217,050)
Deficit in the schemes	**(66,787)**	(67,823)
Deferred tax thereon	**11,024**	12,528

All equities have quoted prices in active markets in the UK, North America, Europe, Asia-Pacific, Japan and emerging markets.

The weighted average duration of the defined benefit obligation is around 24 years.

The movements in the schemes' assets and liabilities were:

Year ended 30th June 2017	**Assets £'000**	**Liabilities £'000**	**Total £'000**
Balance at the beginning of the year	149,227	(217,050)	(67,823)
Contributions paid	4,204	-	4,204
Interest on pension schemes	4,681	(6,241)	(1,560)
Remeasurement gain/(loss)	19,028	(20,636)	(1,608)
Benefits paid	(6,432)	6,432	-
Balance at the end of the year	**170,708**	**(237,495)**	**(66,787)**

An agreement has been entered into with the trustees of the UK defined benefit pension scheme in relation to deficit funding plans which supersede the previous arrangements. The Company has agreed to pay all monthly pensions payments and lump sum payments, and transfer payments up to a limit of £1,000,000 in each year (Benefits in Payment).

A number of UK properties owned by the Company are subject to fixed charges. One or more of the properties may be released from the fixed charge if on a subsequent valuation, the value of all properties under charge exceed 120% of the deficit.

The Company has also established an escrow bank account, which is subject to a floating charge. The balance of this account was £12,850,000 at the end of the year (2016: £15,279,000). The funds will be released back to the Company from the escrow account over a period of 6 years.

The agreement continues until 30th June 2031, but may end sooner if the deficit (calculated on a self sufficiency basis as defined in the agreement) is eliminated in the meantime. At 30th June 2031 the Company is obliged to pay any deficit at that time. All properties will be released from charge when the deficit no longer exists. The charges may be enforced by the trustees if one of the following occurs: (a) the Company does not pay any Benefits in Payment; (b) an insolvency event occurs in relation to the Company; or (c) the Company does not pay any deficit at 30th June 2031.

Under the Ireland defined benefit pension scheme deficit funding plan, a property owned by Renishaw (Ireland) Limited is subject to a registered fixed charge to secure the Ireland defined benefit pension scheme's deficit.

No scheme assets are invested in the Group's own equity.

The present value of projected future contributions under the new agreement relating to the UK defined benefit scheme exceeds the value of the deficit at the year-end, therefore, under IFRIC 14, the UK defined benefit pension scheme's liabilities have been increased by £16,200,000, to represent the maximum discounted liability as at 30th June 2017 (2016: £15,400,000).

13. INVENTORIES

An analysis of inventories at the end of the year was:

	2017 £'000	2016 £'000
Raw materials	**32,477**	35,932
Work in progress	**19,705**	26,225
Finished goods	**35,515**	32,802
Balance at the end of the year	**87,697**	94,959

During the year, the amount of inventories recognised as an expense in the Consolidated income statement was £167,395,000 (2016: £135,718,000) and the amount of write-down of inventories recognised as an expense in the Consolidated income statement was £6,466,000 (2016: £2,454,000). At the end of the year, the gross cost of inventories which had provisions held against them totalled £15,413,000 (2016: £10,134,000).

14. CASH AND CASH EQUIVALENTS

An analysis of cash and cash equivalents at the end of the year was:

	2017 £'000	2016 £'000
Bank balances and cash in hand	**46,492**	26,416
Short-term deposits	**5,450**	4,862
Overdraft	**-**	(9,975)
Balance at the end of the year	**51,942**	21,303

The UK defined benefit pension scheme cash escrow account is shown separately within current assets.

15. PROVISIONS

Warranty provision

Movements during the year were:

	2017 £'000	2016 £'000
Balance at the beginning of the year	**2,375**	1,715
Created during the year	**2,195**	1,878
Utilised in the year	**(1,610)**	(1,218)
	585	660
Balance at the end of the year	**2,960**	2,375

The warranty provision has been calculated on the basis of historical return-in-warranty information and other internal reports. It is expected that most of this expenditure will be incurred in the next financial year and all expenditure will be incurred within three years of the balance sheet date.

16. OTHER PAYABLES (CURRENT)

Balances at the end of the year were:

	2017 £'000	2016 £'000
Payroll taxes and social security	**7,642**	6,304
Other creditors and accruals	**29,662**	12,041
Total other payables	**37,304**	18,345

17. CAPITAL AND RESERVES

Share capital

	2017 £'000	2016 £'000
Allotted, called-up and fully paid		
72,788,543 ordinary shares of 20p each	**14,558**	14,558

The ordinary shares are the only class of share in the Company. Holders of ordinary shares are entitled to vote at general meetings of the Company and receive dividends as declared. The Articles of Association of the Company do not contain any restrictions on the transfer of shares nor on voting rights.

Currency translation reserve
The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the foreign operations, offset by foreign exchange differences on bank liabilities which have been accounted for in other comprehensive income and accumulated in equity on account of them being classified as hedging instruments.

Movements during the year were:

	2017 £'000	2016 £'000
Balance at the beginning of the year	**6,448**	(2,714)
Gain on net assets of foreign currency operations	**4,848**	28,778
Loss on foreign currency borrowings held for the purpose of net investment hedging	**(959)**	(20,369)
Gain in the year relating to subsidiaries	**3,889**	8,409
Currency exchange differences relating to associates	**173**	753
Balance at the end of the year	**10,510**	6,448

Cash flow hedging reserve
The cash flow hedging reserve comprises all foreign exchange differences arising from the valuation of forward exchange contracts which are effective hedges and mature after the year end. These are valued on a mark-to-market basis, are accounted for in comprehensive income and accumulated in equity, and are recycled through the Consolidated income statement when the hedged item affects the Consolidated income statement. The forward contracts mature over the next three and a half years.

Movements during the year were:

	2017 £'000	Restated 2016 £'000
Balance at the beginning of the year	**(37,971)**	14,785
Movements during the year	**8,495**	(65,396)
Deferred tax movement	**(1,573)**	12,640
Balance at the end of the year	**(31,049)**	(37,971)

Dividends paid

Dividends paid comprised:

	2017 £'000	2016 £'000
2016 final dividend paid of 35.5p per share (2015: 34.0p)	**25,840**	24,748
Interim dividend paid of 12.5p per share (2016: 12.5p)	**9,099**	9,099
Total dividends paid	**34,939**	33,847

A final dividend in respect of the current financial year of £28,751,474 (2016: £25,839,932), at the rate of 39.5p net per share (2016: 35.5p) is proposed, to be paid on 25th October 2017 to shareholders on the register on 22nd September 2017.

Non-controlling interest

Movements during the year were:

	2017 £'000	2016 £'000
Balance at the beginning of the year	**(3,162)**	(2,638)
Acquisition of remaining shareholding in Renishaw Mayfield S.A.	**2,700**	-
Share of loss for the year	**(128)**	(524)
Balance at the end of the year	**(590)**	(3,162)

The non-controlling interest represents the minority shareholding in Renishaw Diagnostics Limited (7.6%).

18. RELATED PARTIES

Associates, joint ventures and other related parties had the following transactions and balances with the Group:

	2017 £'000	2016 £'000
Purchased goods and services from the Group during the year	**852**	640
Sold goods and services to the Group during the year	**12,450**	8,573
Paid dividends to the Group during the year	**310**	310
Amounts owed to the Group at the year end	**220**	264
Amounts owed by the Group at the year end	**294**	411
Loans owed to the Group at the year end	**4,966**	4,366

There were no bad debts written off during the year (2016: £nil).

19. ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures used are:

Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit - These measures are defined as the profit before tax, earnings per share and operating profit after excluding gains and losses in fair value from forward currency contracts which did not qualify for hedge accounting.

The losses from fair value of financial instruments not effective for cash flow hedging have been excluded from statutory profit before tax, statutory earnings per share and statutory operating profit in arriving at adjusted profit before tax, adjusted earnings per share and adjusted operating profit to reflect the Board's intent that the instruments would provide effective hedges. The Board consider these alternative performance measures to be more relevant and reliable in evaluating the Group's performance going forward until the impact of ineffective hedges unwinds.

The amounts shown below as reported in revenue represent the amount by which revenue would change had all the derivatives qualified for hedge accounting.

Adjustments to the profit before tax were:	**2017**	2016
	£'000	£'000
Statutory profit before tax	**117,101**	61,703
Fair value gains and losses on financial instruments not eligible for hedge accounting:		
- reported in revenue	**(11,623)**	2,336
- reported in losses in fair value in financial instruments	**3,601**	23,436
Adjusted profit before tax	**109,079**	87,475

Adjustments to the earnings per share were:	**2017**	2016
	pence	pence
Statutory earnings per share	**141.3**	71.8
Fair value gains and losses on financial instruments not eligible for hedge accounting:		
- reported in revenue	**(12.9)**	2.6
- reported in losses in fair value in financial instruments	**4.0**	26.0
Adjusted earnings per share	**132.4**	100.4

Adjustments to the operating profit were:	**2017**	2016
	£'000	£'000
Statutory operating profit	**116,755**	61,180
Fair value gains and losses on financial instruments not eligible for hedge accounting:		
- reported in revenue	**(11,623)**	2,336
- reported in losses in fair value in financial instruments	**3,601**	23,436
Adjusted operating profit	**108,733**	86,952

Adjustments to the segmental operating profit were:	**2017**	2016
Metrology	**£'000**	£'000
Operating profit before loss from fair value of financial instruments	**126,830**	87,717
Fair value gains and losses on financial instruments not eligible for hedge accounting:		
- reported in revenue	**(10,921)**	2,293
Adjusted metrology operating profit	**115,909**	90,010

	2017	2016
Healthcare	**£'000**	£'000
Operating loss before loss from fair value of financial instruments	**(6,474)**	(3,101)
Fair value gains and losses on financial instruments not eligible for hedge accounting:		
- reported in revenue	**(702)**	43
Adjusted healthcare operating loss	**(7,176)**	(3,058)

20. RESTATEMENT OF PREVIOUS YEAR

The previous year's results have been restated for the following:

Certain foreign currency forward contracts used as hedging instruments did not qualify for hedge accounting as they did not meet the hedge effectiveness criteria set out in the International Accounting Standard IAS39 'Financial Instruments: Recognition and Measurement. To ensure technical compliance with this standard it has been deemed necessary to restate the 2016 financial statements resulting in a £25.8m reduction to the profit before tax for that year and a corresponding increase in other comprehensive income.

In October 2016, the Board decided to discontinue operations at Renishaw Diagnostics Limited (RDL), resulting in the closure of the business. The RDL business has been accounted for as a discontinued activity, with comparative figures for the previous year being restated accordingly. In June 2017, after an extensive review of the spatial measurements business, the Board decided to discontinue this line of business. This business has also been accounted for as a discontinued activity, with comparative figures for the previous year being restated accordingly.

The R&D tax credit, previously accounted for within the Income tax expense line has been reclassified to be part of cost of sales, thereby showing it as part of the profit before tax.

The previous year's results have been restated for the following:

	Previously reported £'000	Discontinued activities £'000	R&D tax credit £'000	Forward contracts £'000	Restated total £'000
Revenue	436,598	(7,038)	--	(2,336)	427,224
Cost of sales	(218,308)	7,323	2,420	-	(208,565)
Gross profit	218,290	285	2,420	(2,336)	218,659
Distribution costs	(97,808)	3,965	-	-	(93,843)
Administration expenses	(40,969)	769	-	-	(40,200)
Loss from the fair value of financial instruments	-	-	-	(23,436)	(23,436)
Operating profit	79,513	5,019	2,420	(25,772)	61,180
Finance income and expenses	(928)	-	-	-	(928)
Share of profits from associates and joint ventures	1,451	-	-	-	1,451
Profit before tax	80,036	5,019	2,420	(25,772)	61,703
Income tax expense	(11,465)	(995)	(2,420)	4,897	(9,983)
Profit for the year from continuing operations	68,571	4,024	-	(20,875)	51,720
Loss from discontinued operations	-	(4,024)	-	-	(4,024)
Profit for the year	68,571	-	-	(20,875)	47,696
Earnings per share (pence)	94.9	5.6	-	(28.7)	71.8

21. PRINCIPAL RISKS AND UNCERTAINTIES

Our performance is subject to a number of risks, of which the principal risks and changes impacting on them are set out in the table below.

The Board has conducted a robust assessment of the principal risks facing the business. With the exception of the potential impacts of Brexit, no new principal risks have emerged during the financial year. As reported in the Chairman's statement, the full business implications of Brexit remain uncertain, which will be the case for some time, and the risks arising will be a key focus area for the risk committee. Currency fluctuations, trading arrangements, employment issues and other risks that become apparent over time will be monitored by the committee and mitigations put in place where possible.

Area of risk	Description	Potential impact	Mitigation
Current trading levels and order book	Revenue growth is unpredictable and orders from customers generally involve short lead-times with the outstanding order book at any time being around one month's worth of revenue value.	Global market conditions continue to highlight risks to growth and demand which can lead to fluctuating levels of revenue. Whilst global investment in production systems and processes is expected to expand, future growth is difficult to predict, especially with such a short-term order book. This limited forward order visibility leaves the annual revenue forecasts uncertain.	• The Group is expanding and diversifying its product range in order to maintain a world-leading position in its sales of metrology products. Investment in sales and marketing resources continues in order to support the breadth of the product offerings. • The Group is applying its measurement expertise to grow its healthcare and additive manufacturing business activities. • The Group retains a strong balance sheet and has the ability to to flex manufacturing resource levels and shift patterns.
Research and development	The development of new products and processes involves risk, such as development timescales, meeting the required technical specification and the impact of alternative technology developments.	Being at the leading edge of new technology in metrology and healthcare, there are uncertainties whether new developments will provide an economic return.	• Patent and intellectual property generation is core to new product developments. • R&D programmes are regularly reviewed against milestones and, when necessary, projects are cancelled. • Medium to long-term R&D strategies are monitored regularly by both the Board and Executive Board, including reviews of the allocation of R&D resource to key projects. • Product development processes around the group are reviewed and aligned where possible to provide consistency and efficiency. • New products involve beta testing at customers to ensure they will meet the needs of the market. • Market developments are closely monitored.

Supply chain management	Customer deliveries may be threatened by a failure in the supply chain.	Inability to meet customer deliveries could result in loss of revenue and profit.	• Production facilities are maintained with fire and flood risk in mind. • Critical production processes are replicated at different locations where practical. • The group is highly vertically integrated providing increased control over many aspects of the supply chain. • Ability to flex manufacturing resource levels and shift patterns. • Regular vendor reviews are performed for critical part suppliers. • Stock policies are reviewed by the Board on a regular basis. • Product quality is closely monitored.
Regulatory legislation for healthcare products	The expansion of the Group's business into the healthcare markets involves a significantly increased requirement to obtain regulatory approval prior to the sale of these products.	Regulatory approval can be very expensive and time-consuming. This area is also very complex and there is a risk that the correct approvals are not obtained.	• Specialist legal and regulatory employees are in place to support the healthcare business. • Experience of healthcare regulatory matters at board level. • Healthcare operations in UK and France have ISO13485 certification for their quality management systems, with Ireland and other subsidiary healthcare operations falling under the UK quality management system.
Defined benefit pension schemes	Investment returns and actuarial valuations of the defined benefit pension fund liabilities are subject to economic and social factors which are outside of the control of the Group.	Volatility in investment returns and actuarial assumptions can significantly affect the defined benefit pension fund deficit, impacting on future funding requirements.	• The investment strategy is managed by the pension fund trustees who operate in line with a statement of investment principles. • A new recovery plan was agreed in June 2016 for the 2015 actuarial valuation based on funding to self-sufficiency.
Exchange rate fluctuations	Fluctuating foreign exchange rates may affect the results of the Group.	With over 94% of revenue generated outside of the UK, there is an exposure to major currency fluctuations, mainly in respect of the US Dollar, Euro and Japanese Yen. Such fluctuations could adversely impact both the Group's income statement and balance sheet.	• The Group enters into forward contracts in order to hedge varying proportions of forecast US Dollar, Euro and Japanese Yen revenue. Forward contracts which are ineffective for accounting purposes provide the protection against exchange rate changes that management intended when entering the contracts. • The Group uses currency borrowings to hedge the foreign currency denominated assets held in the Group's balance sheet. • Monthly board review of currency rates and hedging position.

Cyber security threats	For the Renishaw Group to operate effectively it requires continuous access to all information systems and requires timely and reliable information at all times. We seek to ensure continuous availability, security and operations of those information systems. Cyber threats continue to show an increasing trend.	Reduced service to customers due to a lack of reliable management information putting the Group at a competitive disadvantage. Delay or impact on decision making through lack of availability of sound data or disruption in/denial of service. Loss of commercially sensitive and/or personal information leading to implications including reputational damage, claims or fines. Theft of commercial or sensitive information/data or fraud causing loss and disruption.	• There is substantial reliance and back-up built into group systems. • An IT security committee exists, comprising of IT and business leadership. • Cyber risk and security is a regular topic for Board discussion. • External penetration testing is utilised on an appropriate basis. • The Renishaw Group operates central IT policies in all aspects of information security. • Regular monitoring of all group systems takes place with regular reporting and analysis. • Operating systems are continuously updated and refreshed in line with current threats. • The Group employs a number of physical, logical and control measures to protect its information and systems. • E-learning courses covering certain cyber threats were rolled out to all employees group wide during the year as well as management training.

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