

Directors' report

The directors have pleasure in presenting their 28th Annual report, together with the audited financial statements for the year ended 30th June 2001 as set out on pages 20 to 34.

Trading results

The group results for the year were:-

	2002	2001
		£'000
Profit on ordinary activities before taxation		30,795
Taxation on profit on ordinary activities		6,082
Profit for the financial year		24,713
Dividends		11,020
Retained profit for the year		13,693

Review of the business

The principal activities of the Group during the year were the design, manufacture and sale of advanced precision metrology and inspection equipment, computer aided design and manufacturing systems and Raman spectroscopy systems.

A review of the business and likely future developments are given in the Chairman's statement and Financial review. Further details of the Group's activities are incorporated in the Group profile accompanying this Annual report. An analysis of turnover by geographical market is given in note 2 to the financial statements.

Dividends

The directors propose a final dividend of 10.30p per share which, together with the interim dividend of 4.84p, makes a total of 15.14p for the year, compared to 13.16p for the previous year. The final dividend will be paid on 22nd October 2001 to shareholders on the register on 21st September 2001.

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 end of the year (or at the date of resignation or appointment), were:-

	Ordinary shares of 20p each	
	2001	2000
D R McMurtry	26,377,291	26,370,625
D J Deer	12,378,940	12,375,607
B R Taylor	5,147	5,147
A C G Roberts	5,165	15,164
L Brook (resigned 17th October 2000)	17,011	17,011
J McGeehan (appointed 24th January 2001)	---	---

All the above holdings were beneficially held with the exception of 2,320,311 shares (2000 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 2001 to 25th July 2001.

In accordance with the Articles of Association, B R Taylor, who does not have a service contract, retires by rotation and being eligible, offers himself for re-election. In addition, J McGeehan, age 55, a non-executive director who does not have a service contract, offers himself for re-election, having been appointed to the Board of directors on 24th January 2001. Biographical details of the directors are shown on pages 4 and 5.

Auditors

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

Special business

The notice of annual general meeting on page 35 sets out two resolutions which the directors have resolved should be proposed as special business during the course of the meeting.

Purchase of own shares – The directors consider that the Company should have the flexibility to be able to make market purchases of its own ordinary shares, up to a total of 10% of the issued share capital. Shareholders are being asked to pass the necessary special resolution No. 6 at the annual general meeting to give the required authority until the earlier of the conclusion of the 2002 annual general meeting and 31st December 2002. 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.

New Articles of Association – Resolution No. 7 in the notice of meeting is a special resolution for the adoption of new Articles of Association in place of the Company's existing Articles of Association. The existing Articles of Association were adopted in 1995. The proposed new Articles of Association are designed to take account of changes in the law enabling the Company to use electronic communications (as between the Company and its directors and/or shareholders). The differences between the existing and proposed new Articles of Association only relate to the use of electronic communications by the Company and are summarised below.

The new Articles of Association have been updated to enable the Company and its shareholders to use modern technology, such as electronic mail, as much as possible and to the extent that the law permits. These uses include:

- notices of shareholders' meetings can be sent by electronic means as well as by post (new Articles 96 and 152-153);
- a proxy can be appointed by electronic means (new Articles 72-75);
- notices and other documents, including the Annual report and accounts, can be sent to or by shareholders by electronic mail or fax (new Articles 150-153); and
- written resolutions can be passed using electronic means (new Article 2 inserting a new definition of "writing or written").

These changes do not impose any obligation on the Company or its shareholders to communicate by electronic means. The consent of each shareholder is required to entitle the Company to use electronic means to communicate with him or her. A copy of the proposed new Articles of Association is available for inspection at the registered office of the Company.

Environmental control

As ever, the Group has been carrying out its activity in a way that best supports the environment, minimising the consumption of energy and materials, recycling resources and supporting local wildlife on its site.

The plan for the development of the New Mills site has been drawn up with due care for the environment, both through the choice of technical solutions that minimise environmental impact (low energy, natural lighting etc) and through a layout that integrates the new building harmoniously in its surroundings. This includes the creation of artificial lakes that will help regulate the local hydrological system and provide an ecosystem for the support of wildlife.

This development is planned in consultation with local interest groups, such as environmental groups, ramblers associations etc. A new access road has been built in order to prevent congestion to the local road network as the number of employees on site grows. Measures are being devised to reduce the use of individual cars by employees, in order to minimise effects on traffic and the environment.

The new Woodchester site, acquired during 2000, is being refurbished in line with the requirements associated to its conservation area status. The buildings are being extensively renovated to improve their energy performance, in particular through the use of free cooling and heat exchangers. Also, the compacting and recycling facilities already in use on the New Mills site are being extended to this new site.

Our programme of review of our products for improved environmental performance is ongoing and significant improvements have been obtained in the area of packaging, replacing polystyrene with recyclable cardboard.

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 ("BACS").

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 2001 was approximately 30 days (2000 30 days).

Donations

During the year the Group made charitable donations of £92,900 (2000 £49,758). No political donations were made (2000 £nil).

Corporate governance

In June 1999, the London Stock Exchange published the Principles of Good Governance and Code of Best Practice (the "Combined Code"). This encompasses the work of the Cadbury, Greenbury and Hampel committees. It became effective for accounting periods ending on or after 31st December 1999.

The Board is committed to maintaining high standards of corporate governance. The statement below, together with the report on directors' remuneration on page 18, explains how the Company has applied the principles set out in the Combined Code and the subsequent Turnbull guidance.

Board of directors

The Board meets regularly, is responsible for the proper management of the Company and retains control over the Company and its subsidiary undertakings. It has five members, four executive directors and one non-executive director. Biographical details are set out on pages 4 and 5. The Board receives appropriate documentation, management accounts, forecasts and commentaries thereon, in advance of each formal meeting to enable its members to review the financial performance of the Group, current trading and key business initiatives. There is also a formal schedule of matters specifically reserved to it for decision, including the approval of annual and interim results, acquisitions, major capital expenditure, material agreements, forecasts and senior executive appointments. There is an agreed procedure for directors in the furtherance of their duties to take independent professional advice if necessary, at the Company's expense. All directors have access to the advice and services of the company secretary, who is responsible to the Board for ensuring Board procedures are followed and applicable rules and regulations are complied with.

Board committees

There is an executive authorisation committee that is responsible for the executive management of the Group's business. It is chaired by the chairman and includes the executive directors.

At 30th June 2001, the Group had six specialist product divisions, with three supporting service divisions. Each of these divisions has its own Executive Board which comprises the four executive directors and the director and general manager of each division. Other senior divisional managers attend the board meetings as required.

The Company has a remuneration committee, chaired by the non-executive director and comprising, in addition, the Chairman and Deputy Chairman.

An audit committee exists as a formally constituted sub-committee of the Board. It is chaired by the non-executive director and also comprises the Deputy Chairman and Assistant Chief Executive. The committee has formal terms of reference and meets at least twice a year with the Finance Director, Group Internal Audit Manager and external auditors in attendance. The Board ensures that an objective and professional relationship is maintained with the external auditors.

Directors' remuneration

Details of directors' remuneration are set out in the remuneration report on page 18.

Relations with shareholders

The Company reports formally to shareholders twice a year, when its half-year and full-year results are announced and a full report is issued to shareholders. At the same time, the Assistant Chief Executive and Finance Director give presentations on the results to institutional investors, analysts and the media.

The annual general meeting takes place at the Company's head office and formal notification is sent to shareholders at least 20 working days in advance. At the meeting, a business presentation is made to shareholders and all Directors are available, formally during the meeting, and informally afterwards, for questions.

The Board is ready, where practicable, to enter into a dialogue with institutional shareholders based on the mutual understanding of objectives. Institutional investors and analysts are actively encouraged to visit the Company.

The Company will make arrangements to advise shareholders attending the annual general meeting of the number of proxy votes lodged for each resolution, in the categories 'For' and 'Against', together with the numbers 'at the Chairman's discretion', and of abstentions. These will be advised after each resolution has been dealt with on a show of hands.

The Company's internet site (www.renishaw.com) gives access to information about the Group, its products and its performance. The interim results and the preliminary announcement of the full year's results are published on our website no later than ten minutes after they have been released at the Financial Services Authority.

Internal control

The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal controls, including financial, operational, compliance and risk management. The Company established procedures during 2000 to become compliant with the Combined Code and the related Turnbull guidance. However, as noted in the 2000 accounts, full compliance was not achieved until 31st July 2000.

The Board acknowledges that it is responsible for the Company's system of internal control and for reviewing its effectiveness. Also, it acknowledges that it has ultimate responsibility for ensuring that the Group has in place a system of controls, financial and otherwise, that is appropriate to the business environment in which it operates. This is intended to ensure that the directors maintain full and effective control over all significant strategic, financial, organisational and compliance issues. However, any system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The key procedures that the directors have established and which are designed to provide effective internal control are set out below:

Directors and senior managers have identified the significant risks faced by the Company, its subsidiaries and product divisions. There is an on-going process for identifying, evaluating and managing risks, together with determining key controls and reporting procedures to minimise the impact of them. This has been in place from 31st July 2000 and up to the date of approval of the Annual Report and accounts. It is reviewed regularly by the Board and accords with the Turnbull guidance.

Workshops and formal interviews have been conducted with directors and general managers from all areas of the business. The key risks have been identified with due consideration and analysis of political, economic, social and technological factors that could impact on each business area's objectives. For each identified risk, a value judgement has been made on the impact, both financial and reputational, that its crystallisation would have on the business, together with the likelihood of the risk occurring. Scores have been calculated for each risk using a risk score matrix and the risks prioritised based on these scores. This process has been facilitated by Internal Audit, to ensure consistency. Following this process, Internal Audit ensured that proper control policies, procedures and activities were in place to maintain the key business risks within the risk tolerance levels agreed by the Board. This process is ongoing.

There is an appropriate organisation structure with clearly defined areas of responsibility and delegation of authority from the Board to the operating divisions and companies. Appropriate reporting lines are established, including a comprehensive set of procedures for reporting to the Board monthly the results of each subsidiary company and product division. There is a commitment to competence and integrity and this is achieved through appropriate recruitment procedures and employment policy.

Control procedures are established that are considered appropriate to the size and nature of the organisation. In particular, controls are designed to prevent the unauthorised use or disposition of the Group's assets, to ensure proper accounting records are maintained and that financial information used within the business or for publication is reliable.

Up to date internal financial reports, including monthly management accounts and rolling twelve month forecasts are prepared. Sales and orders are reported daily, cash balances are reported weekly and there is periodic reporting to the Board on the Group's tax and treasury position.

Key procedures and controls are defined in the Group Manual. Authorisation limits have been reviewed, documented and formally approved at Board level. All items of capital expenditure and all employee recruitment require authorisation by the Board of the relevant group company or division. Treasury activities are controlled by the Board. The overseas trading subsidiaries only retain sufficient funds to meet their working capital requirements. Significant foreign currency transactions are decided by the Board, which determines when and how foreign currency is converted into sterling. The Group does not use any open-ended financial derivative instruments.

The audit committee reviews the accounting policies and procedures of the Group and its compliance with statutory requirements. It reviews the scope and reports of the external audit and its cost effectiveness, internal audit reports and the internal control self-assessment declarations made by the senior management of all group companies. The internal control system is monitored and supported by Internal Audit. This monitoring process is continual. It is a principal function of the Group's managers to ensure established control procedures are adhered to and that appropriate corrective measures are taken, should control weaknesses be identified.

It is recognised that internal controls must evolve over time, given the growth in the Group's business activities and the audit committee reviews the controls formally on an annual basis.

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.

Compliance statement

The Board has reviewed the effectiveness of the system of internal control during the year and for the period to the date of approval of the financial statements.

In its opinion, the Company has complied from 1st July 2000 with the Combined Code, except for the following matters:

The Company has, as noted above, only complied fully with the Turnbull guidance from 31st July 2000.

The roles of Chairman and Chief Executive are currently combined, as the directors consider this to be in the best interests of the Company and shareholders. The Board considers that there is a clear division of responsibilities at the head of the Company, which ensures an appropriate balance of power and authority, such that no one individual has unfettered powers of decision.

There is no nominations committee to consider the appointment of new directors. Given the size of the Board, this is a matter reserved for the Board as a whole.

The Board currently has one non-executive director, which is not in accordance with the Code, which requires that not less than one third of the board should comprise non-executive directors. The audit and remuneration committees, therefore, are not constituted in accordance with the requirements of the Combined Code. The Board continues to take active measures to secure the appointment of an additional non-executive director.

In accordance with the articles of association of the Company, the Chairman and Deputy Chairman are not subject to election by the shareholders. The other directors are subject to re-election by rotation.

Substantial shareholdings

Apart from the shareholdings of Messrs McMurtry and 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 25th July 2001, is Halifax plc, which controls 5.07% (3,691,807 shares).

Research and development

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

Remuneration report

The Board as a whole is responsible for the overall remuneration policy. The remuneration committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration. It determines, on the Board's behalf, specific remuneration packages for each of the executive directors.

Remuneration committee

The committee is chaired by Joe McGeehan, the non-executive director, the other members being Sir David McMurtry, Chairman and Chief Executive and John Deer, the Deputy Chairman, however, the Chairman and Deputy Chairman do not participate in matters relating to their own remuneration. Remuneration of the non-executive director is determined by the executive directors. The Committee has access to external advisers when required.

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

Basic salary

Basic salaries are reviewed by the committee 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 electrical and engineering sectors.

Appreciation award

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 director does not participate in the appreciation award scheme.

Pension arrangements

The Company makes annual contributions to individual pension policies for each executive director, based upon a percentage of basic salary, as follows:

D R McMurtry	41% of previous year's salary
D J Deer	41% of previous year's salary
B R Taylor	15% of current year's salary
A C G Roberts	15% of current year's salary

The non-executive director does not participate in the Company's pension schemes.

Service Contracts

No director has a service contract.

Benefits

Company cars and other benefits provided to directors are subject to income tax and no benefits are pensionable. The benefits are included in the directors' remuneration table on page 26.

Long-term incentive schemes

There are no long-term incentive schemes in operation for the directors. Details of directors' remuneration are shown in note 4 on page 26. There were no outstanding share options at any time during the year.

Employees

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

Employment policies are designed to provide equal opportunities irrespective of colour, ethnic origin, nationality, religion, sex, marital or disabled status. The Company always considers carefully an application for employment by any registered disabled person. Also, opportunities are given to employees who become disabled, to continue in their employment or to be trained for other positions. Regular contact is maintained with all employees through departmental channels and the bi-monthly in-house journal ensures staff are kept well informed on the progress of the Group.

By order of the Board

A C G Roberts

Secretary, 25th July 2001

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Report of the auditors

Auditor's report to the members of Renishaw plc

We have audited the financial statements on pages 20 to 34.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual report. As described above, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 15 to 17 reflects the Company's compliance with those provisions of the Combined Code specified for our review by 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, including the corporate governance statement and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th June 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
25th July 2001

Marlborough House
Fitzalan Court
Cardiff CF24 0TE

Consolidated profit and loss account

for the year ended 30th June 2002

	Notes	2002	2001
			£'000
Turnover	2		125,348
Cost of sales			60,416
Gross profit			64,932
Distribution costs			22,321
Administrative expenses			14,668
			36,989
Operating profit	3		27,943
Interest receivable less payable	5		2,252
Other finance income	6		600
Profit on ordinary activities before taxation			30,795
Tax on profit on ordinary activities	7		6,082
Profit for the financial year	8		24,713
Dividends	9		11,020
Retained profit for the financial year	18		13,693
			pence
Earnings per share (basic and diluted)	10		34.0

The current and the previous years' results derive from continuing operations.

There is no difference between the profit for the current and previous financial year stated above and its historical cost equivalent.

The 2000 comparative figures have been restated following adoption of FRS 17 - Retirement benefits.

Balance sheets

at 30th June 2001

	Notes	The Group		The Company	
		2002	2001	2002	2001
			£'000		£'000
Fixed assets					
Tangible assets	11		46,075		30,921
Investments	12		--		25
			46,075		30,946
Current assets					
Stocks	13		22,130		13,439
Debtors	14		30,634		74,220
Cash at bank	22(b)		39,295		2,250
			92,059		89,909
Creditors					
Amounts falling due within one year	15		25,540		80,131
Net current assets/(liabilities)			66,519		9,778
Total assets less current liabilities			112,594		40,724
Provisions for liabilities and charges	16		(2,952)		(5,076)
Net assets excluding pension (liability)/asset			109,642		35,648
Pension (liability)/asset	19		(320)		(630)
Net assets including pension (liability)/asset			109,322		35,018
Capital and reserves					
Called up share capital	17		14,558		14,558
Share premium account	17		42		42
Profit and loss account	18		94,722		20,418
Shareholders' funds - equity			109,322		35,018

The financial statements on pages 20 to 34 were approved by the Board of directors on 25th July 2001 and were signed on its behalf by:-

Sir D R McMurtry
 A C G Roberts

Directors

Consolidated cash flow statement

for the year ended 30th June 2002

	Notes	2002	2001 £'000
Net cash inflow from operating activities	22(a)		24,471
Returns on investments and servicing of finance			
Interest received			2,232
Interest paid			(52)
			2,180
Tax paid			(6,407)
Capital expenditure			
Purchase of tangible fixed assets			(10,544)
Sale of tangible fixed assets			83
			(10,461)
Equity dividends paid			(10,038)
Cash (outflow)/inflow before management of liquid resources			(255)
Management of liquid resources			
Increase in bank deposits			(709)
(Decrease)/increase in cash in the year			(964)

Reconciliation of net cash flow to movement in net funds

for the year ended 30th June 2002

	2002	2001 £'000
(Decrease)/increase in cash in the year		1,009
Cash outflow from movement in liquid resources		1,733
Changes in net funds resulting from cash flows		2,742
Currency differences		(666)
Movement in net funds in the year		2,076
Net funds at 1st July		37,591
Net funds at 30th June	22(b)	39,667

Consolidated statement of total recognised gains and losses

for the year ended 30th June 2002

	2002	2001
		£'000
Profit for the financial year		24,713
Currency translation differences on foreign currency net investments		(319)
Actuarial (loss)/gain recognised in the pension schemes		(1,650)
Deferred tax thereon		500
		(1,150)
Total recognised gains and losses relating to the year		23,244
Prior year adjustment		410
Total gains recognised since last Annual report		23,654
Analysis of actuarial (loss)/gain recognised in the statement of total recognised gains and losses:	2002	2001
		£'000
Actual return less expected return on pension scheme assets		(4,100)
Experience gains and losses arising on the scheme liabilities		(200)
Changes in assumptions underlying the present value of liabilities		2,650
Actuarial (loss)/gain recognised in the statement above		(1,650)

Reconciliations of movements in shareholders' funds

for the year ended 30th June 2002

	The Group		The Company	
	2002	2001 Restated £'000	2002	2001 Restated £'000
Profit for the financial year		24,713		30,244
Dividends		(11,020)		(10,540)
Retained profit/(loss) for the year		13,693		19,704
Other recognised gains and losses		(1,469)		(1,140)
Net addition to shareholders' funds		12,224		18,564
Shareholders' funds at 1st July 2000 as previously stated		96,688		16,314
Prior year adjustment		410		140
Shareholders' funds at 1st July (1st July 2000 restated)		97,098		16,454
Shareholders' funds at 30th June		109,322		35,018

Notes (forming part of the financial statements)

1. Accounting policies

The following principal accounting policies have been applied consistently in the preparation of the financial statements of the Group. The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards.

The Group has adopted FRS 17 – Retirement benefits and FRS 18 – Accounting policies, the effect of which is explained in note 18. The comparative figures have been restated accordingly.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary undertakings. Details of subsidiary undertakings are shown in note 23.

Turnover

Turnover represents the amount derived from the provision by the Group of goods and services to third party customers during the year, including royalty income, less returns, allowances and value added tax.

Tangible assets and depreciation

Tangible assets are stated at cost less accumulated depreciation. Depreciation is provided to write off the cost of assets less their estimated residual value on a straight line basis over their estimated useful economic lives as follows:-

Freehold buildings - 50 years	Plant and machinery - 3 to 10 years
Motor vehicles - 3 to 4 years	No depreciation is provided on freehold land.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises direct materials and labour plus overheads applicable to the stage of manufacture reached.

Research and development

Research and development expenditure is charged to profit and loss account in the year in which it is incurred.

Taxation

The charge for taxation is based on the group profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax using the liability method, where it is probable that an actual liability will crystallise. Provision is made at the rate expected to be applicable when the liability crystallises.

Foreign currency

Overseas results are translated into Sterling at weighted average exchange rates for the year. Overseas assets and liabilities included in the consolidated balance sheet are translated into Sterling at the rates of exchange ruling at the end of the accounting year. The resultant currency exchange differences, net of exchange differences arising on related foreign currency net borrowings, are treated as movements on reserves and are reported in the consolidated statement of total recognised gains and losses. All other currency exchange differences are accounted for in the profit and loss account.

Liquid resources and cash

Cash, for the purposes of the consolidated cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources comprise term deposits of less than one year.

Pension costs

The Group operates contributory pension schemes, of the defined benefit type, for UK and Irish based employees. The schemes are administered by trustees and are independent of the group finances. Contributions are paid to the schemes in accordance with the recommendations of independent actuaries to enable the trustees to meet from the schemes the benefits accruing in respect of current and future service.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

The pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

Foreign based employees are covered by state, defined benefit and private pension schemes in their countries of residence. Actuarial valuations of foreign pension schemes, in accordance with FRS 17, were not obtained because of the costs involved and the smaller number of foreign employees.

2. Turnover

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

	2002	2001 £'000
USA		41,812
Germany		19,054
Japan		17,208
Italy		9,017
France		5,030
Other overseas countries		21,012
Total sales to overseas customers		113,133
United Kingdom		12,215
Total group turnover		125,348

A geographical analysis by origin of turnover, profit before taxation and net assets is not shown because, in the opinion of the directors, disclosure of such information would be seriously prejudicial to the interests of the Group.

3. Operating profit

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

	2002	2001 £'000
Research and development		12,132
Depreciation		5,073
Foreign exchange (gains)/losses		(1,320)
Auditors' remuneration - audit for the Group		111
- audit for the Company		34
Other fees paid to the auditors and their associates		195

b) Staff numbers and costs

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

	2002	2001 Number
United Kingdom		
Overseas		1,120
		392
		1,512

The aggregate payroll costs of the above were:-

	2001 £'000
Wages and salaries	
Social security costs	39,389
Other pension costs (note 19)	4,079
	3,416
	46,884

4. Directors' remuneration and share options

The total remuneration of the directors was:-

	2002		2001	
	£'000		£'000	
Salaries and fees			899	
Benefits			99	
Appreciation award			444	
Pension contributions			232	
			<u>1,674</u>	

	Salary & fees £'000	Benefits £'000	Apprec. award £'000	Total 2002	Total 2001 £'000	Pension contribution	
						2002	2001 £'000
Chairman							
D R McMurtry	301	29	165		495		112
Other executive directors							
D J Deer	183	28	100		311		62
B R Taylor	261	22	117		400		38
A C G Roberts	142	20	62		224		20
Non-executive							
L Brook	7	---	---		7		---
J McGeehan	5	---	---		5		---
	<u>899</u>	<u>99</u>	<u>444</u>		<u>1,442</u>		<u>213</u>

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.

There were no directors' share options outstanding at any time during the year.

5. Interest receivable less payable

	2002	2001
	£'000	£'000
Bank interest receivable		2,304
Bank interest payable		(52)
		<u>2,252</u>

6. Other finance income

	2002	2001
		£'000
Expected return on pension fund assets		2,400
Interest on pension fund liabilities		(1,800)
		<u>600</u>

7. Tax on profit on ordinary activities

	2002	2001
		£'000
UK corporation tax charge at 30%		4,460
Deferred tax (release)/charge		(1,615)
Overseas tax		3,237
		6,082

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

The tax charge for the current financial year has been reduced by a release from deferred tax of a provision that is no longer required.

8. Profit for the financial year

As provided by section 230(3) of the Companies Act 1985, a separate profit and loss account dealing with the results of the Company alone has not been presented. The profit for the financial year, including dividends receivable, dealt with in the financial statements of the Company is £30,244,000 (2000 restated £8,581,000).

9. Dividends

	2002	2001
		£'000
Interim dividend paid of 4.84p (2000 4.21p)		3,523
Final dividend proposed of 10.30p (2000 8.95p)		7,497
		11,020

10. Earnings per share

Basic and diluted earnings per share are calculated on earnings of £24,713,000 (2000 restated £21,196,000) and on 72,788,543 shares, being the number of shares in issue during the year.

11. Tangible assets

a) The Group	Freehold land and buildings	Plant and machinery	Motor vehicles	Total
	£'000	£'000	£'000	£'000
Cost				
At 1st July 2000	30,214	30,830	3,022	64,066
Additions	3,331	6,312	1,050	10,693
Disposals	---	(864)	(303)	(1,167)
Currency adjustment	55	(65)	(12)	(22)
At 30th June 2001	33,600	36,213	3,757	73,570
Depreciation				
At 1st July 2000	3,027	18,824	1,762	23,613
Charge for the year	630	3,805	638	5,073
Released on disposals	---	(852)	(258)	(1,110)
Currency adjustment	(44)	(28)	(9)	(81)
At 30th June 2001	3,613	21,749	2,133	27,495
Net book value				
At 30th June 2001	29,987	14,464	1,624	46,075
At 30th June 2000	27,187	12,006	1,260	40,453
b) The Company	Freehold land and buildings	Plant and machinery	Motor vehicles	Total
	£'000	£'000	£'000	£'000
Cost				
At 1st July 2000	18,954	25,073	1,933	45,960
Additions	1,617	5,500	711	7,828
Disposals	---	(772)	(133)	(905)
At 30th June 2001	20,571	29,801	2,511	52,883
Depreciation				
At 1st July 2000	2,428	15,331	1,209	18,968
Charge for the year	354	3,086	439	3,879
Released on disposals	---	(772)	(113)	(885)
At 30th June 2001	2,782	17,645	1,535	21,962
Net book value				
At 30th June 2001	17,789	12,156	976	30,921
At 30th June 2000	16,526	9,742	724	26,992

12. Investments

The Company

	2002	2001 £'000
Shares at cost in subsidiary undertakings		25

Details of subsidiary undertakings are shown in note 23.

13. Stocks

	The Group		The Company	
	2002	2001 £'000	2002	2001 £'000
Raw materials		11,335		9,129
Work in progress		1,541		1,476
Finished goods		9,254		2,834
		22,130		13,439

14. Debtors

	The Group		The Company	
	2002	2001 £'000	2002	2001 £'000
Trade debtors		28,199		3,993
Amounts owed by group undertakings		---		69,177
Prepayments		2,435		1,050
		30,634		74,220

Included in prepayments for the Group are amounts totalling £250,000 (2000 £280,000) which represent deposits on leased premises paid by a subsidiary undertaking. These amounts are recoverable on expiry of the leases, which will not be within one year. All other debtors are due within one year.

15. Creditors

Amounts falling due within one year

	The Group		The Company	
	2002	2001 £'000	2002	2001 £'000
Trade creditors		6,029		4,474
Amounts owed to group undertakings		---		63,081
Corporation tax		5,190		2,501
Other taxes and social security		2,399		807
Other creditors		4,425		2,251
Proposed dividend payable		7,497		7,017
		25,540		80,131

16. Provisions for liabilities and charges

Movements during the year were:-	The Group			The Company		
	At 1st July 2001 £'000	Changes in the year £'000	At 30th June 2002	At 1st July 2001 £'000	Changes in the year £'000	At 30th June 2002
Deferred taxation	2,380			4,610		
Warranty provisions	466			466		
Other	106			---		
	<u>2,952</u>			<u>5,076</u>		

Deferred taxation is represented by:-	The Group		The Company	
	2001	2002	2001	2002
	£'000		£'000	
Difference between accumulated depreciation and capital allowances	3,374		3,116	
Unremitted reserves of overseas subsidiaries	1,451		---	
Other timing differences	(2,445)		1,494	
	2,380		4,610	
Deferred tax (liability)/asset on pension funds	<u>(230)</u>		<u>(270)</u>	
At 30th June	2,150		4,340	

The movements in the deferred tax balance were:-	The Group		The Company	
	£'000		£'000	
Provision at 1st July 2000	4,175		4,240	
Prior year adjustment	90		60	
	4,265		4,300	
Amount (released from)/charged to profit and loss account	(1,615)		370	
Amount reflected through the statement of total recognised gains and losses	<u>(500)</u>		<u>(330)</u>	
At 30th June 2001	2,150		4,340	

Provision is made for the reserves anticipated to be remitted by certain overseas subsidiaries in the short term. No provision is made for tax that would arise on other unremitted reserves, as it is not anticipated that they will be remitted in the foreseeable future.

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 two years is given for a small number of products. The 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 two years of the balance sheet date. The other provision relates to a potential liability in respect of overseas sales tax.

17. Share capital & Share premium

Share capital

	2002	2001 £'000
Authorised 75,000,000 ordinary shares of 20p each		15,000
Allotted, called up and fully paid 72,788,543 ordinary shares of 20p each		14,558

Share premium

	2002	2001 £'000
Balance at 30th June		42

The middle market price of the shares at 30th June 2001 was £5.575 (2000 £6.00). The range during the year was £5.35 to £7.775. A graph of the share price, from May 1996 to July 2001 is shown on page 37.

18. Profit and loss account

Movements during the year were:-

	The Group		The Company	
	2001	2002	2001	2002
	£'000		£'000	
At 1st July 2000 as previously reported	82,088		1,714	
Prior year adjustment	410		140	
At 1st July (1st July 2000 restated)	82,498		1,854	
Retained profit/(loss) for the year	13,693		19,704	
Currency translation difference on foreign currency net investments	(319)		---	
Actuarial (loss)/gain recognised	(1,650)		(1,650)	
Deferred tax thereon	500		510	
	(1,150)		(1,140)	
At 30th June	94,722		19,938	

The prior year adjustment relates to the implementation of FRS 17 - Retirement benefits. No prior year adjustment has resulted from the adoption of FRS 18 - Accounting policies.

The adoption of FRS 17 has resulted in an increase in the reported profit before taxation for 2000 of £200,000. In addition, the profit before taxation for 2001 is £600,000 higher than would have been the case had FRS 17 not been adopted during the year.

The profit and loss account reserve includes a deficit of £320,000 (2000 surplus of £410,000) net of a deferred tax credit of £230,000 (2000 charge of £90,000) in respect of pension fund deficits or surpluses of the Group's pension funds.

The cumulative amount of goodwill resulting from acquisitions made in earlier financial years, which has been written off to reserves, is £1,913,000 (2000 £1,913,000).

19. Pension schemes

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

The total pension cost of the Group for the year was £3,416,000 (2000 £2,752,000), of which £232,000 (2000 £213,000) related to directors and £930,000 (2000 £983,000) 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 scheme was carried out at July 1998 and was updated to 30th June 2000 and to 30th June 2001 by a qualified independent actuary. The major assumptions used by the actuary were:

	30th June 2002	30th June 2001	30th June 2000
Rate of increase in pensionable salaries	%	4.5%	
4.5%			
Rate of increase in pension payments	%	2.5%	
3.0%			
Discount rate	%	6.0%	
6.5%			

a) The assets and liabilities in the schemes were:

	The Group			The Company		
	30th June 2002	30th June 2001	30th June 2000	30th June 2002	30th June 2001	30th June 2000
		£'000	£'000		£'000	£'000
Market value of assets:						
Equities		27,900	28,400		26,200	26,800
Bonds and cash		720	700		200	200
		28,620	29,100		26,400	27,000
Actuarial value of liability		29,170	28,600		27,300	26,800
(Deficit)/surplus in the scheme		(550)	500		(900)	200
Deferred tax thereon		230	(90)		270	(60)
Net pension (deficit)/surplus		(320)	410		(630)	140

b) The movements in the schemes were:

	2002	2001
		£'000
Surplus/(deficit) in schemes at 1st July 2000		500
Current service cost (included in operating profit)		(1,800)
Contributions		1,800
Finance income		600
Actuarial (loss)/gain		(1,650)
(Deficit)/surplus in schemes at 30th June		(550)

At the date of the latest full actuarial valuation, the market value of the assets of the UK scheme was £17,350,000 and the actuarial value of the assets was sufficient to cover 86% of the benefits that had accrued to members after allowing for expected future increases in earnings. The deficit on an ongoing basis is being reduced over members' future working lives by additional company contributions. On a minimum funding requirement basis, the scheme is 91% funded and the contributions payable are sufficient to amortise the deficit.

20. Commitments

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

	The Group		The Company	
	2002	2001 £'000	2002	2001 £'000
Authorised and committed		2,500		1,400

b) Group annual commitments under non-cancellable operating leases (all of which relate to land and buildings in subsidiary companies) were £342,000 (2000 £404,000), of which £283,000 (2000 £351,000) expires within one year and £59,000 (2000 £53,000) expires in the second to fifth years inclusive. The Company has no material annual commitments under non-cancellable operating leases.

21. Foreign currency holdings and borrowings

a) An analysis by currency of Group net cash at the year end is as follows:

Currency	Net cash balance at 30th June 2002	Net cash balance at 30th June 2001 £'000
Pounds Sterling		71,073
US Dollar		(15,335)
Japanese Yen		(4,172)
Euro		(12,490)
Other		219
		39,295

The carrying value approximates to fair value because of the short maturity of the deposits and borrowings. Interest rates are floating and based on libor/libid.

b) Net assets and associated borrowings at the year end:

As noted in the Financial review on page 12, the Group maintains foreign currency borrowings as a method of providing hedging against the currency translation risk of the net assets of its overseas subsidiaries. The level of hedging in place at the year end for the major currencies and their relative base borrowing interest rates, were as follows:

Currency	Net assets of subsidiary £'000	Currency borrowing £'000	Base borrowing interest rate %
US Dollar	14,453	14,300	3.9%
Japanese Yen	5,162	5,125	0.2%
Euro	15,033	15,550	4.6%

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 to eliminate the borrowings on a rolling one month cycle. These currency swaps are not reflected in the table above. At the year end, there were no unrecognised gains or losses on foreign currency monetary assets and liabilities or currency hedges.

Short term debtors and creditors, as defined in FRS 13 - Derivatives and other financial instruments disclosures, have been omitted from all the financial instruments disclosures, save for those relating to currency risk.

22. Notes to the consolidated cash flow statement

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

	2002	2001 £'000
Operating profit		27,943
Depreciation charges		5,073
Profit on sale of tangible fixed assets		(27)
Increase in stocks		(6,821)
Increase in debtors		(3,382)
Increase in creditors		1,883
Decrease in provisions		(198)
Net cash inflow from operating activities		24,471

b) Analysis of net funds:-

	Net cash at bank £'000	Bank deposits £'000	Net funds £'000
At 1st July 2000	5,664	34,003	39,667
Cash flows	(964)	709	(255)
Non-cash adjustment	(117)	---	(117)
At 30th June 2001	4,583	34,712	39,295

23. Subsidiary undertakings

The following are the principal subsidiary undertakings of Renishaw plc, all of which are wholly owned, unless otherwise stated. The country of incorporation is Great Britain and the country of registration is England and Wales unless otherwise stated. The country of incorporation is also the country of operation.

Company	* equity held by subsidiary undertaking	Principal activities
Renishaw International Limited		Overseas holding and investment company.
Renishaw (Ireland) Limited (Republic of Ireland)*		Manufacture and sale of advanced precision metrology and inspection equipment.
Renishaw Investments Limited (Guernsey)*		Investment company.
Renishaw Finance and Insurance (Guernsey) Limited (Guernsey)*		Finance and captive insurance company.
Renishaw International B.V. (The Netherlands)*		Overseas holding and investment company and Service and distribution of group products.
Renishaw Inc (USA)*		Service and distribution of group products.
Renishaw KK (Japan)*		Service and distribution of group products.
Renishaw GmbH (Germany)*		Service and distribution of group products.
Renishaw S.A. (France)*		Service, distribution, research and development and manufacture of group products.
Renishaw S.p.A. (Italy)*		Service and distribution of group products.
Renishaw Iberica S.A. (Spain)*		Service and distribution of group products.
Renishaw A.G. (Switzerland)*		Service and distribution of group products.
Renishaw (Hong Kong) Limited (Hong Kong)*		Service and distribution of group products.
Renishaw Latino Americana Ltda. (Brazil)*		Service and distribution of group products.
Renishaw Metrology Systems Private Limited (India)*		Service and distribution of group products.
Renishaw Oceania Pty Limited (Australia)*		Service and distribution of group products.
Wotton Travel Limited		Travel agency.
RLS merilna tehnika d.o.o. (Slovenia) (50%)*		Manufacture and distribution of own products and distribution of group products.

Notice of meeting

NOTICE IS HEREBY GIVEN that the 28th annual general meeting of the Company will be held at New Mills, Wotton-under-Edge, Gloucestershire, GL12 8JR on Friday 19th October 2001 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 2001.
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 elect J McGeehan as a director of the Company.
5. To re-appoint KPMG Audit Plc as auditors of the Company and to authorise the directors to determine their remuneration.

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

6. 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 2002 and 31st December 2002 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.
7. THAT, the regulations (as described in the Directors' report) contained in the document produced to the meeting and initialled by the chairman of the meeting for the purpose of identification, be and they are hereby adopted as the Company's new Articles of Association in substitution for and to the exclusion of its existing Articles of Association.
8. To transact any other business of an annual general meeting.

By order of the Board
 A C G Roberts
 Secretary

17th August 2001

New Mills
 Wotton-under-Edge
 Gloucestershire
 GL12 8JR

Notes:

The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the Company as at 6 pm on 17th October 2001 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 17th October 2001 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

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

The register of directors' shareholdings will be available for inspection at the registered office of the Company during normal business hours until the date of the meeting and at the place of the meeting for 15 minutes prior to, and during, the meeting. No director has a service contract.