RENISHAW
apply innovation

Interim report 2009

Financial highlights

	6 months to 31st December 2008 £'000	6 months to 31st December 2007 £'000	change %	Year ended 30th June 2008 £'000
Revenue	**102,670**	91,640	+12%	201,157
Operating profit	**11,903**	13,004	-8%	38,679
Profit before taxation	**14,023**	15,062	-7%	43,059
Earnings per share	**15.4p**	16.6p	-7%	47.6p
Proposed dividend per share	**7.76p**	7.76p	-	25.39p

Half year management report

Chairman's statement

I report the results for the first six months of the current financial year ending 30th June 2009.

As previously reported at the Company's AGM in October, the first quarter of our financial year was encouraging with strong trading results assisted by the weakness of sterling. The second quarter of our financial year, however, saw increasing economic and market turbulence, which has had a significant impact on the demand for the group's products.

Revenue for the six months to 31st December 2008 amounted to £102.7m, an increase of 12% over £91.6m for 2007. This revenue, however, includes an £11.5m exchange rate benefit due to favourable currency movements compared with the previous year. Geographically, at actual exchange rates, we experienced growth in all our principal markets except the UK. In product terms, there was success in all lines with the single exception of CMM products.

Operating profit amounted to £11.9m, compared with £13.0m in 2007. This was after an exceptional charge of £1.4m in respect of the legal costs relating to current patent infringement litigation in the United States and an increase of £2.4m in the Group's bad debt provision, which was considered appropriate in view of the current deteriorating global economic environment. At constant exchange rates, operating profit would have been £4.7m. Profit before tax amounted to £14.0m, compared with £15.1m. Profit after tax was £11.2m (2007 £12.1m), giving earnings per share of 15.4p (2007 16.6p).

The Group continues to invest in its research and development programmes for the longer term benefits foreseen. Group expenditure on research and development, including associated engineering costs, amounted to £18.1m (2007 £15.6m).

We have made a number of new investments during the period. In order to enhance the Groupwide CMM retrofit business, a licensing agreement for the source code for the Metris Camio CMM software was completed. We also employed a number of development engineers from this company and purchased a property in Castle Donington to accommodate them and to form a customer demonstration and training centre. The acquisition of the assets and staff of Qualis, a German CMM service and calibration business, was also completed.

The development of the medical product line has been further strengthened by the purchase of a further 25% investment in PulseTeq Limited, taking Renishaw's interest to 75%. PulseTeq specialises in the development of coils for the enhancement of images from MRI scanners. Additionally the Group acquired a 75% shareholding in Schaerer Mayfield Neuromate AG, a company based in Switzerland, which is a leading manufacturer of surgical robots for neurosurgery. I believe these investments, together with other Renishaw applications in this field, will produce significant results in the mid to long-term.

These new investments have cost a total of £7.7m, which together with the purchase of additional factory space and plant and machinery, amounted to total capital expenditure of £13.3m.

As sterling started to weaken during the year, the company sold forward a proportion of its future expected currency receipts denominated in dollars, euro and yen. This policy protects that proportion of the Group's foreign currency income, limiting the group's exposure to fluctuating exchange rates. The contracts undertaken will ensure that there is a positive monthly financial contribution to the income statement relative to the previous year. In accordance with accounting requirements, these outstanding forward exchange contracts have been revalued at exchange rates prevailing at 31st December 2008 resulting in a provision of £32m, which is held in the currency reserve in the balance sheet. Future results will reflect the positive or negative effect of the prevailing exchange rates as the contracts mature over the next three and a half years.

Net cash balances as at 31st December 2008 were £15.7m (2007 £16.4m).

The global economic environment remains difficult and uncertain. The marked reduction in the demand for the Group's products has continued in the current month. Revenues and consequently profitability during the second half are expected to be adversely impacted by the current market conditions. The Board continues to focus on the Group's cost base and is monitoring the situation so that further action can be taken when required. A voluntary redundancy and part-time working initiative is being introduced as well as strict control over other overheads and capital expenditure. We do not know how long this depressed demand for many of our products will persist, but fortunately – and as planned – we have no net borrowings. We also continue to invest in our businesses to strengthen our position in our key markets. The Directors remain confident of the Group's longer-term prospects.

Based on the first half year performance, the Board has decided to maintain an interim dividend of 7.76p, which will be paid on 6th April 2009 to shareholders on the register on 6th March 2009, but will be reviewing the final dividend in light of the result for the year. In the present circumstances, the Executive Directors of the Company have agreed to waive their rights to this dividend in respect of the shares they beneficially own.

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

28th January 2009

Consolidated income statement

Unaudited

	Notes	**6 months to 31st December 2008 £'000**	6 months to 31st December 2007 £'000	Audited Year ended 30th June 2008 £'000
Revenue	2	**102,670**	91,640	201,157
Cost of sales		**(55,484)**	(52,006)	(106,759)
Gross profit		**47,186**	39,634	94,398
Distribution costs		**(22,748)**	(16,540)	(35,694)
Administrative expenses		**(12,535)**	(10,090)	(21,369)
Exceptional pension curtailment credit		**-**	-	1,344
Operating profit		**11,903**	13,004	38,679
Financial income	3	**4,820**	4,437	9,194
Financial expenses	3	**(3,089)**	(2,539)	(5,070)
Share of profits from associates		**389**	160	256
Profit before tax	4	**14,023**	15,062	43,059
Income tax expense		**(2,805)**	(3,012)	(8,443)
Profit for the period from continuing operations		**11,218**	12,050	34,616
Profit attributable to:				
Equity shareholders of the parent company		**11,368**	12,050	34,716
Minority interest		**(150)**	-	(100)
		11,218	12,050	34,616
		pence	pence	pence
Dividend per share arising in respect of the period	8	**7.76**	7.76	25.39
Earnings per share (basic and diluted)	5	**15.4**	16.6	47.6

Consolidated balance sheet

Unaudited

	Notes	At 31st December 2008 £'000	At 31st December 2007 £'000	Audited At 30th June 2008 £'000
Assets				
Property, plant and equipment	6	**78,433**	69,592	68,766
Intangible assets	7	**26,478**	15,559	19,085
Investments in associates		**7,252**	6,931	6,788
Deferred tax assets	9	**20,465**	5,453	10,025
Employee benefits		**-**	5,365	-
Total non-current assets		**132,628**	102,900	104,664
Current assets				
Inventories		**35,899**	35,100	34,220
Trade receivables		**40,247**	38,002	42,803
Current tax		**329**	557	490
Other receivables		**5,085**	4,990	5,036
Cash and cash equivalents		**15,659**	16,399	38,183
Total current assets		**97,219**	95,048	120,732
Current liabilities				
Trade payables		**12,355**	8,979	12,691
Current tax		**2,570**	1,985	2,178
Provisions		**847**	778	824
Other payables	9	**29,895**	7,209	15,653
Total current liabilities		**45,667**	18,951	31,346
Net current assets		**51,552**	76,097	89,386
Non-current liabilities				
Employee benefits		**10,771**	-	11,055
Deferred tax liabilities		**12,410**	11,996	12,382
Other payables	9	**25,138**	-	3,968
Total non-current liabilities		**48,319**	11,996	27,405
Total assets less total liabilities		**135,861**	167,001	166,645
Equity				
Share capital	8	**14,558**	14,558	14,558
Share premium	8	**42**	42	42
Currency translation reserve	8	**1,149**	907	1,574
Cash flow hedging reserve	8/9	**(31,964)**	96	(4,252)
Retained earnings	8	**152,043**	151,398	154,403
Total equity attributable to the equity holders of the parent company		**135,828**	167,001	166,325
Minority interest		**33**	-	320
Total shareholders' funds		**135,861**	167,001	166,645

Consolidated statement of cash flow

Unaudited

	6 months to 31st December 2008 £'000	6 months to 31st December 2007 £'000	Audited Year ended 30th June 2008 £'000
Cash flows from operating activities			
Profit for the period	11,218	12,050	34,616
Amortisation of development costs	1,276	1,642	2,743
Amortisation of other intangibles	1,100	800	1,512
Depreciation	4,056	4,033	8,061
Profit on sale of property, plant and equipment	(6)	(10)	(1,042)
Share of profits from associates	(389)	(160)	(256)
Exceptional pension curtailment credit	-	-	(1,344)
Financial income	(3,864)	(4,437)	(9,194)
Financial expenses	3,022	2,539	5,070
Tax expense	2,805	3,012	8,443
	8,000	7,419	13,993
(Increase)/decrease in inventories	(1,679)	1,078	1,958
Decrease/(increase) in trade and other receivables	14,819	885	(2,733)
(Decrease)/increase in trade and other payables	(6,522)	(4,217)	5,916
Difference between pension service cost and contributions	-	-	(58)
Increase in provisions	23	85	131
	6,641	(2,169)	5,214
Income taxes paid	(3,088)	(2,307)	(6,902)
Cash flows from operating activities	22,771	14,993	46,921
Investing activities			
Purchase of property, plant and equipment	(6,540)	(2,682)	(5,133)
Development costs capitalised	(2,576)	(3,039)	(5,497)
Purchase of other intangibles	(6,863)	(966)	(1,319)
Purchase of business	-	-	(482)
Investment in associates	(400)	-	-
Sale of property, plant and equipment	40	75	1,421
Interest received	956	721	1,743
Dividend received from associate	21	21	80
Cash flows from investing activities	(15,362)	(5,870)	(9,187)
Financing activities			
Interest paid	(67)	(84)	(141)
Dividends paid	(12,833)	(11,515)	(17,164)
Cash flows from financing activities	(12,900)	(11,599)	(17,305)
Net (decrease)/increase in cash and cash equivalents	(5,491)	(2,476)	20,429
Cash and cash equivalents at the beginning of the period	38,183	20,761	20,761
Effect of exchange rate fluctuations on cash held	(17,033)	(1,886)	(3,007)
Cash and cash equivalents at the end of the period	15,659	16,399	38,183

Consolidated statement of recognised income and expense

Unaudited

	6 months to 31st December 2008 £'000	6 months to 31st December 2007 £'000	Audited Year ended 30th June 2008 £'000
Foreign exchange translation differences	**(425)**	1,117	1,784
Actuarial loss in the pension schemes	**(558)**	(1,458)	(20,541)
Effective portion of changes in fair value of cash flow hedges, net of recycling:			
Amounts recycled during the period	**(987)**	1,305	(2,563)
Fair value of outstanding amounts	**(37,502)**	(3,734)	(5,906)
	(38,489)	(2,429)	(8,469)
Deferred tax on income and expense recognised in equity	**10,440**	1,236	7,999
Expense recognised directly in equity	**(29,032)**	(1,534)	(19,227)
Profit for the period	**11,368**	12,050	34,716
Total recognised income and expense for the period attributable to the equity holders of the parent company	**(17,664)**	10,516	15,489

Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;

- the Interim report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

A C G Roberts FCA
Group Finance Director and Company Secretary
28th January 2009

Notes

1. Status of Interim report and accounting policies

The Interim report, which has not been audited, was approved by the directors on 28th January 2009.

The Interim report has been prepared in accordance with the EU endorsed standard IAS 34 'Interim Financial Reporting'. This interim financial information has been prepared on the basis of the accounting policies adopted in the most recent annual financial statements, these being for the year ended 30th June 2008, as revised for the implementation of specified new amended endorsed standards or interpretations.

The interim financial information for the six months to 31st December 2008 and the comparative figures for the six months to 31st December 2007 are unaudited. The comparative figures for the financial year ended 30th June 2008 are an abridged version of the statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

Given the nature of some forward-looking information included in this report, which the directors have given in good faith, this information should be treated with due caution.

The Interim report is available on our website www.renishaw.com.

2. Analysis of revenue and result by geographic segments

6 months to 31st December 2008 `	Continental Europe £'000	Far East £'000	Americas £'000	UK and Ireland £'000	ROW £'000	Eliminations £'000	Total £'000
Revenue	38,690	32,179	23,076	5,874	2,851	-	102,670
Inter-segment revenue	510	-	-	74,638	2,990	(78,138)	-
Total revenue	39,200	32,179	23,076	80,512	5,841	(78,138)	102,670
Segment result	3,604	1,638	151	8,198	1,440	-	15,031
Unallocated central corporate costs							(2,739)
Net financial income							1,731
Profit before tax							14,023

6 months to 31st December 2007 `	Continental Europe £'000	Far East £'000	Americas £'000	UK and Ireland £'000	ROW £'000	Eliminations £'000	Total £'000
Revenue	33,166	28,253	21,469	6,248	2,504	-	91,640
Inter-segment revenue	187	-	-	70,978	1,801	(72,966)	-
Total revenue	33,353	28,253	21,469	77,226	4,305	(72,966)	91,640
Segment result	5,052	1,836	627	6,866	743	-	15,124
Unallocated central corporate costs							(1,960)
Net financial income							1,898
Profit before tax							15,062

2. Analysis of revenue and result by geographic segments (continued)

Year ended 30th June 2008 `	Continental Europe £'000	Far East £'000	Americas £'000	UK and Ireland £'000	ROW £'000	Eliminations £'000	Total £'000
Revenue	77,219	59,536	46,644	12,020	5,738	-	201,157
Inter-segment revenue	469	-	-	149,159	4,476	(154,104)	-
Total revenue	77,688	59,536	46,644	161,179	10,214	(154,104)	201,157
Segment result	13,284	4,147	3,019	19,283	2,210	-	41,943
Exceptional pension curtailment credit				1,344			1,344
				20,627			
Unallocated central corporate costs							(4,352)
Net financial income							4,124
Profit before tax							43,059

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

	6 months to 31st December 2008 at actual exchange rates £'000	6 months to 31st December 2007 at actual exchange rates £'000	6 months to 31st December 2008 at previous year's exchange rates £'000
Continental Europe	**38,690**	33,166	36,010
Far East	**32,179**	28,253	26,181
North & South America	**23,076**	21,469	20,300
United Kingdom and Ireland	**5,874**	6,248	5,874
Other Regions ("ROW")	**2,851**	2,504	2,837
	102,670	91,640	91,202

3. Financial income and expenses

Financial income	**6 months to 31st December 2008 £'000**	6 months to 31st December 2007 £'000	Year ended 30th June 2008 £'000
Expected return on assets in the pension schemes	**3,864**	3,716	7,451
Bank interest receivable	**956**	721	1,743
	4,820	4,437	9,194

3. Financial income and expenses (continued)

Financial expenses	6 months to 31st December 2008 £'000	6 months to 31st December 2007 £'000	Year ended 30th June 2008 £'000
Interest on pension scheme liabilities	**3,022**	2,455	4,929
Bank interest payable	**67**	84	141
	3,089	2,539	5,070

4. Income tax expense

The income tax expense has been estimated at a rate of 20% (December 2007: 20%), the rate expected to be applicable for the full year.

5. Earnings per share

Earnings per share are calculated on earnings of £11,218,000 (December 2007: £12,050,000) and on 72,788,543 shares, being the number of shares in issue during the period.

Earnings per share for the year ended 30th June 2008 are calculated on earnings of £34,616,000 and on 72,788,543 shares, being the number of shares in issue during that year.

6. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1st July 2008	57,415	70,088	4,760	565	132,828
Additions	1,876	3,321	848	495	6,540
Transfers	211	256	-	(467)	-
Disposals	-	(128)	(183)	-	(311)
Currency adjustment	7,992	2,929	589	-	11,510
At 31st December 2008	**67,494**	**76,466**	**6,014**	**593**	**150,567**
Depreciation					
At 1st July 2008	11,292	49,650	3,120	-	64,062
Charge for the period	730	2,853	473	-	4,056
Released on disposals	-	(116)	(161)	-	(277)
Currency adjustment	1,770	2,159	364	-	4,293
At 31st December 2008	**13,792**	**54,546**	**3,796**	**-**	**72,134**
Net book value					
At 31st December 2008	**53,702**	**21,920**	**2,218**	**593**	**78,433**
At 30th June 2008	46,123	20,438	1,640	565	68,766

7. Intangible assets

	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences In use £'000	Software licences In the course of acquisition £'000	Total £'000
Cost						
At 1st July 2008	4,156	2,829	22,355	7,660	34	37,034
Additions	27	3,333	2,576	3,424	38	9,398
Transfers	-	-	-	12	(12)	-
Currency adjustment	-	41	-	128	-	169
At 31st December 2008	**4,183**	**6,203**	**24,931**	**11,224**	**60**	**46,601**
Amortisation						
At 1st July 2008	-	573	11,396	5,980	-	17,949
Charge for the period	-	264	1,276	532	-	2,072
Currency adjustment	-	-	-	102	-	102
At 31st December 2008	**-**	**837**	**12,672**	**6,614**	**-**	**20,123**
Net book value						
At 31st December 2008	**4,183**	**5,366**	**12,259**	**4,610**	**60**	**26,478**
At 30th June 2008	4,156	2,256	10,959	1,680	34	19,085

8. Reconciliations of movements in equity

6 months to 31st December 2008	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at the beginning of the period	14,558	42	1,574	(4,252)	154,403	166,325
Profit for the period	-	-	-	-	11,368	11,368
Other recognised income and expense	-	-	(425)	(27,712)	(895)	(29,032)
Dividends paid	-	-	-	-	(12,833)	(12,833)
Balance at the end of the period	**14,558**	**42**	**1,149**	**(31,964)**	**152,043**	**135,828**

6 months to 31st December 2007	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at the beginning of the period	14,558	42	(210)	1,845	151,765	168,000
Profit for the period	-	-	-	-	12,050	12,050
Other recognised income and expense	-	-	1,117	(1,749)	(902)	(1,534)
Dividends paid	-	-	-	-	(11,515)	(11,515)
Balance at the end of the period	14,558	42	907	96	151,398	167,001

8. Reconciliations of movements in equity (continued)

Year ended 30th June 2008	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at the beginning of the year	14,558	42	(210)	1,845	151,765	168,000
Profit for the year	-	-	-	-	34,716	34,716
Other recognised income and expense	-	-	1,784	(6,097)	(14,914)	(19,227)
Dividends paid	-	-	-	-	(17,164)	(17,164)
Balance at the end of the year	14,558	42	1,574	(4,252)	154,403	166,325

Dividends paid during the period were:	**6 months to 31st December 2008 £'000**	6 months to 31st December 2007 £'000	Year ended 30th June 2008 £'000
2008 final dividend of 17.63p per share (2007: 15.82p)	**12,833**	11,515	11,515
2008 interim dividend of 7.76p	**-**	-	5,649
	12,833	11,515	17,164

The 2009 interim dividend of 7.76p per share will be paid on 6th April 2009 to shareholders on the register at 6th March 2009, with an ex-dividend date of 4th March 2009.

9. Currency hedging reserve

Outstanding forward contracts were revalued based on the forward exchange rates pertaining at 31st December 2008. The currency hedging reserve of £(31,964,000) (December 2007 £96,000) is analysed as:

	At 31st December 2008 £'000	At 31st December 2007 £'000	At 30th June 2008 £'000
Included in other payables in current liabilities	**19,257**	-	1,938
Included in other payables in non-current liabilities	**25,138**	-	3,968
	44,395	-	5,906
Included in deferred tax assets	**12,431**	-	1,654
	31,964	-	4,252

The balance for December 2007 included amounts in prepayments of £134,000 and a deferred tax liability of £38,000.

10. Related party transactions

The only related party transactions to have taken place during the first half year were normal business transactions between the Group and its associates, which have not had a material effect on the results of the Group for this period.

11. Risks and uncertainties

The principal risks and uncertainties affecting the business activities of the Group are considered to be:

Current trading levels and order book

Orders from customers generally involve short lead times with the outstanding order book at any time being around one month's worth of sales value. This limited forward order visibility leaves the risk of annual sales forecasts not being met.

The downturn in the global economic climate has adversely affected the Group's first half revenue and profits and is expected to have a significant effect on the Group's full year results.

The Chairman and Chief Executive's statement in this Interim report includes a comment on the outlook for the Group for the remaining six months of the financial year.

Research and development

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

The development of new products and processes involves risk, such as with development time, which may take longer than originally forecast and hence involve more cost. Also, being at the leading edge of new technology in metrology, there are uncertainties whether new developments will work as planned and in some cases, projects may need to be halted with the consequent non-recoverability of expenditure if the intended deliverables of the project are not forthcoming. Expenditure is only capitalised once the commercial and technical feasibility of a product is proven.

These risks are minimised by operating strictly managed research and development programmes with regular reviews against milestones achieved and against forecast business plans.

Defined benefit pension schemes

Last year saw the closure for future accruals to all existing members of the Irish defined benefit scheme, replacing it with a new defined contribution scheme similar to that introduced into the UK in the previous year.

These changes eliminate the major risk of growth in liabilities for future accrual of salary increases above RPI and additional years of service. The fund is still subject to fluctuations arising from investment performance and actuarial assumptions.

Treasury

With the concentration of manufacturing in the UK and Ireland, there is inevitably an exposure to fluctuating currencies on export sales, largely in respect of the US Dollar, Euro and Japanese Yen. This year has seen favourable movements in exchange rates which have resulted in improved profits when the results of overseas operations have been translated into Sterling.

The Group has further mitigated the risks associated with fluctuating exchange rates by the use of forward contracts to hedge a proportion of US Dollar and Japanese Yen sales, in addition to the contracts for Euros currently in place.

Patent legal cost

As noted in the Chairman's statement, the Company is currently undertaking legal proceedings in the USA against two companies which are customers of the Group, alleging infringement of patents.

The case is expected to take a number of years to resolve and a decision against Renishaw may have a negative financial impact on the Group's results.

Tax

Significant judgement is required in determining the effective tax rate and in evaluating certain tax positions. Tax provisions are adjusted due to changing facts and circumstances, such as case law, progress of tax audits or when an event occurs requiring a change in tax provisions. Management regularly assess the appropriateness of tax provisions.

Financial calendar

Record date for 2009 interim dividend	6th March 2009
2009 interim dividend payment	6th April 2009
Announcement of 2009 full year results	29th July 2009
Mailing of 2009 Annual report	21st August 2009
Annual general meeting	15th October 2009
2009 final dividend payment	19th October 2009

Renishaw apply innovation™

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